CHAPTER - ONE

INTRODUCTION

1.1 General background of the study:-

The word 'bank ' was developed from Italian word "banko" which means a bench for keeping, lending, and changing of money or coins in the market by money lenders and changers respectively.

Before the origin and development of the bank, people used to borrow the loan from landlord, merchant, goldsmith etc. but now due to the establishment of the bank the people need not knock their door for loan and other financial help.

Nepal is an agricultural country. Its 14.2% population habitat in urban area and 85.8% populations are live in rural area. 40% of GDP has contributed by agricultural sector. So the industrialization is exits but still the country has not been industrialization due to shortage of favorable Industrial policy, problem of capital formation, underdeveloped money and capital market, lack of creative entrepreneurs and credit facility, lack of proper rate of interest and lack of financial support like loan and other facilities etc.

Bank and other various financial institutions are playing vital role to increase the industrial development and it is the economic development of the country. Government of Nepal has initiated greater efforts to promote banking sector for the purpose of earning more and more profit in every transaction period by proper mobilizing the resources available in particular productive use after collecting them from scattered sources. We have the short history of banking institution offering deposit subject to withdraw on demand and making loans of a business nature. Banks offers wide range of financial services like credit, saving, payment service etc.

Banks are among the most important financial institution in the economy of the country. Bank is a business establishment that safeguards people's money and uses it to make loans and investments. A bank is an organization concerned with the

accumulation of the idle money of general public for the purpose of advancing to others for expenditure of investment.

A bank is the institution, which accepts deposits from the public and in turn advances loans by creating credit. Banks are the institution that provides the funding required starting the business to those with skills and desire to operate the business, collecting from those with the money but no skills or time to operate the business. Bank is the resources mobilizing institution, which accepts deposits from various sources and invest such accumulated resources in the fields of agriculture, commerce, trade and industry. So, the banks are the institution of offering deposits subjects to withdraw on demand and making loans of a business nature. Banks offers wide range of financial services like credit, saving, payment service etc.

Bank is related to money transaction. It accepts money as deposits from depositors by saving account, current account, fixed account and also lends the different types of loan to different sector as well as individual for different purpose. It provides and takes certain amount as interest to depositors and borrower respectively.

Kumari bank is a commercial bank. There are a lot of commercial banks are working in Nepal. Some of these banks are joint venture banks, i.e. Bank of Kathmandu limited, Nepal Bangladesh bank limited, Himalayan bank limited, Nepal industrial bank limited, Nabil bank limited, standard chartered bank limited etc.

Commercial bank is one of the oldest banks in Nepal. In general bank means the commercial bank; hence the bank whose objectives are to earn profit by performing different financial activities is called commercial bank. So, they are established to earn profit with certain exceptions. Commercial banks are established in the form of Joint Stock Company.

Commercial bank collects its capital by selling share in the open market. The person buying bank shares are called shareholders. As far as the management is concern it is managed by the board of directors which members are either elected or selected by the shareholders. If there is consensus then members are selected and if there is no consensus then the members are elected.

Commercial bank accepts deposits pays the amount of cheques, grants loan performs different agency function and performs other monetary activities.

Commercial bank distributes profit of its shareholders as dividend. Rastriya Banijya bank is fully earned by the government, which is on exception to it. Now day commercial banks are in a form of Joint Stock Company.

It is also one faint investment bank which provides a lot of banking service to economical and financial sector as well as healthy service to individual and financial by lending long and giving other technical, economical advice to trade of industrial sector.

Kumari bank Ltd. was established in 2057 B.S. under the company act 2053 and commercial bank act 2031 of Nepal. Within the kumari bank 70% shares was belong held by founder of the bank and 30% shares held by general public. At present, the head office of the kumari bank Ltd. Is in putalisadak Kathmandu. The main branch of this bank is situated in Kathmandu. There are so many branches in Nepal of kumari bank Ltd. The branches offices are situated in Biratnager, pokhara, Birganj, Itahari etc.

Kumari bank Ltd. Provide nice service like the accept the deposit with nice interest rate as well as minimum balancing amount by current account, saving account, fixed account and provide the different types of loan such as education, loan as poverty, Loan as mortgage, vehicle loan, professional loan by taking minimum amount of interest. It also provides some extra facilities of the customer as any where branch banking service, 365 days banking transaction by some branch. Other facilities are table banking services, foreign payment or foreign exchange, telegraphic transfer, safety locker etc.

At last, bank helps the people in very field of economy for the development of the country through the different channel link personal business, people industry, commercial area, Social Corporation etc.

Our study focus on working capital management of private bank with special reference to kumari bank limited. Its working capital management is found fluctuated. Due to this, it is operating in low profit in some year. It may be due to

miss management of working capital. Financial management is universally involved in the management of private firm as well as public enterprises as does the oxygen on the atmosphere. Therefore, for achieving success in private bank proper financial management is of great importance. Financial management comprises of various aspects and study of financial management remains incomplete without study of management of working capital.

The study of working capital management in private bank is very important mainly for these four reasons. Firstly, private bank must determine the adequacy of investment in current assets; otherwise it would seriously erode their liquidity base. Secondly, they must select the types of current assets suitable for investments so, as to raise their operational efficiently. Thirdly, they are required to ascertain to turn over the current assets that greatly determine the profitability of the private business firm and lastly, they must find out the appropriate sources of funds to finance current assets.

The role of working capital management is more significant in private bank because they must have adequate cash to pay wages, bills and other regular expenses. Similarly it is very important that to good management of goodwill, utilizing of opportunities, regular supplies of materials, easy availability of cash discount, creates feeling of securities and confidence, easy to get bank loan, smooth operation of business etc.

There is a controversy regarding the meaning of working capital because many writers define it in different ways. Mostly there are two schools of thought or concepts regarding the meaning of working capital. According to the one school of thought, working capital is meant for the current assets only. It is concerned nothing on liabilities sides. According to other school of thought, working capital is the amount of current assets excess of current liabilities. The former one is the gross concept and later one is the net concept.

The gross working capital concepts make the implied meaning of working capital or current assets only. It is also called circulating capital. It is equal to total sum of current assets only, and may represent both owned capital as well as loan capital assets used for financing current assets.

Current assets are those assets, which can be converted in to cash, within an accounting period or cycle that is usually a period of one year. Current assets include cash, notes receivables, marketable securities and other assets of quick and liquid nature. Such as account receivables and inventories. An author who supports the gross concepts argues that real working of any enterprises entirely depends on current assets. So, working capital is total current assets only.

The term net working capital can be defined in two ways: 1. the most common definition of net working capital is the difference between current assets and current liabilities. 2. The alternatives definition of net working capital is that portion of current assets which is financed with long term fund. It is a qualitative concept indicating the soundness of current financial position. It is a more important to the investors and lenders.

The net working capital being the difference between current assets and current liabilities indicates the liquidity position and suggest the extents to which working capital needs may be financed by the permanent source of fund “business enterprises must possess sufficient current assets to pay current liabilities and maturing obligation within the operating cycle because cash outflows and inflows do not coincide.

In other words, it is the non-synchronous nature of cash flows that makes net working capital necessary. While inadequate investment in working capital threatens solvency of firm and excessive in investment affects enterprise profitability, as idle investment yield nothing.

Due to the lack of basic knowledge of working capital most of the business enterprises in Nepal are unable to maintain the best level of working capital. Deficiency of knowledge about working capital concept has often brought a lot of liquidity crises, which have been avoided in the presence of knowledge among private enterprises managers.

1.2 statement of the problem:-

Banking plays a significant role in the economic development of the country by extending credit to the people. Although commercial bank in Nepal is making remarkable progress and growth, it is not without the problem. At the present context, the main problem faced by the business sector as well as bank is the unstable political and economic condition of the country.

Another problem faced by the commercial bank is the lack of optimal capital structure. Kumari bank is also a commercial bank. There are also so many problems in the kumari bank limited. There are limited training orientation classes about the business operations. There is other main problem of Kumari Bank Ltd is ineffective management policy, Planning , Organization, Staffing, Coordination, Controlling, Reporting, Resources. Some major problems are listed below:

- It is facing the problem of limited market as the trade and industry in our country are in front stage.
- Due to poor economic condition of the people in our county, banking transaction could not be increased.
- Due to lack of proper knowledge of banking service of large people, banking transaction could not be increased.
- People show less interest in investing in shares of commercial bank as compare to government bank. Therefore there is less attraction toward insurance company. But in current situation so many people are attracting in investing in share in commercial bank.
- Political flexibility is also an other major problems of the bank.

- Due to the less per capita income and unstable political and economical condition, people show less interest in saving in the bank.
- Unstable situation of in our country is also a great problem which is also faced by the commercial bank.
- Another problem faced by the commercial bank is unhealthy competition, by which they cannot get proper success in their operation.
- Due to the lack of capable, intelligent, educated, and well motivated employee, banking transaction could not be run successfully.
- Due to the lack of best strategy and strategist it could not get success result.

1.3 objective of the study:-

The primary objective of this study is determining the position of working capital of kumari bank limited. This research study has also got some specific objectives, which are mentioned as follows:

- To identify the various working capital aspect of kumari bank limited.
- To analyze the efficiency of working capital of kumari bank limited.
- To know the situation of the working capital management of the kumari bank limited with respect to cash, debtors, and inventory management.
- To establish the relationship between sales and different variables of working capital.
- To examine the effect of working capital on profitability.
- To evaluate the size, growth, structure, liquidity, accuracy, efficiency, and productivity of working capital, position of kumari bank Ltd. On the basis ratio.
- To provide better suggestion from improving working capital management in future.
- To study the sole of current assets and current liabilities on profitability. With respect to kumari bank Ltd.

1.4 importance of the study:-

For the smooth operation of the financial institution in the short run as well as long run. Sound working capital management is a prerequisite factor. Analysis of difference component of current assets as well as current liabilities is important for the evaluation of working capital is a circulating capital which is compared as life blood of the human being. If is very essential for any types of bank i.e. commercial and non-commercial.

Working capital is the size of investment on each type of current assets. Each of these assets should be managed efficiently and effectively. It is because decision regarding working capital not only affects profitability of the survival in the long run.

The need of the study or important of the study is to find out kumari bank Ltd's. Internal position of working capital under financial problem as well as to given an opportunity or correcting its short coming.

1.5 Research question of the study:-

To fulfill above mentioned objectives, this study attempts to answer the following question:-

1. Is the working capital management of the bank satisfactory?
2. How well the banks utilize the funds?
3. Is the earning of the bank adequate?
4. How efficiently does the bank use its current assets?
5. Is the bank in a position to meet its current obligations?
6. What is the bank's policy for financial working capital? etc.

1.6 Assumptions and limitation of the study:-

As every research has its own assumption and limitation. The present study has the following assumption and limitations:-

- The study is not free from some assumption and limitation of the working capital management of study.

- The data available on published account, annual reports, and other references have been assumed correct and true.
- Since the analysis of data has been take from the bank's account and its annual reports data and this study is not free from the limitation.
- Working days of the bank is assumed 365 days in a year.
- The trend of variable is assumed 100 and percentage trend are calculated.
- Lack of sufficient time and sufficient materials for preparation of the thesis.
- The study only considers working capital management position of kumari bank limited.
- This study only presents and analysis about kumari bank limited.
- Only five years data maintained in the study.
- Information are recorded were not available for systematic and detailed.

1.7. Organization of the study:-

This research working capital management of kumari Bank Ltd has been divided in to five chapter i.e. interdiction chapter, review of literature chapter, Research methodology chapter, Research methodology chapter. Presentation and analysis of data chapter and summary, conclusion and Recommendation chapter.

CHAPTER-1 : INTORDUCTION

This is the introduction chapter, which is related to the introduction of the study. It deals with focus of the study, statement of the problems, and need of the study objectives of the study, assumption and limitation of the study.

CHAPTER-2: REVIEW OF THE LITRATURE:-

The second chapter deals with review of literature relating to working capital management. In this chapter a brief presentation of the related studies and finding as well as review of various relevant literature.

CHAPTER-3: RESEARCH METHODOLOGY:-

In this chapter, methodology used for the purpose of this study is explained. It includes research design, nature and source of data, population and sample of the study, procedure employed and use of analytical tools.

CHAPTER-4: PRESENTATION AND ANALYSIS OF DATA:-

In this fourth chapter, the acquired data are presented, analyzed, and interpreted by using different financial as well as statistical tools i.e. ratio analysis, fund flow analysis, trend analysis, correlation co-efficient etc. and presented the results relating to the study.

CHAPTER-5: SUMMARY, CONCLUSION, AND RECOMANDATION:-

The fifth and last chapter includes summary, conclusion, and recommendation. It includes summary of the study, conclusion of the study and the concrete, remedial measures from the improvement of the working capital management decision as well as other financial position are presented as recommendation.

1.8 key terms used in this study:-

Current assets:

Current assets include cash and those assets, which can be converted in to cash within a year, such as marketable securities, debtors and stock. Prepaid expenses should also be included in current assets.

Current liabilities:-

An obligation maturing within a year is included in current liabilities. Thus current liabilities include sundry creditor, provision for taxation and unclaimed dividend, provision for bonus, housing and income tax.

Net working capital:-

The net working capital refers to the company's surplus balancing of current assets over current liabilities.

Net working capital=current assets-current liabilities.

Working capital:

The term working capital here refers to the gross working capital. It includes the total volume of current assets, which are discussed on point.

Fixed assets:

It consists of the assets like land and building, plant and machinery, furniture and fixtures, equipment, vehicles etc.

Total assets:

It is the total sum of the current assets and fixed assets.

Total assets = current assets + current liabilities.

Inventory:

It includes the inventory of raw materials, chemicals and finished goods inventories.

Receivables:

It includes the sales debtors and other debtors only.

Cash and bank balance:

It includes the cash in hand and cash at bank.

Quick assets:

It is the part of current assets, which are considered as highly liquid. We have to reduce the prepaid expenses and inventories from total current assets to find out quick assets.

Quick assets = current assets – prepaid expenses – inventories.

F \ y:

It is the fiscal year, and it is the period of 12 months from 1st shrawan to 31st ashad.

Total fund:

It implies the total of long – term debt as well as short term debt.

CHAPTER – TWO

REVIEW OF LITERATURE

2.1 Nature of working capital:-

A financial institution needs not only fixed assets capital but also the working capital for day to day operation of the concerned, it finances in some of the assets of short term nature like inventories, account receivable (sundry debtors), cash and marketable securities. Etc. when all these short term assets are put together, it is called working capital. This working capital and total current assets are synonymous. It is therefore, said that working capital is related with short-term financing.

The use of the term working capital indicates that its flow is circular in nature. Because of the circular nature of current assets, working capital is sometimes called circulating capital. (Pandey, 1987:328)

C.W. gatenbery said," circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, and receivables to cash." (Encyclopedia, banking and finance, 1993:147)

The use of this term "circulating capital emphasizes on short-term cash cycle or operating cycle of the firm. The short-term cash cycle refers to the recurring transaction from cash to the inventories, inventories to receivables, and receivables to cash again. In other words the term cash cycle refers to the length time necessary to complete the following cycle of events."

I. Conversion of cash in to inventories.
II. Conversion of inventories in to receivables.
III. Conversion of receivables in to cash again.

(Khan and Jain, 1998:620)

The operating cycle, which is a continuous process, is as shown in fig. 2.1

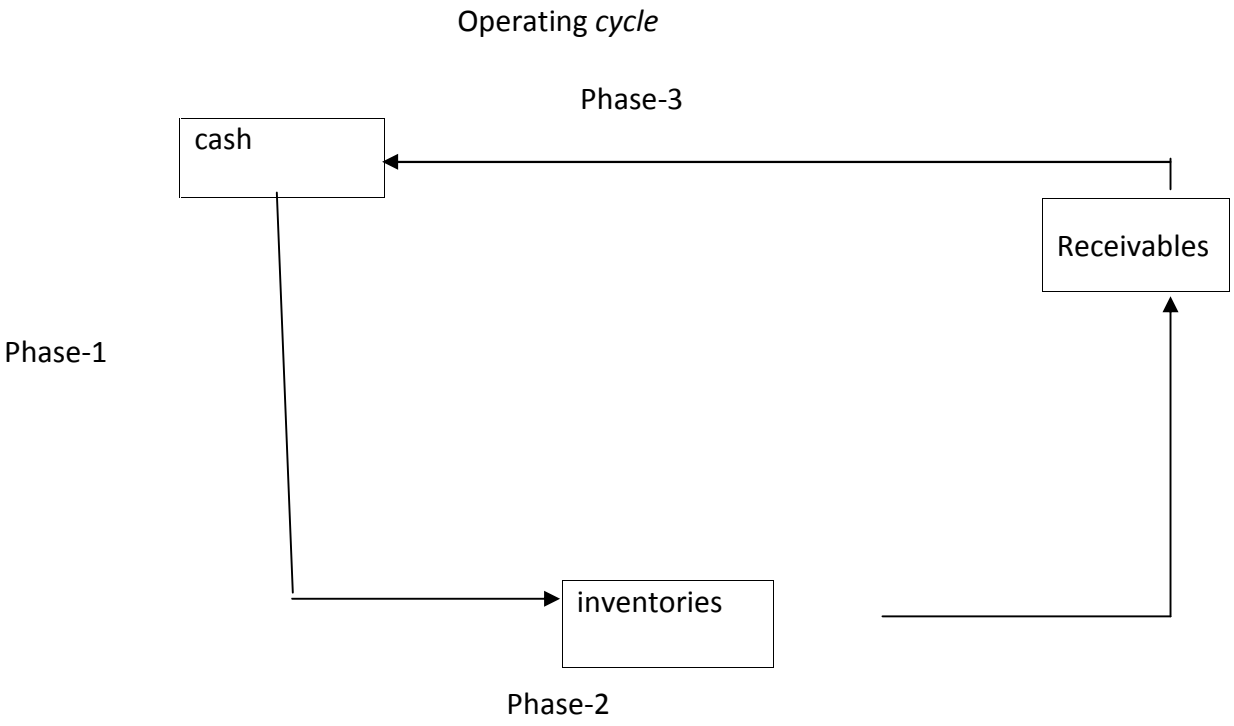


Figure 2.1

The operating cycle consists of the three phases: in phase 1, cash gets converted in to inventory. This would include purchase of raw materials, conversion of raw materials in to work in progress, finished goods and terminate in the transfer of goods to stock at the end of the manufacturing process. In phase -2 of the cycle, the inventory is converted in to receivables as credit sales are made to customer. Firms which do not sell on credit will obviously not have phase-2 of the operating cycle. In phase-3 the receivables are collected. This phase completes operating cycle, thus the firm has moved from cash to inventory, inventory to receivables, and receivable to cash again.

In the concern of working capital the well known professor k.u. smith has given the nature of working capital as “working capital management is concerned with the problems the arise in attempting to manage the current assets, the current liabilities and inter-relationship that exists between them” (smith, 1974:5)

The term current assets refer to those assets, which can be converted in to cash within an accounting year or operating cycle and in working capital include

cash, short term securities, debtors, bills receivables, inventories and prepaid expenses. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include an account payable, creditors, bills payables, bank overdraft, and outstanding expenses. Each of the current assets must be managed efficiently in order to maintain the liquidity of the firm by not keeping too high level of any one of them. The interaction between current assets and current liabilities are, therefore the main theme of the theory of working capital management.

According to k.m. upadhyaya "the value represented by current assets circulates from one working capital to another working capital i.e. from cash account to cost of goods manufacturing accounts, from inventory accounts to sales accounts, from sales account to cash accounts. This is described as circular nature of current assets or in other words, working capital has a circular nature. The speed of circulation of working capital or the turnover of current assets is an indicator of the degree of efficiency of the management. The faster the turnover, the higher the degree of efficiency." (Upadhyaya, 1987:47) working capital has a volatile nature. This nature presents some problems and constraints in financing working capital need. The volatile nature of working capital refers to the change in total current assets.

Working capital is essentially circulating in nature. It can be compared with a river, in which water level is constantly changing. Thus the nature of working capital is not fixed i.e. it is changeable at different times on the basis of transaction of goods.

2.2 concept of working capital:-

The management of the funds of business can be described as financial management. Financial management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities; in other words, long-term investment and sources of long-term funds. Secondly, current assets and currents liabilities; that are concerned

with current uses and sources of funds. Both of these types of funds play a Vitol role in business finance. Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some other are required specially to meet day today expenses and short term obligations. The assets such as cash, marketable securities, account receivable and inventories, which are known as current assets are required to be maintained at a certain level depending upon the volume of production and sales.

The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the account receivable and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. The capital invested in these assets is known as working capital. In short, working capital is the source of financing current assets and it includes short as well as long term financing.

Working capital is controlling nerve of business. It is an important and integral part of financial management as short term survival is a prerequisite to long term success. The pointed out by Ralph Kennedy and steward Mc Muller, the inadequacy on miss management of working capital the heading cause of business failure unless the payment is made at the maturity of the particular debt, The firm is at worst and the creditors may force the firm to terminate its business.(funk and Donald, 1964:13)

Firms need cash to pay for all their day to day activities they have to pay wages, pay for raw materials, pay bills, and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are current assets as these are the short term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal

Working capital (WC)	Current assets (CA)	Current liabilities (CL)

Thus working capital is the same as net current assets, and is in important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet all its requirements. May businesses have gone under, not because they were unprofitable, but because they suffered from shortage of working capital? (www.bizad.ac.uk.)

Working capital refers to the cash a business requires for day to day operations, or more specifically, for financing the conversion of raw materials into finished goods, which the company sells for the payment. Among the most important items of working capital are leaves of inventory, account receivable and account payable. Analysts look at these items for signs of a company's efficiency and financial strength. The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for inventors. (www.study finance.com)

Gross concept:-

According to gross concept, working capital refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory an account receivable. The leave of current assets may be fluctuating with the changing business activity. Thus, this concept can help earning more profit through maximum utilization of current assets. This concept is called quantitative concept. (Pradhan; 1986; 119)

Working capital in gross concept means the total sum of current assets only. The view was supported by distinguished authorities like mean, baker, milled, pandey, and pradhan, field and Adam smith. Adam smith called "Circulating capital" for current assets. The use of this term emphasizes on the short-term cash cycle of the firm. The short-term cash cycle refers to the recurring transactions from cash to inventory, inventory to receivables and receivables to cash again.

Net concept:-

According to net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long-term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful for internal control. This concept helps to compare the liquidity of the same firm over a time. (Khan and Jain; 1999; 604)

The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to nature for payment within an accounting year and includes; creditors bills payable, bank overdrafts, and outstanding expenses or accrued income. Net working capital arises when current assets exceed current liabilities. A negative working capital occurs when current liabilities are in excess of current assets. (Pandey; 1995; 710)

According to the well known Indian professor I.M. pandey, There are specially two concepts of working capital i.e. gross concept and net concept. The gross working capital simply are those assets, which can be converted into cash within an accounting year and includes cash, short-term securities, debtors, bills receivables, stock and prepaid expenses. According to James c. van Horne, there are two major concept and gross working capital. Net working capital and gross working capital. When accountant use the term working capital. They are generally referring to net working capital, which is the dollar difference between current assets and current liabilities. This is one measures of the extent to which the firm is protected from liquidity problems. From a management view point, however, it makes little sense to take about trying to actively manage a net difference between current assets and current liabilities, particularly when that difference is continuously changing.

A financial analyst, on the other hand, means current assets when they speak of working capital. Therefore, their focus is on gross working capital. Since if does

make since for the financial manager to be involved with providing the current amount of current assets for the firm at all times, we will adopt the concept of gross working capital. As the discussion of working capital management unfolds, our concerned will be to consider. The administration of the firm's current assets namely cash and marketable securities, receivables, and inventory and the financing needs to supports current assets. (Van Horne; 1996; 204)

Thus, there are two concept of working capital, i.e. Gross concepts and net concepts. However, the concept of working capital is related not only with gross and net concepts of working capital, but also wing organization borrowing. The management of any organization has to pay attention towards the total amount of both current assets as well as borrowing, and long with this, the management has to check whether profit earning capacity of the organization is favorable or not because it is higher than the cost of borrowings. In a corporation or any type of firm the financial manager should pay attention to the aspect of profitability. He should also aim to ensure the liquidity of the firm. Any established business in a constant 'debtor'. It purchase merchandise all credit and it has tax obligation to the government of or the concerned authorities. Thus, in every step of the business or corporation activities. There is an obligation of creditors. So, to satisfy their creditors. The firm must have that much of liquid cash of making payment of this entire obligation in time. Hence, both concepts of net and gross working capital are resource needed by a firm and use it in a most profitable field without keeping any idle fund as far as possible.

2.3 Meaning of commercial Banks:-

It is difficult to give concise and accurate definition of bank. It is difficult to include all those function in a single and concise definition. Even though, it can be said that a bank is a institution whose business is to trade in money. Trading in money relate to activities such as taking deposit , wanting loan, discounting, bills, issuing cheques to be drawn upon and other various functions on behalf of

customers. Any institution will be known as bank if it renders all or some of these functions. It is quite impossible to discharge all these functions by a single bank. So they specialize in certain set of functions. Banks are classified on the basis of their functions, which are as follows:

1. Central Bank
2. Commercial Bank
3. Agriculture Bank
4. Industrial Bank
5. Exchange Bank
6. Saving Bank etc.

American instituted of Banking defines "Commercial bank as commercial Bank is a corporation which accepts demand deposits subject to cheques and makes short-term loans to business enterprise, regardless of the scope of its other services". The institution also aid down the four functions of commercial bank as receiving and handling deposit (Deposit function), handling payments of money (Payment function), making loans and investment (Loan function) and creating money by extension of credit (Money function). It today's concerned the operation function of the commercial banks are,

- To collect working capital
- To utilized the working capital in various purpose.
- By utilizing the working capital it earns profit and
- Part of the profit is distributed as dividend and part of the profit is retained for the expansion of banking transactions.

Commercial Bank Act, 2031 B.S. of Nepal has defined it as a commercial bank is one which exchanges money, deposit money, accepts deposit, grants loans and performs commercial banking functions and which is not a bank meant for cooperative agriculture, industries or for such specific purpose. The commercial bank act, 2031 also pointed the functions of commercial banks. Commercial banks provide

short-term debts necessary for trade and commerce. They take deposits from the public and grants loans in different forms. They purchase and discount bills of exchange, promissory note, and exchange foreign currency. They discharge various functions on behalf of their customers provided that they are paid for their services.

2.4 Classification of Working Capital:-

Before turning our attention of the way working capital should be financed, we need to take a slight detour and classify working capital. Working capital can be classified into two types:

1. Permanent or fixed working capital.
2. Variable or temporary or fluctuating working capital.

A firm's permanent working capital is the amount of current assets required to meet long-term minimum needs, you might call this bare bone working capital. Temporary working capital on the other hand in the investment in current assets that varies with seasonal requirement. Figure in below illustrates the firm's changing for working capital over time while highlighting both the temporary and permanent nature of those needs.

Permanent and temporary working capital

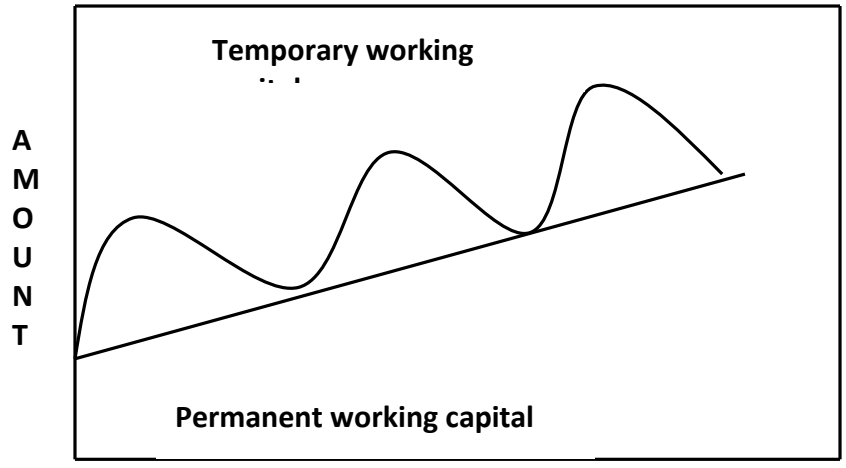


FIGURE: 2.2

Permanent working capital is similar to the firm's fixed assets in two important respects. First the amount investment in both of these assets group is long term. Therefore, suppliers of capital to the firm need to realize the funding needs for permanent current assets is long term despite the seeming contradiction that the asset being financed are called ' current' second, for a growing firm, the level of permanent working capital needs will increase over time. However, permanent working capital is different from fixed assets in one very important respect. It is constantly changing permanent working capital does not consist of particular current assets staying permanently in place, but is a permanent level of investment in current assets. Where individual items are constantly turning over viewed still another way permanent working capital is similar to the level of water that we find in day at low tide, like permanent working capital, temporary working capital also consists of current assets in a constantly changing firm. However, since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature. (Van Horne, 1996; 205)

Thus the permanent working capital refers to that level of current assets which required on a continuous a basis over the entire year and the temporary working capital represents that portion of working capital, which is required over permanent.

2.5 Need of Working Capital:-

Efficient management of working capital is an integral part of overall financial management and has a bearing on the objective of the maximization of the owner's wealth. Sufficient profit is needed to achieve this objectives, profit position of the firm depends upon the amount of sales. In other words a good sales program is needed to gain sufficient profit. But the amount of sales showed in the book. Can not reflect the real income. Some time lag between sale and cash realization is needed. As the operation cycle in this period cannot be stopped, some amount of liquid

assets is needed to run the operation without interruption. That vary amount of liquid assets is called working capital. Indeed the concepts of working capital (gross and net) are exclusive; rather they are equally significant from the management point of view. However, the firms differ in the management of working capital has been regarded as one of the conditioning factors in the decision making issue. It is not doubt, very difficult to point out as to how much working capital is needed by a particular company, but it is very essential to analysis and find out the solution to make an efficient use of funds for minimizing the risk of loss to attain profit objectives. Thus goes the importance of working capital in operating moving rapidly; hence it is also a lead circulation capital or a moving capital. The transaction of a company's working capital into9 income and profits and back into working capital is one of the most dynamic and vital aspects of business operation. And only this movement of current assets keeps the business alive. A fully equipped factory without stock to sell is of no use. These circumstances emphasize the importance working capital in a business firm. (Ghimree; 2002:73)

The need for working capital or current assets cannot be overemphasized. The objective of financial decision making is to maximize the shareholder's wealth. To achieve this, it is necessary to generate sufficient profit. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other thing. A successful sales program is in other words, necessary for earning by any business enterprise. However, sale does not convert into cash instantly: there is invariably a time lag between the sales of goods and receipt of cash. There is, therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital, "Operating cycle is the time duration required to convert sales. After the conversion of resources into inventories, into cash." (Pandey; 1996:731) business, every firm needs to hold the working capital components like cash, receivable, inventories etc. therefore; every firm needs working capital to meet the following motives:

1) The transactional motive:-

According to transactional motive, a firm holds cash and inventories for facilitate production and sales operation in regular. Thus, the firm needs the working capital to meet the transaction motive.

2) The precautionary motive:-

Precautionary motives is the need to hold cash and inventories to guard against the risk of unpredictable charge in demand and supply forces and other factors such a strike, failure of important customer, unexpected slow down in collection of account receivable , cancellation of some order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingencies in future.

3) The speculative motive;-

Speculative motive refers to the desire of a firm to take advantages of following opportunities:

a) An opportunities of profit making investment.

b) An opportunity of purchasing raw materials at a reduced price on payment of immediate cash.

c) To speculate on interest rate and

d) To make purchases to favorable price etc. thus the firms need the working capital to meet the speculative motive.

2.6 Working Capital Cycle:

Cash flows in a cycle into around and out of a business. It is the business's life blood and every manager's primary task is to help to keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it doesn't generate surpluses, the business will eventually run out of cash and expire. The faster a business expends the more cash it will need for working capital and investment. The cheapest and best source of cash exists as working capital right within business. Good management improves profits and reduces risks. Bear in mind that the cost providing credit to customers and

holding stocks can represent a substantial proportion of a firm's total profits. There are two elements in the business cycle that absorb cash- inventory stocks and work-in-progress) and receivables (debtors owing you money). The main sources of cash are payables (you creditors) and Equity and Loans.

Each component of working capital such as inventory, receivable and payables has two dimensions: TIME and MONEY. When it comes to managing working capital, TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank-interest or you'll have additional free money available to support and additional sales growth or suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales.

If you…….	**Then ……**
Collect receivable (debtors) faster	You release cash from the cycle
Collect receivables (debtors) slower	Your receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	You increase your cash resources
Shift inventory (stocks) faster	You free up cash
Move inventory (stocks) slower	You consume more cash

It can be attempting to pay cash, if available, for fixed assets e.g. computers, plant, vehicles etc. If you do pay cash, remember that this is now longer available for working capital. Therefore, if cash is tiger, consider other waves of financing capital investment loans equity, leasing etc. Similarly, if you pay dividends or increase drawings, these are cash outflows and, like water flowing downs a plug hole, they remove liquidity from the business. (Source: www.planware.org)

2.7 working capital policy:-

A firm's net working capital position is not only important as an index of liquidity but it is also used as a measure of the firm's risk. Risk, in the regard, means

chances of the firm, being unable to meet its obligation on due date. (Pandey: op. 738)

Working capital management involves deciding upon the amount and of current, assets, and how to finance these assets. These decision, involve tradeoff between risk and profitability. The greater the relative proportion of liquid assets, the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately, also will be less. The longer the composite maturity schedule of securities used to fiancé the firm, the lesser the risk of cash insolvency all other things equal.

Again the profits of the firms are the tradeoff between risk of and profitability with respect to these decisions depends up on the risk preferences of management. Working capital policy refers to the firms basic policies regarding target level of each category of current assets will be financed. (Western and Brigham; 1996:333)

So, first of all the firm has to determine how many funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds working capital.

2.7.1 Current Assets Investment Policy:-

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried out to support the given level of sales. How much a firm will invest in CA will depend on its operating cycle. There are three alternative current assets investment policies-fat policy lean and mean policy and moderate policy. (Western and Brigham; 1996:344)

I) Fat policy:-

This known as relaxed current assets investment policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support given level of sales. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus, this policy provides the lowest expected return on investment with lower risk. This policy provides the lowest expected return on investment with lower risk.

ii) Lean and Mean Policy:-

In lean and mean policy; a firm holds the minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy firm follows a light credit policy and bears the risk of losing sales.

iii) Moderate Policy:-

In this policy, a firm holds the amount of current assets in between the relaxed and restrictive polices. Both risk and return are moderate in this policy.

Alternative Current Assets Investment Policy

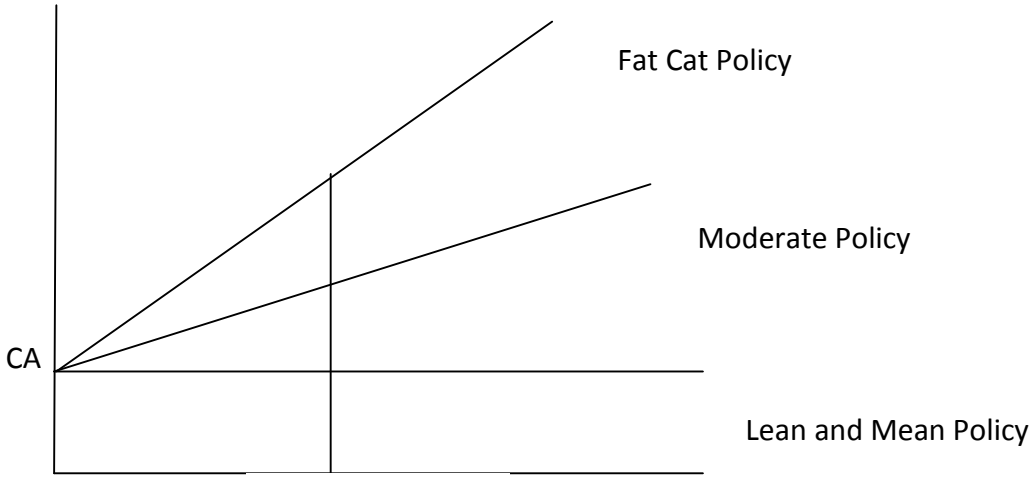


Figure No. 2.4

The relati output and current assets level for these alternatives is illustrated in above figure. We can see from the figure that the greater the output, the grater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a greater

proportional investment in current assets when only a few units of output are produces than it does later no, when the firm can use its current assets more efficiently.

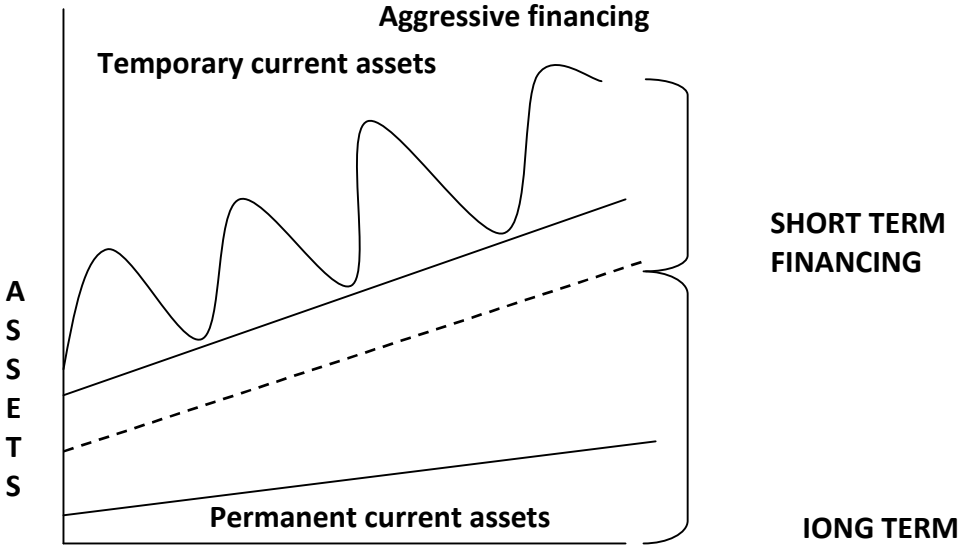
2.7.2 Current Assets Financing Policy:-

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. But cost and risk affect the financing of any assets. Thus, current assets financing policy should clearly outline the sources of financing. There are three policies-aggressive, conservative and matching or hedging policies of current assets financing.

I) Aggressive Policy:-

In this policy, the firm finances a part of its permanent current assets with short term financing and rest with long-term finances not only temporary current assets but also a part of permanent current assets with short term financing. In this policy, the liquidity position may expose the firm to opportunity costs. If a firm relies heavily on short term borrowings, during the period of high money, credit may be rational and the firm may be unable to obtain all the financing its needs.

FIGURE: 2.5



Above figure shows that short-term financing finance e permanent curren ral, interest rate increases with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-term financing rather than long-term financing, on the other side, if the firm finances its permanent current assets by short-term financing,

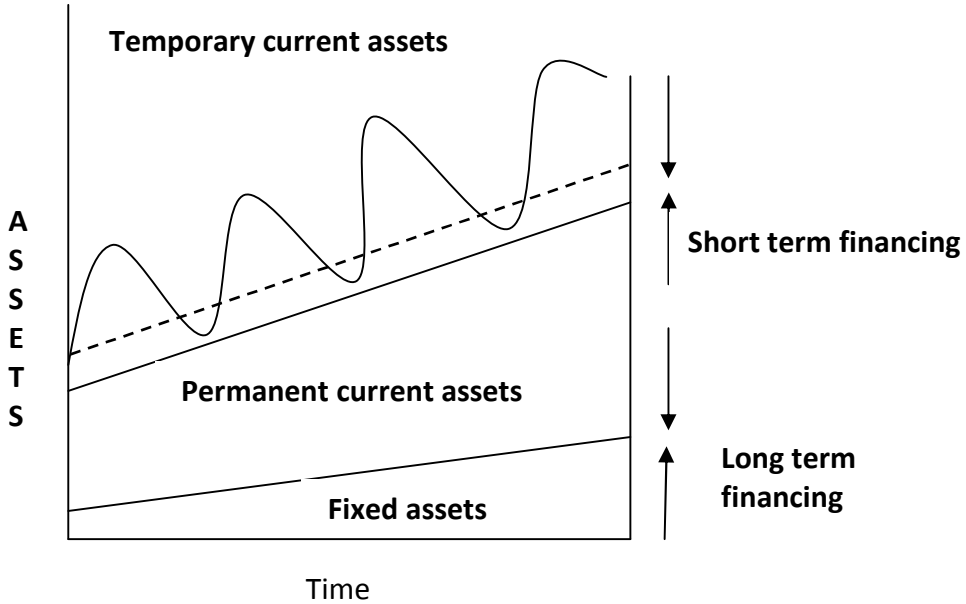
then it runs the risk of renewing the borrowing again and again. Thus continued financing exposes the firm to certain risk. It is because, in future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, higher return and low liquidity position under this policy.

ii) Conservative Policy:-

In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity in invest current assets. Otherwise; the long-term fund should be used as far as possible in financing of investment in current assets. However, the cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. Under a conservative plan, the firm finances its permanent assets and a part of temporary current assets with long-term financing. Thus, in periods when the firm has no temporary current assets, it stores liquidity by investing surplus funds into marketable securities. The conservative financing relies heavily on long-term financing and, therefore, is less risky. The conservative financing policy is shown in figure below. (Pandey; 1995:684),

Figure 2.6
Conservative financing policy



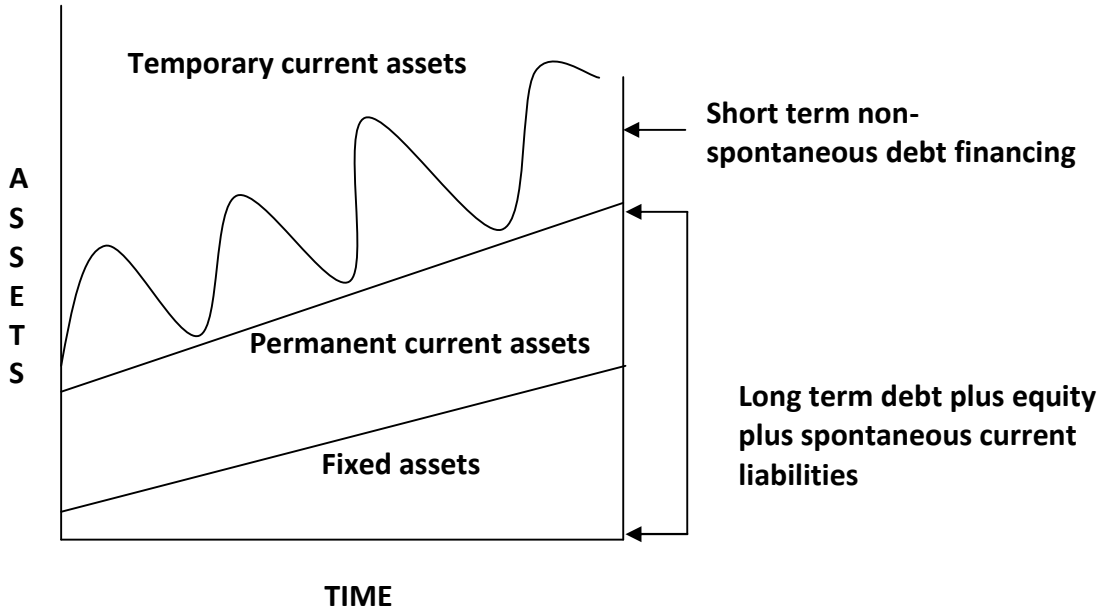
In above figure, the conservative financing policy is shown. Note that when the firm has temporary current assets (at the level of slope); the long-term funds released can invested in marketable securities to build up the liquidity position of the firm.

iii) Matching Policy

Matching policy is also called hedging policy. In this policy, the firm finances the permanent current assets. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current - assets and current liabilities. Figure in below shows the temporary working capital financed by short-term financing and long-term financing. Thus, no working capital is zero under this policy.

FIGURE 2.7

Matching policy



Thus when the firm follows matching policy also known as hedging policy, long-term financing will be used to finance fixed assets and permanent current – assets and short-term financing to finance temporary or variable current-assets. Figure 2.7 is used to illustrate the matching policy over time. The firm's fixed assets and permanent CA is financed with long-term funds and as the level of these assets increase, the long-term financing level also increase. The temporary of variable CA are financed with short-term funds and as their level increases, the level of short – term financing also increases.

2.8 Financing of Working Capital

The firm's working capital assets policy is never set in vacuum; it is always established in conjunction with the firm's working capital financing policy. Every financial company requires additional assets whether they are in stable-growing conditions. The most important function of financial manager is to determine the

level of WC and to decide how it is to be financed, Financing of any asset is concerned with two major factors-cost and risk. Therefore, the financial manager must determine an appropriate financing max, or decide how CL should be used to finance CA. However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing

i) Long-term Financing

Long-term financing has high liquidity and low profitability. Ordinary share, debenture, preference share, retained -earning and long-term debt of financial institution are major sources of long-term financing.

ii) Short-term Financing

A firm must arrange its short-term credit in advance. The sources of short-term financing of working capital are made credit and bank borrowing. Trade Credit refers to the credit that a customer gets from suppliers of goods in normal course of business. The buying firms have not to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and it granted on an open account basis. Another from of Bank credit is bills payable. It depends upon the term of trade credit. (Van Horm; 1996:248)

Bank credit is the primary institutional sources for working capital financing. For the purpose of bank credit, amount of working capital required has to be estimated by the borrowers and banks are approached with the necessary supporting data. After availability of this data, bank determines the maximum credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement, overdraft arrangement, and commercial papers etc.

ii) Spontaneous Financing

Spontaneous financing arises from the normal operation of the firm's. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost or not actually depends upon the terms of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect, the real choice of CA

financing is either short-term or long-term sources. Thus, the financing manager concentrates his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy with is perfectly dominated by management attitude towards the risk-return.

There are three basic approaches for determining an appropriate working capital financing mix:

a) Hedging Approach.

b) Conservative Approach.

c) Aggressive Approach.

A) Hedging Approach:

The firm can adopt a financial plan which involves the match in of the expected life of assets with the expected life of the sources of funds raised to finance assets. (Pandey: 1995:683)

In this approach the long-term assets are financed by short term funds. It is called hedging approach because it matches the risk-regarding activities. M.Y. Khan and P.K. Jain express that the term hedging is often used in the sense of a risk-reducing investment strategy involving transitions of a simultaneous, but opposite nature, so that the effect of one is likely to counter balance the effect of the other. With the hedging approach short-term debt; the permanent components of CA would be financed with long-term debt of equity. In this approach assets are classified into three categories.

- Fund requirement for seasonally needed CA.
- Funds requirement for regularly needed CA.
- Funds requirement for fixed or long-term assets.

According to hedging approach, we should finance variables or short-term WC from CL or short-term funds and long-term funds should be used to finance the fixed portion of CA.

B) Conservative Approach:

The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. Under a conservative plan the firm finances its permanent assets and also a part of temporary current assets, with long-term financing. In the periods when the firm has no need for temporary current assets the idle long-term funds can be invested in the tradable & securities to conserve liquidity. The approach relies heavily on long-term financing, as a result firm has less possibility of financing the problems of shortage of funds. In conservative approach, permanent capital is used to finance all permanent assets requirements or also to meet some or all of the seasonal demands. (Western and Brigham; 1996:27)

e) Aggressive Approach:

A firm can follow aggressive policy in financing its assets. Under an aggressive approach, the firm finances a part of its permanent current assets with its short-term financing. "The relatively more use of short-term financing make the firm more risky." (Pandey; 1995:685)

The greater the portion of the permanent asset need financed with short-term debt, the more aggressive the financing is said to be aggressive approach of financing. (Van Horne; 1996:209)

2.9 Determinants of Working Capital

The total requirement of working capital is determined by wide variety of factors. The influence of these factors is different in different business organization. Perhaps none of them can neglect the management of adequate WC. Therefore' an analysis of the relevant factors should be made in order to determine the total investment the WC requirement of the firm is given below.

i) Nature and Size of Business

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital and if the size of firm is smaller, then it requires less working capital.

Trading and financial firms have a very limited need of working capital and have to invest abundantly in fixed assets. Their working capital requirement is nominal.

ii) Manufacturing Cycle

The manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle, large will be the firm's working capital requirements. An extended manufacturing time span means a larger tie-up of funds in stocks. Thus, if there are alternative ways of manufacturing cycle should be chosen. Once a manufacturing process has been selected, it should be ensure that manufacturing cycle is completed within the specified period. This needs proper planning and coordination at all levels of activity. Non-manufacturing firm's service and financial enterprises do not have manufacturing cycle. (Pandey; 1995:674)

iii) Production policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal change in the demand for the firm product. A steady production policy will cause inventories to accumulate during the season periods and the firm will be exposed to greater inventory cost and risks. Thus, if costs and risks of maintaining a constant production schedule in accordance with changing demand. Those firms, whose productive capacities can be utilized for manufacturing varied products, can have the advantage of diversified activities and solved there working capital problems. (Pandey; 1995:675)

iv) Credit policy

Credit policy also affects the working capital of a firm. Working capital requirement depends on terms of sales if sales are in credit more WC is required and it sales in cash less WC is required. And if sales in cash less WC is required. Different term may be followed by different customers according to their credit worthiness.

v) Operating Efficiency

The operating efficiency of a firm relates to the optimum utilization of resources at minimum costs. The firm cannot effectively contribute to its working capital when the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm. Efficiency of operation accelerates the face of cash cycle and improves the working capital by improving profitability and improving the internal generation of fund with.

Vi) Profit margin

The net profit is a source of working capital to the extent that has been earned in cash. The capacity to generate profit differs from, company to company. In the word of I.M. Panday, some firms enjoy a dominant position, due to quality product or good marketing management or monopoly power in the market and earn working capital. The level of working capital is determined not only by the profit margin, but also by the way of appropriation for taxations, dividend, reserves and depreciation. Only after providing for these items, internal funds can be set aside for working capital. As the provision for these items are higher, the amount working capital will be lesser.

Vii) Level of Taxes

The level of taxes also influences working capital requirement of a bank. The amount of taxes to be paid in advances is determined by the prevailing to tax regulation. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short-term liquidity is payable cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice-versa.

Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital, For example, firm's attitude to take risk, firm's policies toward the financial management, in the inflationary period, co-ordination among production distribution, developed transport and communication system etc could also pay an important role in determinants affects both temporary and permanent working capital.

2.10 Review of literature:

2.10.1 Introduction:

Working capital is the effective life-blood and controlling nerve center of any business. Hence, the management of working capital plays a vital role for the success and the failure of any enterprise. So far as the management of working capital in Nepalese enterprise is concerned, different management experts and students of MBS describing the working capital management of various enterprises have under taken a number of studies. The purpose of this chapter is to provide an insight into working capital management and give a bird's eye view of different experts thought regarding the theory of working capital. This chapter's aimed is to review the available literature on working capital management in the context of Nepalese enterprises including available literature on Kumari Bank Ltd.

2.10.2 Review of Books:

For the purpose of the study made easy, related review from some books on working capital management are studied.

In the concern of working capital, the well-known professors Weston and Brigham have given the concept of working capital as:

"The term working capital originates t a time when most industries were closely related to agriculture, processor would by crops in the fall. Process them, sell the finished product and end up just before the next harvest with relatively low inventories. Bank loan with maximum maturities of one year were used to finance both the purchase and the processing costs and these loans were retired with the process from the sale of the finished products"(Fred& Brigham: 267)

As per the theoretical concepts on the components of working capital from Van Horne's book:

"Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivables and inventories and the administration of current liabilities. It means the working capital management is concerned with problems they arise in attempting to manage the

current assets, the current liabilities and the inter-relationship that exist between them" (Van Horne: 373)

For the working capital management a well-known Indian professor I.M Pandey has described some conceptual ingredients as:

There are specially two concepts of working capital: Gross concept. The gross working capital simply called as working capital, refers to the firms investment in current assets. Current assets are those assets which can be converted into cash within an accounting year and include cash, short-term securities

Debtors, bills receivables, stock (inventory) and prepaid expenses. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within and accounting year and include creditor, bills payable, bank overdraft and outstanding expenses or accrued income. Net working can be negative or positive. A positive net working capital will occurs when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets" (Pandey: 325)

In the view of N.K. Agrawal;

Working capital management is the effective lifeblood of any business. Hence the management of working capital plays a vital role for existing of any public enterprises successful while study it . It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore, working capital in public enterprises is very important mainly for four reasons. Firstly public enterprises must need to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly they must select the type of current assets, suitable for investment so far as to raise their operational efficiency. Thirdly, they are require to ascertain the turnover of current assets, which determine the profitability of the concerns, Lastly, they must find out the appropriate sources of funds of finance the current assets.

Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in efficient circulation of working capital it is necessary that working capital be properly

determined and allocated to its various segments, effectively controlled and regularly reviewed" (Agrawal :8)

"Most of the selected enterprises have been achieving a trend off between risk and return there by following neither an aggressive nor a conservative approach. He further stated that the low level of current and quick ratio need not indicate poor liquidity position. They may still be considered good if the enterprises can generate cash flows sufficient to pay their current debts. Therefore, the liquidity measure that consider cash flows have been employed in the study for all those enterprises for which current liabilities are greater than current assets and quick assets" (pradhan: 1986)

2.10.3 Review of Related Journal / Articles

Articles, journals and bulletins are of great significance for thesis writing. So, various published and unpublished articles by different experts and journals and bulletins relating to working capital management have been revised. The study is only related with working capital only. Dr. Manohar K. shrestha, in an article ISDOC bulletin has considered ten selected PEs and studied the working capital management on those public enterprises. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that four PEs has excessive and the remaining six had failed to maintain desirable. Liquidity position Dr. sherstha had brought certain policy-issues such as lack of suitable financing' planning, negligence of working capital management, deviation between liquidity and turnover of assets and in ability to show position relationship between turnover and the return on net working capital. At the end, he had made some suggestive manure to over conform the above policy issues, viz; information system, positive attitude toward risk and profit and determination of right combination of short-term and long term sources of funds to finance working capital needs. (Shrestha: ISDOCVol. 8:1982). Pradhan and Koirala had jointly conducted a study on working capital management in Nepalese Corporations". They had focused on, evaluation of working capital of selected manufacturing and non-manufacturing public companies. This study was concentrated in the size of investment in current assets, significance of current assets management.

The major findings of the study were as follows:

- Investment on total assets had declined over a period of time in both manufacturing corporation. However, the manufacturing corporation had consistently mote investment in cash and receivable as compared to non manufacturing corporations.
- Inventory manufacturing was of great significance in manufacturing corporations and the management of cash receivable was of great significance in non Manufacturing Corporation.
- Management of working capital was more difficult than that of fixed capital and the major motive for holding cash in Nepalese corporation was to provide a reserve for routine net outflows of cash to keep on the production process.(Pradhan and Koirala: 1982)

Another of working capital was more difficult than that of fixed capital management. He has described the two major problems-operational problems and organization problem regarding the working capital management in Nepalese public enterprises; he found the increase of current liabilities than current assets, not allowing the current ratio 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed; to sales, absence of apathetic management information, system, break even analysis, funds flow analysis and ratio analysis were ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered a managerial job.

In the second part, he has listed the organization problem in the public enterprises. In most of the public enterprises there is lack of regular external and internal audit system as well as evaluation of financial results. Similarly, very far public enterprises have been able to present their capital requirement. Functioning of finance department is not satisfactory and some public enterprises are even facing the underutilization of capital.

R.S. Pradhan has prepared another article relating to working capital management: He has studied on “The demand of working capital by Nepalese enterprises.” For the analysis, he has selected nine manufacturing companies with the twelve years data. Regression equation has been adopted for the earlier studies concerning about the demand for cash and inventories by business firm didn’t report unanimous findings. A lot of controversies exits with respect to the presence of economics of scale, roles of capital cost; capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories by business firm didn’t report unanimous findings. A lot of controversies exits with respect to the presence of economies of scale, roles of capital cost; capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled “regression result slows the presence of economics of scale with respect to the demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is function of both scale and their capital cost.

The estimated results show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function of cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivable and gross working capital is doubtful. (Pradhan; Vol8, No 1:1988).

When we’re making a request for a working capital-related loan, be sure our business plan reflects or specific goals. “Banker are more receptive of we show that we know exactly how we want to use the working capital and where it will bring our company down the road.” Says Valier’s . Whether it’s R& D to commercialize new products, implementing quality standards or simply buying inventory, small business owners need to demonstrate that are injection of working capital will help them grow. Another piece of advice of the offer entrepreneurs is to avoid using working capital to pay for fixed assets, such as equipments. Ultimately, he says companies are better to use long-term borrowing to pay those long term assets.

(www.bdc.ca/en/my-project/growth/working_capital.html)

2.10.4 Review of related thesis

Lastly, the views of various items of thesis and dissertation relating to my study which have already been furnished can be reviewed as under some of the dissertation relating to working capital management. Mr. Suresh Pradhan, in his study on working policy of manufacturing public enterprises in Nepal sought to sort out of the problems of low economic performance and financial management in manufacturing public enterprises. He also examined the association between the various aspects or working capital policy in financial management and the poor financial performance of manufacturing public enterprises. Hence, this study deal with liquidity position, utilization of working capital, profitability position , source of financing of current assets and determinants of working capital in manufacturing public enterprises. The main findings of the study are as follows:

- The selected manufacturing public enterprises had sufficient liquidity.
- The use of CA selects in selected public manufacturing public enterprises was satisfactory and there was high turnover of cash and receivable in comparison of inventory.
- Most of the manufacturing public enterprises were-racer-ring losses and were unable to meet even the operating expenses with their sales revenue.
- There was higher use of long term funds followed by trade creditors, short term bank loans and operating profit in CA financing.

Ultimately, he had made some suggestions for improvement of working capital management and efficiency in the manufacturing public enterprises. The manufacturing public enterprises should follow aggressive working capital policy. (Pradhan; MBA Thesis 1989)

Rajendra Sapkota, in his study on short term financing of Nepalese manufacturing companies examined, the mix financing pattern has followed by

Nepalese manufacturing companies. They have not planned how much funds to be rise from which sources. They did not analysis the source and rise the fund whatever they get. They did not race nay other things regarding to this sources. The main findings of the study are as follows:

- The liquidity position of Nepalese manufacturing companies is not good.
- Working capital management of Nepalese manufacturing companies have to lower and most of the companies have negative working capital.
- The account receivable is in increasing trend during the study period due to poor collection policy of Nepalese manufacturing companies.
- Cash and the ratio of inventory to short term financing are wide varied among the manufacturing companies during the study period.
- Most of the companies have commonly usage the account payable in financing but they have not effective utilize the account payable. (Sapkota; T.U. thesis; 1998)

Other study relating to working capital management was made by Arjun Lal Joshi analyzed the poor liquidity position, stock loads, Minimum cash balance, heavy dependency of bank credit. He focused his study to give an insight into the problem of working capital management. The major findings of his study were inventories insufficient cash balance and negative working capital. He has suggested planning, realistic turnover target specimen, use of short term bank credit, maintain optimum cash balance. (Joshi; MBA Thesis; 1986)

Narendra Bahadur Amatya, in his thesis entitled “appraisal of financial position of Nepal Bank Ltd” has analyzed examined and interpreted the financial position of the bank. Main findings of his study were as follows:

- The liquidity position of the banks is better position. But the bank has been following a uniform policy to finance current assets and current liabilities.

- The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.
- The trade and commerce advances are playing major role in the credit composition of the bank. Although the reserve of the bank is increasing gradually the reserve plays a nominal role in the credit expansion control.
- The major portion of investment of the bank is in government's securities, and the volume of transaction is high in all respect but the bank does not show higher ratio of profit or it shows a decreasing trend of profit. (Amatya; T.U. thesis 19.93)

Pradeep Kumar pathak had carried out a research study on '-fin evaluation of working capital management on Nepal Tube oil limited." The objective of his study were to appraise the working capital management of Nepal tube oil limited with respect to cash, credit and inventory management, to study the relationship between the appropriate working capital management for the Nepal Tube oil limited. The methodologies used in this study are ratio analysis, correlation analysis and test of hypothesis; he derived the following conclusions from his studies.

- There is significant positive correlation between investment in CA and investment in total assets which means both of them are going hand in hand. This growing tendency of investment over current assets could have adverse effect in Nepal Tube Oil Ltd's wealth maximization goal in the long run.
- Cash in relatively holding tiny portion of total assets and if we only consider the position of cash we can see that the cash in increasing every year during the study period.
- As an important aspect of current assets, inventory is holding the highest portion of total assets in comparison to its reset partners.
- Portion of receivable to total assets is in increasing trend which indicates the rowing inefficiency in credit collection.

- The inventory turnover ratio is in increasing trend and receivable turnover ratio is in decreasing trend.
- The company's current ratio and quick ratio both are lower than the standard.
- Nepal Tube Oil Limited is presently following the conservative policy in financing its total capital and is forwarding towards following moderate policy in financing its total capital. (Pathak; SDC thesis: 1995)
- A research working entitled "A study on working capital management of Dairy Development Corporation" had been carried out by Basudev Shrestha. He conducted his study on the basis of different year's data. The objectives of his study were to present overall picture of Dairy Development Corporation; to analyze the current assets and current liabilities of corporation and their impact and relationship to each other. During his study, he had basically used the secondary data and mainly financial tools are embodied for analyzing the working capital management of DDC. He had derived following major findings from his study:
- The corporation's investment in the form of working capital has been increasing and DDC followed the conservative working capital policy with respect of current assets management.
- The average investments in current assets is lower with respect to net fixed assets during the study period and DDC has no clear vision about the investment in current assets portion Cash and bank balance holds the second largest portion of the current assets and has fluctuating trend.
- Other major components of current assets i.e. inventories and receivable are in fluctuating trend. The company does not follow credit sales policy.
- The company has been able to maintain its current ratio in an average 1.78:1 during the study period which is regarding satisfactory level.

- The gross and net profit margin in DDC shows that company is suffering from a heavy loss during the study period.
- The overall return position of DDC in negative, not in favorable condition. It is because of inefficient utilization of current assets, total assets and shareholders wealth. (Shrestha; S.K; Thesis; 2001)

Hirmain Ghimire in his thesis entitled "A study on working capital position of Arihant Multi-fibers Limited" has covered the period of five years data. In this study he had kept the following objectives like to show the working capital position of the selected company with respect to cash, credit and inventory management to examine the nature of company's current assets and current liabilities properly, to see the affect of working capital on profitability and to examine the nature of funds, their sources and utilization. The methodologies used in his study are ratio analysis, trend analysis and correlation analysis. He had drawn the following conclusion from his study:

- The company's current assets consist of mainly stock of raw material, finished products, packing materials, sundry debtors, advance and receivables, cash and bank balances and so on. The inventory occupies major share i.e. 61.04%.
- The company's CL mainly consists of sundry creditors, advance, payable and provision. Sundry creditor occupies and largest share i.e. 51.15%.
- The overall percentage of current assets on total assets is in increasing trend. The percentage investment in the current assets of fixed assets is in increasing trend during the period.
- The ratio in current assets to sales is in increasing trend for first three years and decreasing trend for last two years.
- The percentage of cash and bank balance to current assets is sometimes in increasing and sometimes decreasing.

Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to a case study of a single manufacturing company and some and

comparative in nature. Keeping in view, the fact that there is no study of working capital management particularly in Nepalese commercial bank. Thus, “Working capital management “, a case study of Kumari Bank Limited has been taken for the study of working capital position and to suggest overcoming from such difficulties.

Chapter- Three

Research Methodology

Research is systematic and organized effort to investigate facts and methodology is the method of doing research in well manner and also the research for gaining the knowledge about methodology. So research methodology means the analysis of specific topic by using proper method. In other words research methodology id a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis and interpretation of the facts and figures. “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem, with certain objectives in view”. Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

In this chapter, efforts have been made to present and explain specific research design for the sake of attaining the research objective. It describes the methods and process applied in the entire subject of the study. It is the plan, structure and strategy of investigation conceived to answer the research question. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from profit and loss account, balance sheet and other applications made by the banks. It consists of research design, population and sample study, sources of data, data processing procedure and tools and technique of analysis of data.

3.1 Research Design:

Selection of appropriate research design is necessary to meet the study objectives of any research. “Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variances.”

The study aims to portraying, accurately on the working capital for current assets and current liabilities and its impact or overall financial position of the

bank. It is based on recent 5 years data from F/Y 2064/65. The study has been conducted to assess the existing situation of working capital management of commercial banks of Nepal and describe the situation and events occurring a present. The research design followed for this study is basically a historical, empirical and descriptive cum-analytical.

3.2 Population and Sample:

At present there are around 20 or more commercial banks including government owned, private and joint venture banks in Nepal. Due to time and resources factors. It is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population. Kumari Bank Ltd is selected as a sample for the study an analysis.

3.3 Nature and Sources of Data:

The study is mainly based on the secondary data. The main sources of data are the financial statements and reports of KBL different circular regarding rules and regulation of KBL, NRB's directives to the commercial banks, reports of the corporations co-ordination council, other published and unpublished materials, magazines and newspapers, some ideas and information have been collected from the discussion with managers of KBL.

2.4 Data Gathering Procedures:

As this study is mostly based on secondary data, therefore, data were directly collected from the information department of concerned bank, research department of the Nepal Rastra Bank and from different web-sites.

3.5 Data Processing Procedure:

Data collected from various sources were in raw form. They were classified and tabulated as per the nature of the study and in accordance of the data. A sample percentage tool was used as arithmetic tools and different financial and statistical were also used to analyze the collected data.

3.6 Tools and Techniques of Analysis:

Under the study, financial as well as statistical tools have been used to analyze the gathered data and information.

Financial tools

In this research study various financial tools are employed for the analysis. The analysis of this study is based on following financial tools:

A) Working capital:

Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is calculated by subtracting current liabilities from current assets. Due to differences in businesses and the fact that working capital is not a ratio but an absolute amount, it is difficult to predict what the ideal amount of working capital would be for the business. (www.planware.org). therefore:

Working capital (WC) = current assets (CA) –current liabilities (CL)

B) Liquidity Ratios:

Liquidity ratio indicates the firm's ability to meet it maturing short-term obligation. Your liquidity ratios measure your company's ability to generate cash to meet your short term financial commitments. The current ratio measures debts over the next 12 months. While the quick ratio measures liquidity available for immediate demands. As stated, a ratio of 1.0 or greater is generally acceptable, but depends on the nature of the company. A comparatively low ratio can mean that your company might have difficulty meeting your obligation and may not be able to take advantage of opportunities that require quick cash. Paying off your liabilities can improve this ratio, you may want to delay purchases or consider long-term borrowing to repay short-term debt. A too-high ratio may mean that your capital is being underemployed. You may want to invest your capital.

(Source: www.bdc.ca/en/my_project/projects/growth/working_capital.html)

i) **Current ratio:** current ratio measures the short-term solvency, i.e. its ability to measure short-term obligation. In other words, current ratio measure raises ability to pay debts. As a measure versus creditors versus current

assets, it indicates each type of current ratio available by dividing current assets by current liabilities.

$$\text{Current ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets include cash, and those assets which can be converted in to cash within a year, such as debtor, receivable, cash and bank balance, prepaid expenses, inventory etc. current liabilities mean all obligations maturing within a year. Under the current liabilities secondary creditor, provision for taxation, bank loan, miscellaneous current liabilities and provision are included.

ii) Quick ratio: quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid id it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. Thus QA includes the all current assets except inventory or stock. Inventory cannot be converted into cash immediately. This quick ratio can be found out by dividing the total of quick assets by total of quick assets by total current liabilities.

$$\text{Quick ratio (QR)} = \frac{\text{Quick assets}}{\text{Current liabilities (CL)}}$$

iii) Cash and bank balance to deposit (Excluding fixed deposit) ratio: this ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. it is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposits). This ratio is calculated by using following formula:

$$\text{Cash and bank balance of deposits ratio} = \frac{\text{Cash and Bank}}{\text{Deposit (Except fixed deposit}}$$

iv) Saving deposit to total deposit ratio: saving deposit is interest bearing sort-term deposit, the ratio is developed in order to find out the proportion of

saving deposit; which is interest bearing and short- term in nature. It Is find out by dividing the total amount of saving deposits by the amount of total deposits, which is given as follows:

$$\text{Saving deposit to total deposits ratio} = \frac{\text{Saving Deposit}}{\text{Total deposit}}$$

C) Activity or Turnover Ratio

Activity ratios are intended to measure the effectiveness to employment to the resources on a business concern. Throughout this ratio, it is known whether the funds employed have been used effectively into the business activities or not. The following are the ratio employed to analyze the activeness of the concerned bank.

i) **Loan and Advances to Total Deposit Ratio:** this ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing the total amounts of loans and advances by total deposited funds. The formula used to compute this is as:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Fixed deposit}}$$

High ratio is the symptom of higher or proper utilization of funds and low ratio is the signal of balance remained utilized or idle.

i) **Loan and Advances Fixed Deposit Ratio:** this ratio examines that how many times the funds is used in loans and advances against fixed deposit. For commercial bands, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows:

$$\text{Loan and Advantage to fixed Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total deposits}}$$

This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

iii) Loan and Advances or Saving Deposit Ratio: this ratio assesses. How many times the fund is used to loans and advances against saving deposit. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and advance for income generation and the sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short-term interest bearing deposits are utilized for Venerating the income by total deposit is saving account. The following formula is used to determine this ratio as:

Loan and Advantage to saving Deposit Ratio

$$= \frac{\text{Loan and Advances}}{\text{Total Saving Deposit}}$$

d) Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity and long-term obligation and remaining parts in the liability side of the balance sheet are termed as short-term obligation. Both types of obligation are required in forming the capital structure of the firm. The long-term financial position of the firm-is determined by the leverage or capital structure. The difference leverage ratios are maintained to measure the financial risk or proportion of outsider's funds and owner's capital used the firm.

i) Long term Debt to Net worth Ratio: long term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the proportion of outsiders and owner's fund employed in the capitalization of bank. It is calculated by dividing the fixed obligation of the banks by owner's claim. It is calculated by using following formula:

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

ii**) Net Fixed Assets to Long term Debt Ratio:** net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

$$\text{Fixed Assets to Long term Debt Ratio} = \frac{\text{Net Fixed Asset}}{\text{Long Term debt}}$$

e) Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. Various profitability ratios ate calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitably ratio the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratio used is a follows:

i) Interest Earned to Total assets Ratio: it is the ratio, which formed to find out the percentage of the interest to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms,

$$\text{Interest Earned to Total Ratio} = \frac{\text{Interest earned}}{\text{Total Assets}}$$

ii) Net Profit to Total Assets Ratio: this ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit after tax}}{\text{Total Assets}}$$

iii) Net Profit to Total Deposit Ratio: A sound management always tries to utilize its lager amount of assets with minimum cost. This is useful in measuring the assets utilization with cost of service. The ratio can be expressed as below.

Cost of Service to Total Assets Ratio= $\frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$

iv) Cost of service to Total Assets Ratio: A sound management always tries to utilize its lager amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of service. The ratio can be expressed as below.

Cost of Service to Total Assets Ratio= $\frac{\text{Cost of Services}}{\text{Total Assets}}$

Statistical Tool

Besides the financial tools various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, and interpreted. In this study, the following statistical tools are used for analysis.

I) Trend Analysis: It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In order word trend analysis of ratios indicates the direction of changes. The significance of a movement i.e. whether the movement is favorable or not. Thus, the tools that are used to show grandly increase of decrease of variables over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

ii) Correlation Analysis: the correlation analysis is the technique used the measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or mote variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variation in one leads to the variation in the other and it is denoted by ‘r’.

The value of coefficient of correlation always lies between ±1. A value of -1 indicates of perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables the uncorrelated. The closer t is +1 or -1, the close the relationship between the variables and closer r is to zero (o), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables. Whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, of closeness of the relationship between two variables. The correlation coefficient can be calculated as:

$$r = \frac{cov\,(xy)}{o-\bar{x}=\delta x}$$
$$(o-x)(o-y)=\delta y$$

Or ,

$$R = \frac{\sum(xy)(y-\bar{y})}{(N-1)(o-x\,(o-y)}$$

$$r\ \mathrm{X}\frac{N \quad XY\ \mathrm{Z} \quad XY}{\sqrt{N \quad X2\ \mathrm{Z}(\quad X)2}\sqrt{N \quad Y2\ \mathrm{Z}(\quad Y)2}}$$

Where,

O¯X O¯ y ate the standard deviation of the distributions of X and Y values respectively.

Cov(X,Y) = Covariance of X, Y value.

CHAPTER –FOUR

DATA PRESENTATION AND ANALAYSIS

The major of this objective of this study is to evaluate the working capital position of Kumari Bank Ltd. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to working capital of Kumari Bank Ltd from the longer- range view point. In this chapter relevant data and information of working capital as well as financial performance of KBL are presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital which means current assets, liquidity, current liabilities, turnover, leverage and profitability of KBL. It also uses correlation analysis. With the help of this analysis, we can know the working capital as well as financial position of KBL.

4.1 Working Capital

Working capital means current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive and negative; depending in how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack and funds necessary for also called net current assets or current capital. Therefore;

Working capital = current Assets – current liabilities

4.1.1 Components of current assets

To operate the business, different kinds of assets are needed. For the day-to-day business operation different types of current assets are required. The compositions of current assets or the main components of current assets of KBL are cash and bank balance, loan and advances and government securities. Miscellaneous current assets are also a component of current assets. Prepaid expenses,

outstanding income like interest receivable and other current assets are included in miscellaneous current assets.

The following stables show the amount of cash and bank balance, loan and advances, government securities and miscellaneous current assets of Kumari Bank Limited.

Table 4.1
Components of current assets of KBL

(Rs. In millions)

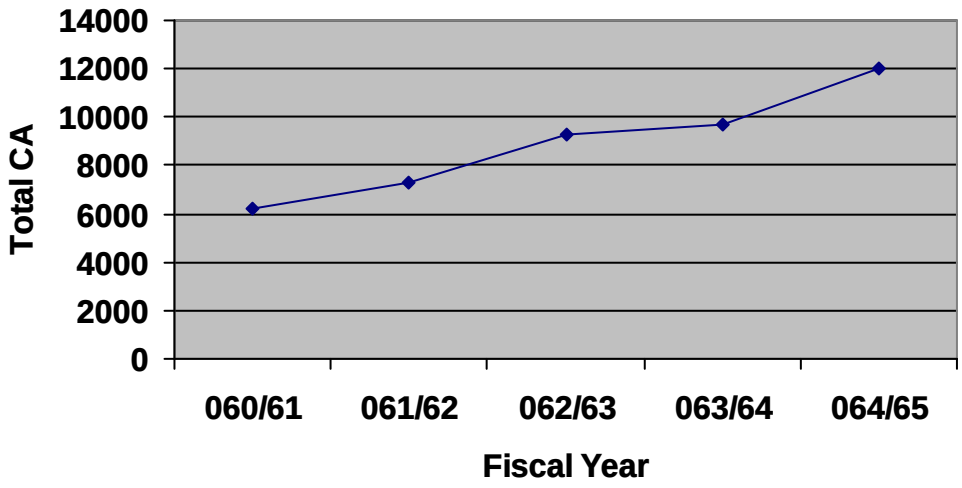
Fiscal year	Cash and Bank Bal.	Loan and Advances	Government securities	Misc. CA	Total CA
060/61	683.65	4163.70	522.65	372.12	6192.12
061/62	692.71	4542.70	1510.71	504.65	7250.77
062/63	782.88	5646.70	2371.78	482.02	9283.38
063/64	740.51	5912.57	2147.00	851.78	9651.86
064/65	728.68	7259.09	2658.37	1333.32	11979.46

Source: Appendix S-Financial Summary of Kumari Bank Limited.

Above table 4.1 depicts that the components of current assets of KBL. Consists cash and bank balance, loan an advances, government securities and miscellaneous current assets. In fiscal year (F/Y) 2060/61, total current assets of the bank was amounted to Rs. 6192.12 million which included Rs.683.65 million of cash and the bank balance, Rs 4613.70 million of loan and advances, Rs.522.65 million of government securities and Rs. 372.12 million of miscellaneous current assets. The CA of the bank increased drastically if fiscal year 061/62 and reached amounted to Rs.7250.77 million. Similarly, in (F/Y) 062/63 it also increased amounted to Rs.9283.38 million an in (F/Y) 063/64 is slightly increased to Rs.9651.86 million. Finally the CA of the bank in 064/65 increased drastically and reached up to 11979.46, which include Rs. 728.68 million, Rs.7259.09 million, Rs 2658.37 million and Rs. 1333.32 million cash and bank balance, loan and advances, government securities and miscellaneous current assets respectively.

Figure 4.1

Components of current assets of KBL



As started in above figure 4.1 the current assets of the KBL is increasing gradually up to final year i.e. up to fiscal year 064/65 but in the fiscal year 063/64 its increasing ratio slightly decreased and in fiscal year 064/65 is again also started to increased.

4.1.2 Component of Current Liabilities:

Current Liabilities is a short – term obligation which is payable within a year. The composition of current liabilities or the main components of current liabilities at KBL are deposit, short term loan, bills payable and miscellaneous current liabilities. Tax, provision, staff bonus, dividend payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the amount of deposit and other accounts, short terms loans, bills payable and miscellaneous current liabilities of KBL.

Table 4.2
Component of Current Liabilities of KBL

(Rs. In millions)

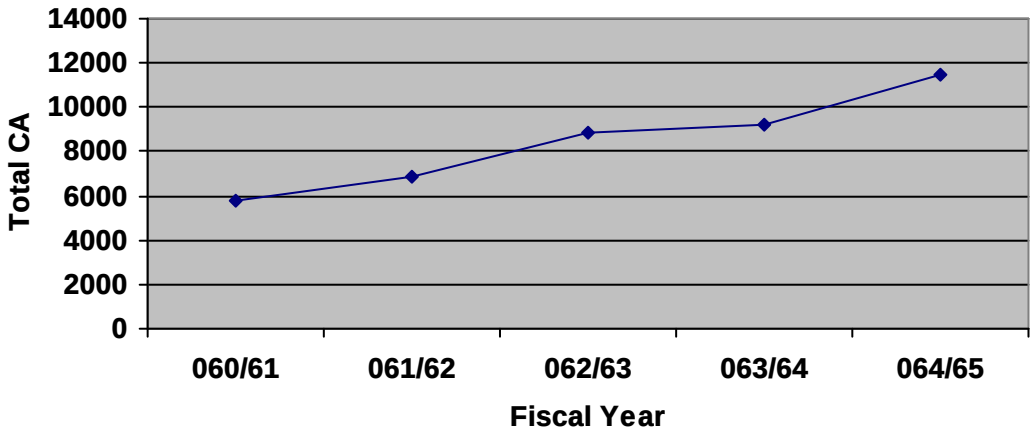
Fiscal year	Deposit and other A/C	Bills Payable	Short term Loans	Misc. CL	Total CL
060/61	5723.28	00.00	12.57	100.62	5815.18
061/62	6170.70	498.24	35.14	161.59	6865.67
062/63	7741.65	912.15	38.71	153.09	8845.60
063/64	8975.70	6.00	19.87	167.77	9169.34

064/65	10485.33	553.18	11.62	410.73	11460.84

Source: Appendix S-Financial Summary of Kumari Bank Limited.

In the above 4.2 we can find that the component of current liabilities will consist deposit and other accounts, short term loan, bills payable and miscellaneous CL. As started in above table total CL of KBL was Rs. 5815.18 million in fiscal year 060/61. The CL increased in F/Y 061/62 and reached amount to Rs. 6865.67. Likewise, in fiscal year 062/63, the current liabilities of KBL was also increased to Rs. 8845.60 million but in fiscal year 063/64 it slightly increased and reached to Rs. 9169.34 million. At the end of F/Y 064/65, the current liabilities of KBL is Rs. 11460.84 million, which increased drastically and it consist of Rs. 10485.33 million, Rs 553.18 million, Rs. 11.62 and s. 410.73 millions of deposit and other accounts, bills payable, short term loan and miscellaneous current liabilities respectively.

Figure 4.2
Components of current liabilities of KBL



As stated in above figure 4.2 the current liabilities of KBL increasing gradually up to fiscal year 064/65 but in the middle of F/Y 062/63 and 063/64 its increasing ratio is less then before and after.

4.1.3 Working Capital of KBL

The capital has to be regarded as one of the conditioning factors in the long range analysis and decision making to achieve the goal overall business, the determinants of working capital management as accurate as possible, it means money invested on working capital should neither less nor more because both the

position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank. and determining which one is more beneficial to the bank and which one is not. The following table shows the amount of working capital of KBL of the study period.

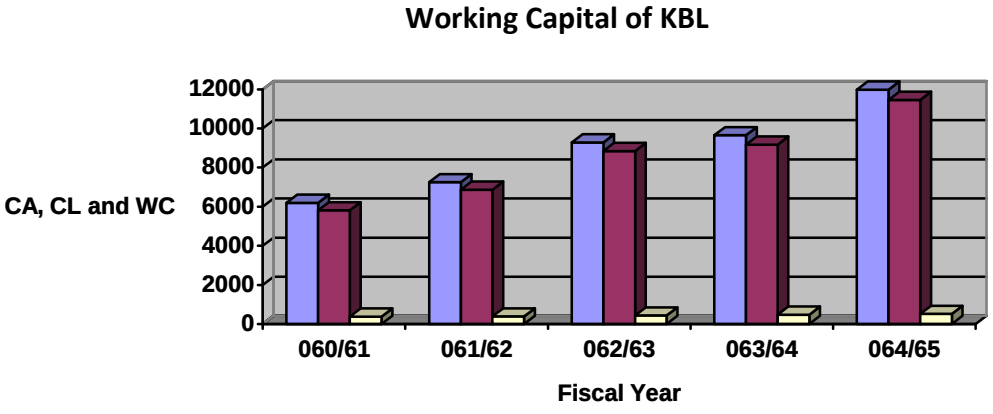
Table 4.3
Working Capital of KBL

(Rs. In million)

Fiscal Year	Total CA	Total CL	WC=CA-CL
060/61	6192.12	5815.18	376.94
061/62	7250.77	6865.67	385.10
062/63	9283.38	8845.60	437.78
063/64	9651.24	9169.34	481.90
064/65	11979.46	11460.84	518.62

Source: Appendix S- Financial Summary of Kumari bank Ltd.

In the table 4.3, no doubt it shows that the increment of decrement of working capital in different study period by different level. The KBL was able to increase the working capital from Rs. 379.94 million to Rs. 518.62 million from the fiscal year 060/61 to 064/65. In F/Y 061/62, the bank increased its working capital from Rs. 376.94 million to Rs. 385.10 million, which is drastically increased then the previous year. Similarly, in F/Y 062/63 and F/Y 063/64 the working capital of the bank was also increasing position and reached to Rs. 418.90 at the end of year 063/64. But at the end of study period, working capital of the bank was increased to Rs. 518.62 million.



As started in above figure 4.3, the current assets of the KBL are increasing gradually up to fiscal year 064/65. Similarly, in the above figure the current liabilities of the KBL are increasing gradually up to fiscal year 064/65. As shown in the above table, the working capital of the KBL has been increasing up to F/Y 064/65. The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and the vice versa. Therefore, above figure states that the liquidity of the KBL has been increasing gradually over different fiscal year.

4.2 Ratio and Trend Analysis:

Ratios are used to create comparison within any company's performance or within any particular industry, by region, country, or globally. Comparisons may say a lot about any companies finincal health and can uncover trends as well as pinpoint possibilities for improvement. In the other words, to evaluate the finincal condations and performance for a firm, the financial analyst needs certain yardsticks. Experienced and skilled analysts would obtain a better understanding to the financial conditions and performance of the firm from the analysis and interpretation of various ratios then from analysis of the financial data. Thus, we can conclude that the ratio analysis is the powerful financial tools to measure the financial performance of the bank.

It is important to analyze trends in ratio as well their absolute levels, for the trends give clue to whether the

Financial situation is improving to whether it is deteriorating. In other words trends analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratio lies in the fact that the analyst can know the

direction of movement, i.e. whether the movement, is favorable or not.

4.2.1 Liquidity Ratio

Liquidity, ratio indicates the company's ability to pay its short term debts, by measuring the relationship between current assets i.e. those which can be turned into cash against the short-term debt value. Liquidity of any business organization is directly related with working capital or current assets and current liabilities of the organization In other words, one of the main objectives of working

capital management is keeping should liquidity position. Bank is a different organization which is engaged in mobilization of funds. So, without sound liquidity position, bank is not able to operate its functions. To measure the bank's solvency position of ability to meets its short-term obligation, various liquidity, trend analysis of major liquidity ratios have been considered.

4.2.2 Current Ratio

This ratio indicates the current short terms solvency position of bank. Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety, i.e. a caution of protection for creditors and the highest the current ratio, greater the margin of safety, larger the amount of current assets in relation to current liabilities more the banks ability to meet its current obligations. It is calculated as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

The following table shows the current ratio to compare the working capital management of Bank of Katmandu Limited.

Table 4.4
Current Ratio of KBL

(Rs. In millions)

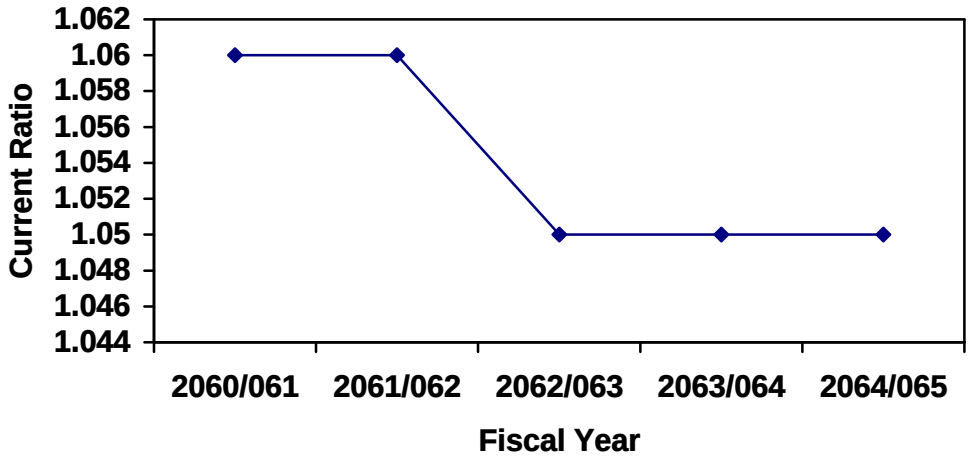
Fiscal Year	Total CA	Total CL	Current Ratio
060/61	6192.12	5815.18	1.06
061/62	7250.77	6865.67	1.06
062/63	9283.38	8845.60	1.05
063/64	9651.24	9169.34	1.05
064/65	11979.46	11460.84	1.05
Average			1.054

Source: Appendix S- Financial Summary of Kumari Bank Ltd.

The above table 4.4 depicts that the current ratio of KBL are constant for the first two years of the study periods then it has decreased in third year and remains constant of to last three years. Current liabilities of the bank has been gradually

increasing up to first four years and drastically increase in final year. The current assets of KBL has also been gradually increasing up to first four year and drastically increasing final year. The current ratio of KBL is fluctuating over different years. The highest current ratio is 1.06 in the fiscal year 2060/061 and 2061/062. The lowest current ratio is 1.05 in last three years. The average current ratio of KBL is 1.054.

Figure 4.4
Current Ratio of KBL



The above figure 4.4 depicts that the trend line of KBL is constant in first two years that is 2060/061 and 2061/062 and decreased in fiscal year 2062/063 and again remain constant in fiscal year 2063/064 and 2064/065, which implies the current ratio of KBL is fluctuating.

The above analysis helps to find out the liquidity position of the bank. It indicate that the bank has sufficient liquidity to remain solvent even at the ratio of 1.06:1 in fiscal year 2060/061 and 2061/062. It was the maximum ratio during the period of study. It is true that the higher the ratio supposedly the greater the ability of a firm to pay its bills. But if a firm has more then sufficient current assets which is an indication of unfavorable distribution of current assets.

4.2.3 Quick Ratio (Acid-Test Ratio)

Quick ratio is the relationship between current assets readily convertible into cash (usually current assets less stock) and current liabilities. A sterner test of liquidity, in other words, quick ratio is the same as the current ratio, Except that it excludes inventories which are considered the least liquid portion of current assets. It provides a more penetrating measure of liquidity than does the current ratio. Rule of thumb is 1:1 for the quick ratio or acid test ratio so that, if a business has quick ratio for the at least 100%, it is considered a fairly good current financial position. Quick ratio is a more rigorous test of liquidity than the current

ratio and when used on conjunction with it, it is gives a better picture of the firm's ability to meet its short term debts out of short term assets. There is no difference current ratio and quick ratio of KBL because, bank do not have any stock or inventory. Quick ratio is calculated by dividing the quick assets by the current liabilities i.e.

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

Table 4.5
Quick Ratio of KBL

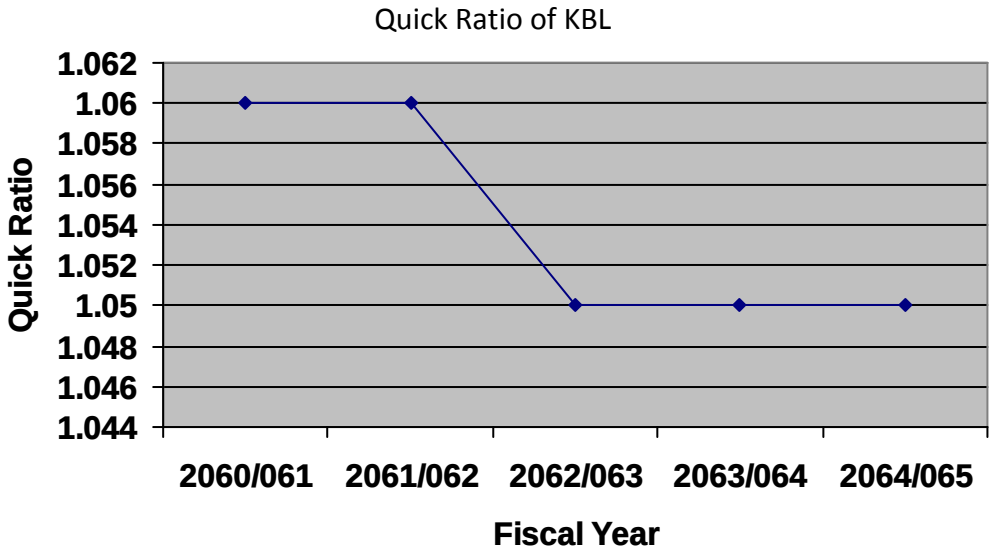
Fiscal Year	Total QA	`Total CL	Quick Ratio
060/61	6192.12	5815.18	1.06
061/62	7250.77	6865.67	1.06
062/63	9283.38	8845.60	1.05
063/64	9651.24	9169.34	1.05
064/65	11979.46	11460.84	1.05

(Rs. In millions)

Source: Appendix S- Financial Summary of Kumari Bank Ltd.

The above table 4.5 depicts that the quick assets, which is same as current assets of KBL where generally constant for the first two years of study period i.e. 1.06, and in fiscal year 061/62 quick ratio of KBL decreased to 1.05 and remains constant for the last study period. Similarly, current liabilities of the bank were increased over the study period which was highest in 064/65 and lowest in 060/61. Quick ratio of KBL is fluctuating over different years. The highest quick ratio was 1.06 in the fiscal year 060/61 and 061/62 and the lowest quick ratio was 1.05 in the last three years.

Figure 4.5



The above figure 4.5 displays the trend line of quick assets of kumari bank limited which was increasing in the first two study period and was started to decrease in fiscal year 2062/063 which remains constant up to last year. In case of KBL all current ratios are considered as a quick ratio of the bank because there is no any inventory at the bank over the study period.

4.2.4 Cash and Bank Balance to Total Deposit Ratio

Above ratio shows the ability of banks immediate funds to cover their (current, margin, called and saving) deposits. It can be calculated by dividing cash and bank balance by deposit, excluding fixed deposits. The ratio can be expressed as:

$$\text{Cash and Bank Balance to Deposit Ratio} = \frac{\text{Cash and Bank}}{\text{Total Deposit}}$$

The following table and figure shows the cash and bank balance to total deposit ratio of the KBL over the study period.

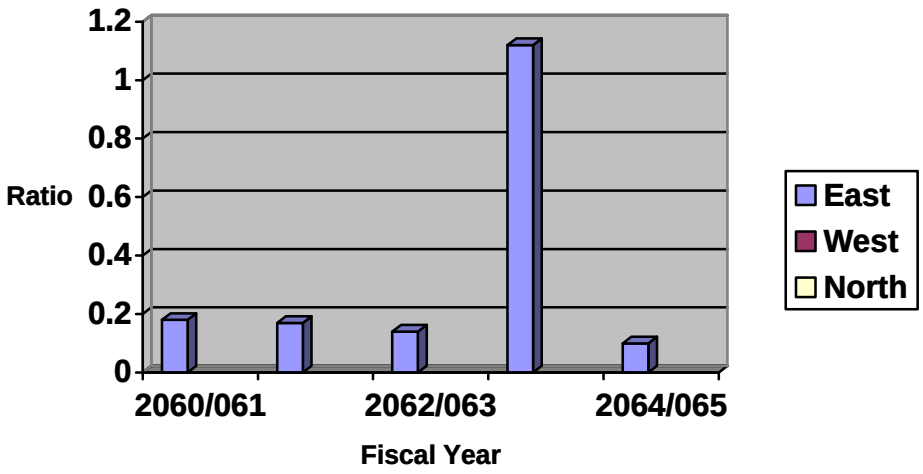
Table 4.6
Cash and Bank Balance to Total Deposit Ratio of KBL
(Rs In millions)

Fiscal Year	Cash and Bank	Total Deposit	Ratio
060/61	683.65	3764.43	0.18
061/62	728.88	4179.77	0.17
062/63	740.51	5461.93	0.14
063/64	740.51	6069.85	0.12
064/65	740.51	7775.52	0.10
Average			0.14

Source: Appendix S-Financial Summary of Kumari Bank Ltd.

The above table shoes that the cash and bank balance to deposit (expect fixed deposit) of KBL has been slightly decreasing in the study periods. Cash and bank balance of the bank is fluctuating over the study period. Similarly, there is no consistency in total deposit of the bank. Total deposit of the bank is drastically increasing. The bank has average ratio of 0.14.

Figure 4.6



Cash and Bank Balance to Total Deposit Ratio of KBL

The above figure also depicts that the cash and bank balance to deposit the ratio excluding fixed deposit ratio has been slightly decreasing up to fiscal year 064/065.The above analysis helps to find out the ability of the bank immediate funds to cover its current margin, call and saving deposit of the bank, in

other words the liquidity position of the bank. but the large amount of idle cash and bank balance badly effect the of profitability of the bank. The position of KBL seems as satisfactory level over the study period.

4.2.5 Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given as follows.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

The following table and figure how the KBL's saving to total deposit ratio.

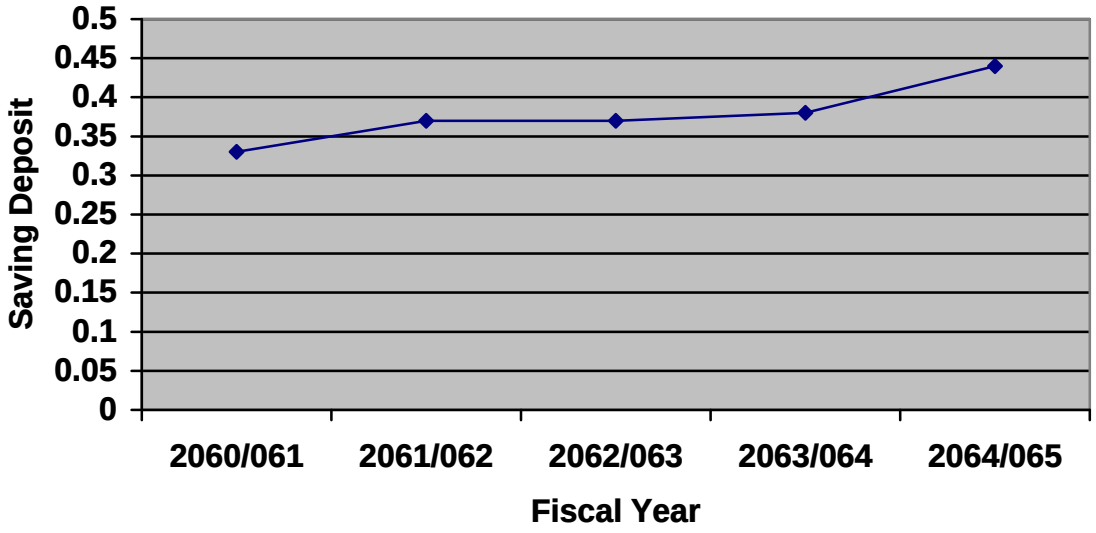
Table 4.7
Saving deposit to Total Deposit Ratio of KBL
(Rs In millions)

Fiscal year	Saving Deposit	Total Deposit	Ratio
060/61	1850.02	5723.28	0.33
061/62	2268.55	6170.70	0.37
062/63	2873.81	7741.65	0.37
063/64	3447.43	8975.70	0.38
064/65	4581.96	10485.33	0.44
Average			0.38

Source: Appendix S- Financial Summary of Kumari Bank Ltd.

The above table 4.7 depicts that the amount of saving deposit has been gradually increasing up to the last fiscal 064/65. Similarly the total deposit has been increased over the study period i.e. from 060/61 to 064/65. Likewise, the saving deposit to total deposit ratio of KBL was 0.33 in the fiscal year 060/61 and remains constant in 061/62 to 062/63 and has started to increase up to final years whereas the average ratio was 0.38.

Figure 4.7
Saving Deposit to Total deposit Ratio of KBL



As started in above in figure, the saving deposit to total deposit ratio of KBL was constant in fiscal year 061/62 and 062/63 then gradually increased thereafter during the study period. Although, saving deposit is short-term liabilities but its nature is long term then current, margin and other deposit. So, the large portion of saving deposit in total deposit shows the liquidity of the bank. Bank also pays interest on saving deposit but current, margin and other deposit are nominal cash fund. It means higher the ratio higher the liquidity position of the bank and vice-versa. In other hand, the higher saving deposit increased interest obligation to the bank. Therefore, the higher ratio of saving deposit to total deposit decreased the profitability of the bank. From the view point of profitability, the lower ratio is preferable then higher ratio. The ratio of KBL seems satisfactory level over the study period.

4.2.6 Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its, assets. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks ability to utilize their available resources.

4.2.7 Loan and Advances to Total Deposit Ratio:

This ratio assesses to what extent, the banks are unable to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as:

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total deposit}}$$

The following table and figure shows the effectiveness in utilization of total deposit of KBL

Table 4.8
Loan and Advances to Total Deposit Ratio of KBL

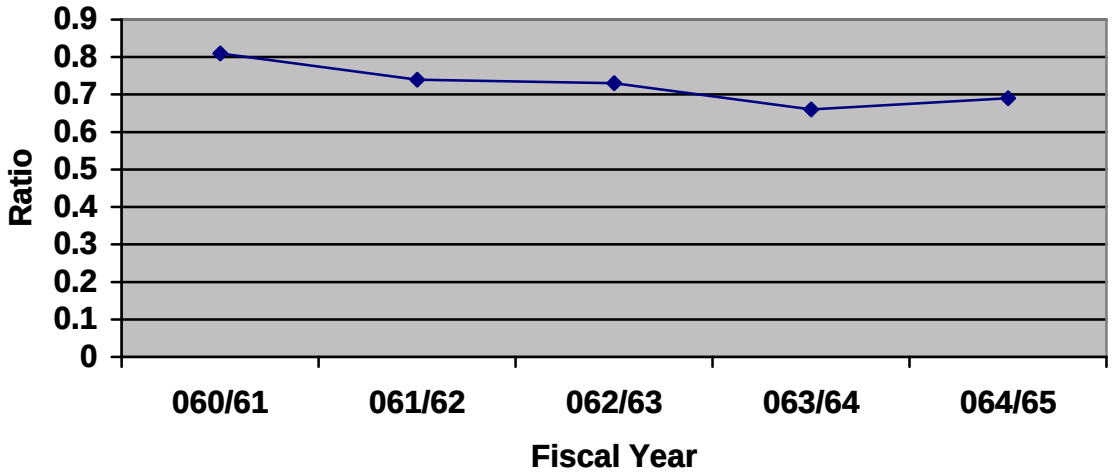
(Rs. In millions)

Fiscal Year	Loan and Advances	Total Deposit	Ratio
060/61	4613.70	5723.28	0.81
061/62	4512.70	6170.70	0.74
062/63	5646.70	77741.65	0.73
063/64	5912.57	8975.70	0.66
064/65	7259.09	10485.53	0.69

Source: Appendix 5-Financial Summary of Kumari Bank Ltd.

The above table shows the position and ratio of loan and advances to total deposit of KBL from fiscal year 060/61 to 064/65. The loan and advances of the bank was initially decreased in F/Y 061/62 but from F/Y 062/63 it has started to final year. Similarly, total deposit of the bank has increased over the study period. Likewise, the loan advances to total deposit ratio was 0.18 in fiscal year 060/61 and started too decreased up to fiscal year 063/64 and in fiscal year 064/65 it has slightly increased and stands 0.69. It means the ratio is fluctuating.

Figure 4.8
Loan and Advances to Total Deposit Ratio of KBL



Above figure 4.8 states that the loan and advances to total deposit ratio was 0.81 in fiscal year 060/61, which was started to decreased up to fiscal year 063/64 i.e. the ratio was 0.66. In fiscal year 064/65 it was increased and reached to 0.69.

From the above analysis, loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilize its deposit. The bank has the responsibility of collecting a huge amount of deposit for the purpose of leading a great amount to fit to needy people. It collects money not to keep it idle, but for using it for in a creative work. If it cannot utilize its deposit more profitability, it is better to reduce the volume of deposits. So, the volume of deposit has also limit, which is affected by loans. But there is no limit in the volume of loans. However, the rate of interest as well as the volume of the deposit highly affects the volume of loans. However, the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than it's sufficient, there is no need to pay higher rate of interest on it. On the contrary, if the volume of deposit in insufficient for meeting the need of borrowers the interest rate should be increased.

4.2.8 Loan and Advances to Fixed deposit Ratio:

This ratio examines that how many times the funds is used in loans and advances against fixed. For commercial banks, fixed deposits is long –term interest bearing obligations, whenever investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed

deposit as under. A low ratio indicates idle cash balance. It means total funds are not properly utilized. This ratio is computed as follows:

$$\text{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Loan and Advances}}$$

The following table and figures shows the efficient loan and advances to fixed deposit ratio of KBL.

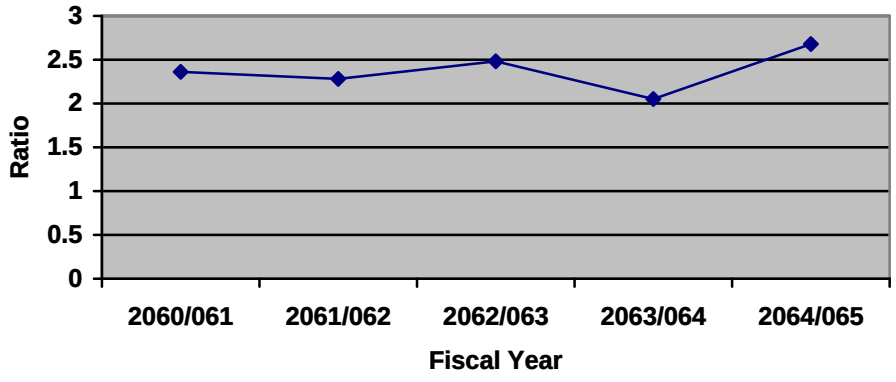
Table 4.9
Loan and Advances to Fixed Deposit Ratio of KBL
(Rs. In millions)

Fiscal Year	Loan and Advances	Fixed deposit	Ratio
060/61	4613.70	1958.95	2.36
061/62	4252.70	1990.93	2.28
062/63	5646.70	2279.72	2.48
063/64	5912.57	2878.85	2.05
034/65	7259.09	2709.75	2.68

Source: Appendix 5- Financial Summary of Kumari Bank Ltd.

The above table depicts that the loan and advances to total fixed deposit ratio KBL was decreased in fiscal year 061/62 in comparison to previous year 060/61. In fiscal year 062/63 it increased and reached to 2.48. It was slightly decreased in fiscal year 063/64 and reached up to 2.36 at the end of fiscal year 060/61 but it was decreased in fiscal year 061/62 and but increased in fiscal year and stand at 2.68. It indicates that the loan and advances to fixed deposit ratio of KBL is fluctuating.

Table 4.9
Loan and Advances to Fixed Deposit Ratio of KBL



The above figure 4.9 clearly shoes that the loan and advances to fixed deposit of KBL was decreased in fiscal year 061/62. If F/Y 062/63 it was increased but in fiscal year 063/64 it was slightly decreased and again increased in final year. The above analysis implies that the utilization of fixed deposit in loan and advances efficient or riot. The higher ratio implies the efficient mobilization of fixed deposit and vice-versa. From the above trend analysis, we can conclude that the KBL has mobilizing its fixed deposit quite satisfactory.

4.2.9 Loan and Advance to Saving Deposit Ratio:

This ratio assesses how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and advances for income generation and the major source of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short-term interest bearing deposits are utilized for generating the incomes, is calculated, divining the amount of loan and advances by total deposit of saving account. The following formula is used to determine this ratio as:

$$\text{Loan and advance to saving Deposit Ratio} = \frac{\text{Loan and advances}}{\text{Total saving Deposit}}$$

The following table and figure shows the loan and advance to saving deposit of KBL

Table 4.10
Loan and Advance to Saving Deposit Ratio of KBL

(Rs in millions)

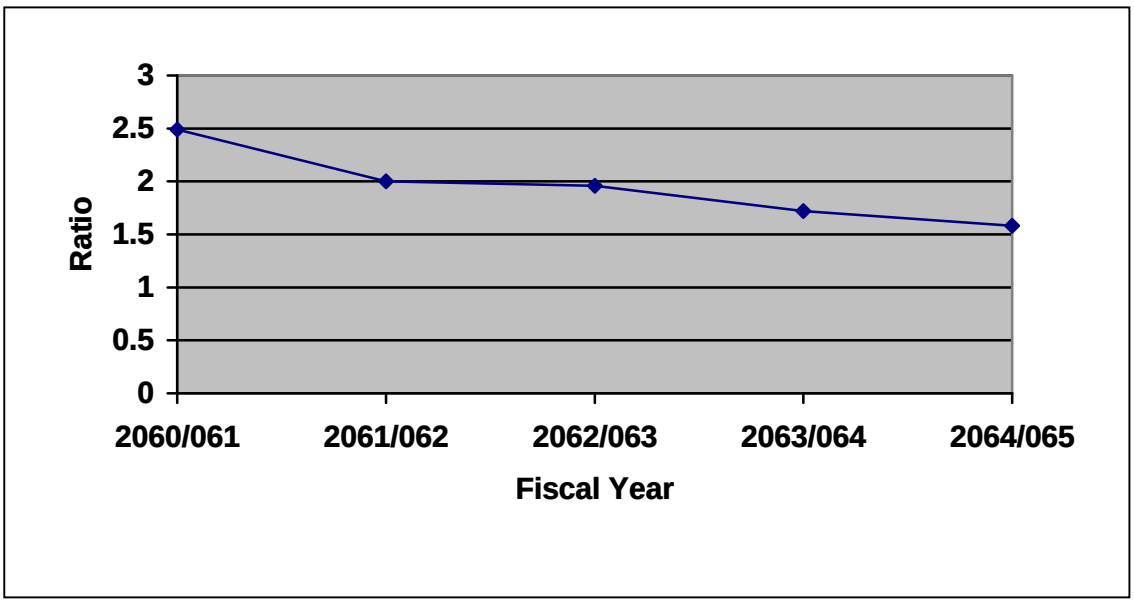
Fiscal Year	Loan and Advances	Saving Deposit	Ratio
060/61	4613.70	1850.02	2.49
061/62	4542.70	2268.55	2.00
062/63	5646.70	2873.81	1.96
063/64	5912.57	3447.43	1.72
064/65	7259.09	4581.96	1.58
Average			1.95

Source: Appendix 5- Financial Summary of Kumari Bank Ltd.

As depicted by above table, the saving deposit of KBL has been gradually increasing from Rs. 1,850.02 million in F/Y 060/61 and reached to Rs.4,581.96 million in F/Y 063/. In other hands the loan and advances was slightly decreased in F/Y 061/62 to final year of the study period. Likewise, the ratio of loan and advances to saving deposit is seems quite fluctuating. It was 2.49 in the first fiscal year 060/61 and decreased up to final year 063/64. The average ratio stands at 1.95.

Figure 4.10

Loan and Advance to Saving Deposit Ratio of KBL



The above figure clearly shows that the loan and advance to saving deposit ratio of KBL is very fluctuating. From the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

4.2.10 Capital Structure or Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term

Obligations and remaining parts in the liabilities side of the balance sheet are termed as short-term obligations. Both types of obligations are required in formatting the capital structure of the firm, the long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are mentioned to measure the financial risk or proportion of outstands fund and owner's capital used the firm. The bank often uses these ratio to see how the assets are financed i.e. by creditors or through their own investments. In general, a bank will consider a lower ratio to be an indicator of the ability to replay the creditors. The ratio will very from industry to industry, and over time, interpreting ratios requires knowledge of the business, industry, and the reasons for fluctuations.

4.2.11 Long-term Debit to Net worth Ratio

Long term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the portion of outsiders and owner's fund employed in the

capitalization of the banks. It is calculated by dividing the fixed obligations of the by owner's claim. It is the relationship between between owned funds and borrowed funds; long term debt includes long term borrowing from government agencies or financial institutes, deferred payment, liabilities etc. It is calculated by using following formula:

$$\text{Long Term Debt to Net worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

The following table shoes the long-term debt to net worth ratio of the KBL over the study period.

Table 4.11
Long-term Debit to Net worth Ratio

(Rs. In millions)

Fiscal Year	Long term Debt	Net Worth	Ratio
060/61	0.00	520.18	0
061/62	0.00	579.13	0
062/63	0.00	650.74	0
063/64	0.00	719.13	0
064/65	0.00	817.45	0

Source: Appendix 5- Financial Summary of Kumari Bank Ltd.

The above 4.11 depicts that the Kumari Bank Limited has not any outsider's fund. Therefore, the ratio of long-term debt to net worth cannot be calculated. It indicates that there are not outsider's claims in total capitalization of the bank. There are only insider's claims. It shoes that the KBL was not risky capital structure because the ratio of long-term debt to net worth ratio reflects the relative contribution of creditors and owners of the bank in its financing. Net worth of the KBL was increasing drastically over the study period. Which shows that the high efficiency of the bank.

2.2.11 Net Fixed Assets to Long-term Debt Ratio

Here, net fixed assets are applied to both physical and financial assets. The ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

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

The following table shows the net fixed assets to long-term debt ratio of the KBL.

Table 4.12
Net Fixed Assets to Long-term Debt Ratio of KBL

(Rs. In millions)

Fiscal Year	Net Fixed Assets	Long-term Debt	Ratio
060/61	94.21	0.00	0
061/62	93.64	0.00	0
062/63	83.62	0.00	0
63/64	95.23	0.00	0
064/65	110.74	0.00	0

The above table clearly shows that the fixed assets of KBL has been decreasing gradually from the fiscal year 060/61 to fiscal year 062/63 i.e. RS. 94.21 million to Rs.83.62 million. But from the fiscal year 063/64 to fiscal year 064/65 net assets of the bank started to increase and reached to amounted Rs. 95.23 million to Rs.110.74 million. The above clearly indicates that the bank has not any long-term obligations. So, the ratio cannot be calculated i.e. Zero.

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. For instance, the business may have experienced a downturn in its net profit margin by 10% over the last 3 years, which may seem worrying. If the year has experienced an average downturn of 21%, the business is actually performing better than the years as a whole.

Nonetheless, it will still need to analyze the underlying data in order to establish the cause of the downturn as well as create solutions for improvement.

4.2.14 Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by the dividing the amount of interest earned by the total assets of the firm.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

The following table and figure shows the interest earned to total assets ratio of the KBL

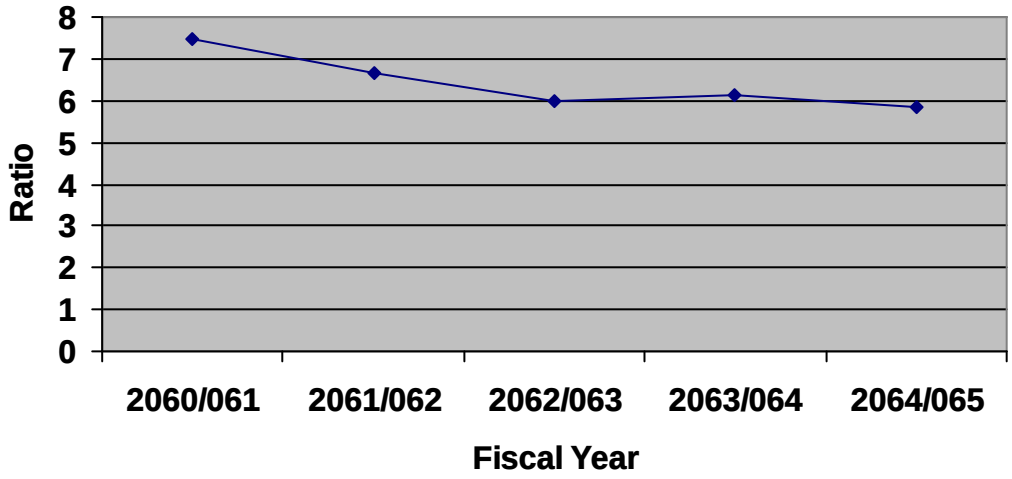
Table 4.13
Interest Earned to Total Assets Ratio of KBL

Fiscal Year	Interest Earned	Total Assets	Ratio (%)
060/61	473.30	6356.65	7.45
061/62	496.81	7444.81	6.67
062/63	567.10	9496.35	5.97
063/64	670.10	9888.47	6.14
064/65	718.12	12278.229	5.85
Average			6.52

Source: Appendix 5- Financial Summary of Kumari Bank Ltd.

The interest earned has been following increased trend, i.e. the interest earned of KBL has been gradually increasing every year. The total assets of KBL have been also increasing gradually over the study period. Interest earned to total assets ratio of the bank was quit fluctuating. It was stands at 7.45% in fiscal year 060/61. It was slightly decreased in the fiscal year 061/62 and 062/63 and reached up to 5.97% at the end of F/Y 062/63. Finally, it is increased in fiscal year 063/64 but decreased in F/Y 064/65 and stands at 5.85%. The average ratio of the KBL was 6.52 over the study period. The following figures shoes the ratio of interest earned to total assets of the bank.

Figure 4.11
Interest Earned to Total Assets Ratio of KBL



The above figure depicts that the interest earned to total assets ratio of KBL seems quite fluctuating over the study period. From fiscal year 060/61 to fiscal year 062/63 the trend line of the bank was in declining position. But at the end of fiscal year 063/64 it seems to be in growing position than previous year and again at fiscal year 064/65 it stares to decline.

From the above analysis we can conclude that the interest earned to total assets of the KBL is not so much satisfactory, it is quite ok. It implies that the bank might not be able to use its total assets of funds to earned interest.

4.2.15 Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula:

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

The following table and figure shows the net profit to total assets ratio of KBL.

Table 4.14
Net Profit to Total Assets Ratio of KBL

(Rs. In millions)

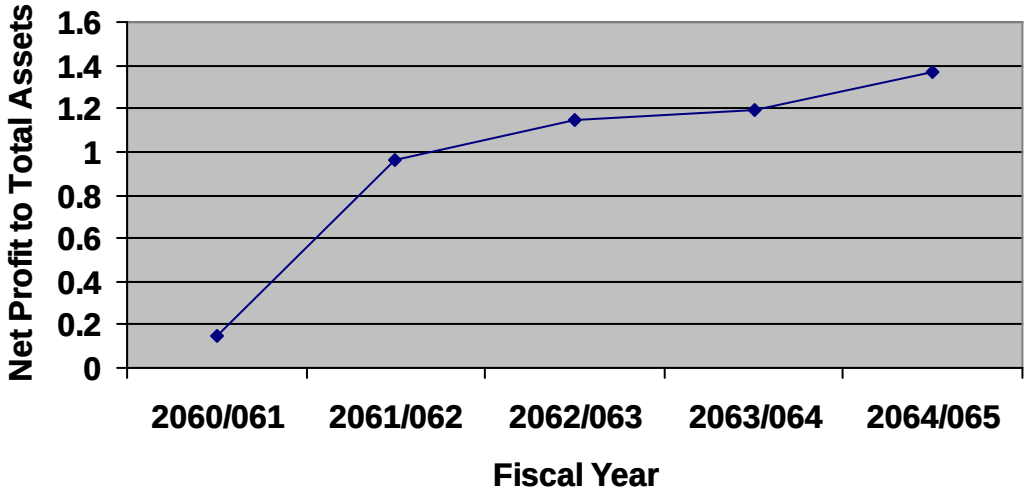
Fiscal Year	Net Profit	Total Assets	Ratio (%)
060/61	9.30	6356.65	0.15
061/62	71.52	7444.80	0.96

062/63	109.59	9496.35	1.15
063/64	117.99	9888.47	1.19
064/65	168.08	12278.29	1.37
Average			0.964

Source: Appendix 5- Financial Summary of Kumari Bank Ltd.

As shown in the above table 4.14 the net profit of the bank was Rs.9.30 million in F/Y 060/61, Rs.71.52 million in F/Y 061/62, Rs.109.59 million in F/Y 062/63, Rs. 117.99 million in F/Y 063/64 and Rs.168.08 million in F/Y 064/65. Likewise the ratio of net profit to total assets is also falling, the trend of net profit is very fluctuating. The lowest net profit to total assets is 0.15 in fiscal year 060/61 and the highest is 1.37 in the fiscal year 064/65. The average of net profit to total assets ratio is 0.964 over the study period.

Figure 4.12
Net profit to Total assets Ratio of KBL



The above figure implies that the fluctuating net profit to total assets ratio in percentage of KBL. Above analysis helps to find out whether the bank efficiently used its working funds or total assets to earned higher rate of profit or not. The ratio of net profit to total assets of KBL implies that the bank could not able to use its available working funds affectively over the study period which signify towards the slow growth of the bank.

4.2.16 Net Profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return from deposit. It is computed dividing the net profit by total deposits. Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing the following formulas is used as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net profit}}{\text{Total deposit}}$$

Table 4.15
Net Profit to Total Deposit Ratio

(Rs. In millions)

Fiscal year	Net Profit	Total Deposit	Ratio %
060/61	9.30	5723.28	0.16
061/62	71.52	6170.70	1.16
062/63	109.59	7741.65	1.42
063/64	117.99	8975.7	1.32
064/65	168.08	10485.33	1.6
Average			1.132

Source: Appendix 5-Financial Summary of Kumari Bank Ltd

The above table shows that the total deposit of Kumari Bank Ltd has been gradually increasing over the Period of study period. In other hands, the net profit is a also in increasing trend like wish the ratio has been gradually increased in first three years, slightly decreased in fiscal year 063/64 and reached to 1.32 and again started to increase and reached to 1.60 in fiscal year 064/65 the ratio stand at 0.16 the end of fiscal year 060/61 is minimum whether is stand at 1.60 in fiscal year 064/65 which is maximum and the average of net profit to total deposit ratio is 1.32 over the study period.

The above analysis helps to find out whether the bank could able to mobilize of outsiders funds properly or not. The mobilization of outsiders fund is very important to earn profit for a commercial bank. The efficient mobilized its deposit is as efficiently as possible. As shown in above table we can easily conclude that the

bank could not be able to mobilize its deposit or outsiders funds efficiently. The bank should mobilize its deposit properly to increase profit.

4.2.17 Cost of Service to Total Asset Ratio

A sound management always tries to utilize its lager amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of services. The ratio can be expressed as below:

$$\text{Cost of services to Total Deposit Ratio} = \frac{\text{Cost of service}}{\text{Total assets}}$$

The Following Table shows the cost of bearing of taking by Kumari Bank Ltd.

Table 4.16
Cost of Service to Total Ratio of KBL

(Rs In Millions)

Fiscal Year	Cost of Service	Total Assets	Ratio (%)
060/61	335.16	6356.65	5.27
061/62	328.37	7444.80	4.41
062/63	334.00	9496.35	3.52
063/64	295.25	9888.47	2.99
064/65	367.26	12278.29	2.99
Average			3.836

Source: Appendix 5- Financial Summary of Kumari Bank Ltd

From the above table 4.16 shows that the total asset of KBL has been increasing gradually over the study period. The cost of service included interest paid on borrowings and on deposit as well as salaries, Allowances and provident fund. The cost of service of the KBL has been decreased in fiscal year 062/63 but slightly increased in fiscal year 063/64 and again decreased in F/Y 064/65 it increased and reached up to 367.20. The cost of service to total assets ratio has been gradually decreased over the period of study, which was 5.27% in fiscal year 060/61, it decreased to 2.99% at the end of fiscal year 064/65. The average ratio of cost of service to total assets is stands at 3.836%. From the above analysis we can conclude that the ratio of cost of service to total assets of KBL has been gradually decreasing,

which indicates that the bank could able to decrease its cost of service. It is no doubt that bank can able to decrease total cost which resulted in maximizing the profit.

4.3 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other. In other words, Correlation is the statistical tool that we can use to describe the degree to which on variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. It is denoted by small letter 'r'. The result of coefficient of correlation is always between +1 and -1 when 'r' is equal to +1, It means there is prefect relationship between two variables. Therefore, correlation is a reciprocal relation between two or more things.

4.3.1 Coefficient of Correlation between Investment of Government Securities and Total Deposit

The coefficient of relation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although bank utilizes its deposit on loan and advances but some part of idle deposit are invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used to in government securities or not or whether there is any relationship between these two variables. In this analysis: government security is depended variable (X) and total deposit is independent variable (Y). The following table shows the coefficient of correlation between deposit and government securities i.e. 'r'. 'PE'.'6PE 'r' of KBL over the study period.

Table 4.17
Coefficient of Correlation between investment on Government Securities and Total Deposit

Name of Bank	Correlation (r)	PE (r)	6 PE (r)
KBL	+0.88	0.07	0.14

(Source; appendix-1)

Form the above table 4.17, we can find that the coefficient of correlation between government security and total deposit of KBL value 'r' is +0.88.It shows that the Positive relationship between these two variables government security and total deposit of the bank. By considering the probable error, since the value of 'r' is more than six times of Per then we can say that the value of 'r' is highly significant and vice versa but in case of KBL, the value of 'r' is more than the value of six times of Per i.e.: PE(r)< r so, there is significant relationship between government security and total deposit of the bank.

Hence, from the analysis, it can be concluded that there is highly significant relationship between government security and total deposit of the bank over the study period.

4.3.2 Coefficient of correlation between Loan and Advance and total Deposit

The coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advance and major sources of fund on bank i.e. total deposits. In correlation analysis, deposit is independent variable(Y) and loan and advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between loan and advances and total deposits i.e. r, PE(r), 6PE(r) of Kumari Bank Limited.

Table 4.18
Coefficient of Correlation between Loan and advance to Total Deposit

Name of Bank	Correlation(r)	PE(r)	6PE(r)
KBL	+0.98	0.0127	0.072

(Source: Appendix-II)

From the above table 4.18 depicts that the coefficient of correlation between loan and advances and total deposit value Y of KBL is +0.98. It shows highly positive relationship between two variables loan and advances and total deposit of KBL. By considering the probable error, since the value of 'r' i.e. +0.98 is more than six times of probable error i.e. 0.072, we can say that the value of 'r' is highly significant i.e. there is significant relationship between total deposit and loan and advances. What

this means essentially is that changing the scale of either the X or the Y variable will not change the size of the correlation coefficient, as long as the transformation conforms to the requirements of a linear transformation. Thus from analysis, we can conclude that the bank have utilized its total deposits on loan and advances effectively.

4.3.3 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid component of current assets. This is required to meet the unexpected short-term obligation I.e. current liabilities. The coefficient of correlation between cash and bank balance the current liabilities are to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done. In correlation analysis, cash and bank balance is dependent variable (X) and current liabilities are independent variable (Y). The following table shows the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', '6PE(r)' of Kumari Bank Limited.

Table 4.19
Coefficient of Correlation between Cash and Bank Balance and Current liabilities

Name of Bank	Correlation(r)	PE(r)	6PE(r)
KBL	+0.42	0.25	1.50

(Source: Appendix-III)

As state in above table 4.19, we can find the coefficient of correlation between cash and bank balance and current liabilities of KBL is +0.42 which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the problem error, since the value of 'r' i.e. +0.42 is less than six times of PE i.e. 1.50, we can say that value of 'r' is not significant.

From the above analysis, it can be concluded that there is significant relationship between cash and bank balance and current liabilities.

4.3.4 Coefficient of Correlation-Between Loan and Advances and Net Profit.

The basis function of commercial bank is to collect deposit and incest these funds on loan and advance to generate higher profit. Large amount of loan and advance generate higher profit. The coefficient of correlation between loan and advance and net profit is to measure the degree of relationship between loan and advance and net profit. In correlation analysis, loan and advances is independent variable (Y) and net profit is dependent variable (X).The Purpose of computing the correlation of the coefficient is to justify whether and loan and advance are significantly generates profit of not and whether there is any relationship between these two variables. The following table shows two calculated amount of 'r' 'PE(r) and KBL over the study period.

Table 4.20
Coefficient of Correlation between loan and Advance and Net Profit

Name of Bank	Correlation (r)	PE(r)	6PE(r)
KBL	+0.91	0.03	0.18

(Source: Appendix-IV)

As stated in above table 4.20, the coefficient of correlation between loan and advances and net profit of KBL over the study period is +0.91 is shows positive relationship between two variables loan and advances and net profit. Similarly, considering the value of probable error and six times of probable error which value are 0.03 and 0.18 respectively. By considering the probable error, since the value of 'r' i.e. +.091 is greater than six times of PE i.e. 0.18, we can say that value of 'r' is significant.

Thus from the above analysis, It can be conclude that there is significant relationship of relationship is positive between loan and advances and net profit.

4.4 Major Findings of the Study.

The following are the major findings of the study:

1) The following capital of KBL has been following increasing trend in over all study period. The working capital depicts the liquidity position of the organization. It means higher the working capital higher the

liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs. 376.94 million and Rs. 385.10 million, Rs. 437.78 million, Rs. 481.90 million and Rs. 51862 million at the end of F/Y 060/61,061/62, 062/63, 063/64, and 064/65 respectively.

2) The current ratio of the bank was quite fluctuating, which stands 1.05 at F/Y 060/61, 1.06 at F/Y 061/62, 1.05 at 062/63, 1.05 at F/Y 063/64 and 1.05 at 064/65 respectively. The average CR of the bank stands at 1.054 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.05:1 which is minimum in F/Y 062/63, 063/64, 064/65. In this case, the bank has enough idle money, which cannot generate inflow o the bank. Higher current ratio shows the idle fund of the bank.

3) The quick ratio of the bank is also represented by the current ratio. The Q.R. of the bank is same as C.R. it means, quick ratio is also fluctuating and the bank has enough idle money, which is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

4) The cash and bank balance slightly increasing up of fiscal year 062/63 and was decreased in F/Y 063/64 and 064/65. It indicates the how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. The ratio stands average 0.14% over study period which means bank is in satisfactory level.

5) The saving deposit to total deposit ratio of the bank has been gradually increasing over the study period. It stands at average 0.38% over the study period. Thus, the ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund. From profitability point of view, the bank should minimize the ratio. As depicted by the study KBL's position seems satisfactory over the study period.

6) The loan and advances to total deposit ratio of KBL was slightly decreased in fiscal year 061/62, 062/63, 063/64, 064/65 respectively during the study period. The ratio stands 0.81 in fiscal year 061/61, 0.74 in fiscal year 061/62, 0.73 in fiscal year 062/63, 0.66 in fiscal year 063/64 and 0.62 in final year 064/65. The ratio indicates the capacity of the bank to mobilize its deposits. As stated by the study, the mobilization of deposits of the bank is not satisfactory level the study period.

7) The loan and advances to fixed deposits ratio of the KBL was slightly decreased in fiscal year 061/62 but in increases of fiscal year 062/63. Thereafter it again slightly decreases in fiscal year 063/64 and later on in final year it increase up to 2.68. The ratio indicates the capacity of mobilizing its fixed deposit to loan an advances. It means, this ratio implies to the utilization of fixed deposits in loan advances efficiently or not. From the study, it is that the bank has been mobilizing its fixed deposits quite satisfactory.

8) The loan and advances to saving deposits of the bank has been in decreasing trend. There was not consistency in the ratio. Its stands at average ratio 1.95 over the study period. Theses ratio is imply that the bank either able to mobilize its saving deposits or not. As per the study, the bank is in satisfactory position over the study period.

9) The long term debt to net worth ratio of the bank did not exist because the bank did not use any

Outsider funds. It means the debt to net worth ratio is zero over the study period. It indicates that the bank is not risky from the view point of investor.

10) The net fixed asset to long term debt ratio of the bank was also same as long term debt to net worth ratio.

11) Interest earn to total assets ratio of any organization indicates the profitability ratios. The ratio of bank is very fluctuating during the study period. It was 7.45 in fiscal year 060/61 which is maximum and 5.85 at fiscal year 064/65 is minimum. Its stand at average 6.52 over

the study period. From the study, it is concluded that the interest earn to total assets ratio of KBL is not so much satisfactory. Its means the bank could not able to use its total assets properly to earn interest.

12) Net profit to total assets ratio of the bank was also very fluctuating. It was 0.15 in F/Y 060/61 which is minimum and 1.37 in F/Y 064/65, which is maximum over the study period. It stands at average 0.964 over the period of study. The study shows that the bank could not able to utilized its total assets to generate profit.

13) Net Profit to total deposit ratio of the bank was also fluctuating. It stands at 0.16 at the end of F/Y 060/61, which is minimum and 1.60 at the end if F/Y 064/65 which is maximum. It stands at average 1.32 over the study period. The ratio is used to find out whether the bank could able to mobilize outsider's fund is properly or not. The mobilization of the outsider funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its fixed deposit as efficiently as possible. But from the above study, we can easily found that the bank could not able to mobilize its total deposit efficiently.

14) Cost of services to total assets ratio of the bank has been gradually decreasing over the year. It was 5.27% at the end of F/Y 060/61. It is limited to 2.99% at the end of F/Y 064/65. It stands at average 3.836% over the study period. From the above study we can easily found that the bank has been given effort to decrease its cost of service will result in maximizing profit of the bank. It is quite satisfactory but the bank has to given attention towards further decline of the cost of service.

15) The coefficient and correlation between investment and government securities and total deposit was +0.88, which is significant over the study period.

16) The coefficient of correlation between loan and advances and total deposit stands at +0.98, which is significant. It means there is positive

relationship between loan and advances and total deposits of the bank i.e. perfectively correlated. The bank should increased total deposit to increase loan and advances and vice versa.

17) The coefficient of correlation between cash and bank balance and current liabilities was +0.42. It means low degree of correlation, which is significant.

18) The coefficient of correlation between loan and advances and net profit was +0.91. It means high degree of positive relationship between loan and advances and net profit, which is significant.

19) The W/C turnover ratio of the company is more fluctuate and it is more in Fiscal Year 2064/065.

20) The return on W/C is in increasing trend.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 summary and conclusion:

Finance is a business term which deals with the study of fund management. If finance is to be accepted as weapon which enables an organization to pay its bills promptly, it is necessarily linked with the flow of fund. The management may accept or reject a business provision on the basis of financial viabilities. It guides investment where opportunity is the greatest, producing relatively uniform yardstick for judging most of a firm's operations and projects continually concerned with achieving an adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

The function of finance involves three major decisions which, the firm must make the investment decision, financing decision, and the dividend decision. An

optimum combination of the three will maximize the value of the firm. In other words entries activities relating the finance are done with the help of financial management. So in this area of management there are two main functions, firstly to assemble the funds necessary to initiate a new business economically and secondly to provide the basis of continue new operation.

It will not be an exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of them which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets, and the level and structure. The chapter source of fund and to invest it at the best opportunities etc. come under the heading of financial decision making. The management of short-term assets and source of finance which entails an analysis of the effect of risk and profitability cannot be overlooked.

The working capital has to be regard as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation, and determine which one is more beneficial to the corporation and which is not.

Firms need cash to pay for all their day to day activities. They have to pay wages, pay for materials, pay for bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these and the short term assets that the firm can use to generate cash within a year. However, the firm also has current liabilities and so these have to be taken on account of when working out, how much working capital a firm has at its disposal.

According to gross concept, WC refers to the capital invested in current assets of a firm. It focuses only the optimum investment on current assets. It includes cash, short term securities, and inventory and account receivables. Similarly, according to net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed

with short term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds.

The working capital of KBL has been following increasing trend over the study period. The working capital depicts the liquidity position of the organization. It means higher the working capital higher the liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs. 376.94 million, Rs. 385.10 million, Rs. 437.78 million, Rs. 481.90 million and Rs. 518.62 million at the end of fiscal year 060/61, 061/62, 062/63, 063/64, and 064/65 respectively.

The current ratio of the bank was quite fluctuating, which stands 1.06 at F/Y 060/061, 1.06 at F/Y 061/062, 1.05 at F/Y 062/063, 1.05 at F/Y 063/064 and 1.05 at F/Y 064/065 respectively. The average CR the bank stands at 1.054 over the study period. As stated by result, the bank has enough liquidity to remain solvent at the ratio of 1.05:1, which is minimum in F/Y 062/063 to 064/065.In this case, the bank has enough idle money which cannot generate inflow to the bank. Higher current ratio shows the idle fund of the bank. The quick ratio of the bank is also representing by the current ratio. The Q.R. of the bank is same as C.R. It means, quick ratio is also fluctuating and the bank has enough idle funds which is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

The case and bank balance to total deposit ratio excluding fixed deposit of the bank slightly decreases during the study period. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.14 over the study period which means bank is in satisfactory level.

The saving deposit to total deposit ratio of the bank has been gradually increasing over the study period. It stands at average 0.38% over the study period. Thus, the ratio indicates the banks' liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. From profitability point of view, the bank should minimize the ratio. As depicted by the study, KBL's position seems satisfactory level over the study period.

The loan and advanced to total capital deposit ratio of KBL was in decreasing trend. The ratio stands 0.81 percent in fiscal year 060/061, 0.74 percent in fiscal year

061/062, 0.73 percent in fiscal year 062/063, 0.66 percent in fiscal year 063/064, and again remains at 0.69 percent in fiscal year 064/065. The ratio indicates the capacity of the bank to mobilization its deposit. As stated by the study, the mobilization of deposits of the bank is not satisfactory level over the study period.

The loan and advances to fixed deposit ratio of KBL was slightly decreased in fiscal year 061/062 but it increases in fiscal year 062/063 and again slightly decreased in fiscal year 063/064. It stands at 2.68 at the end of study period. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of the fixed deposits in loan and advances is efficient of not. From the study; it is fund that the bank has been mobilizing its fixed deposit quite satisfactory.

The loan and advances to saving deposit ratio of the bank has been in increasing trend. There was not consistency in the ratio. It stands at average 1.95 over the study period. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.

The long term debt to net worth ratio of the bank did not exist because the bank did not use any outsider's funds. It means the debt to net worth ratio is zero over the study period indicates the bank in not risky from the view point of investors. The net fixed to long term debt ratio of the bank was also same as long term debt to net worth ratio.

Interest earned to total assets ratio of any organizations indicates the profitability ratio. This ratio of the bank is very fluctuating. It was 7.45 at fiscal year 060/61, which is maximum and 5.85 at fiscal year 064/65, which is minimum. It stands at average 6.52 over the study period. From the study, it is concluded that the interest earned to total assets ratio of KBL is not so much satisfactory. It means the bank could not able to use its total assets properly to earned interest.

Net profit to total assets ratio of the bank was in increasing trend. It was 1.37 in fiscal year 064/65, which is maximum and 0.15 in, fiscal year 060/61, which is minimum over the study period. It stands at average 0.964 over the period of study. The study shows that the bank could not able to utilize its total assets to generate profit.

Net profit to total deposits ratio of the bank was also fluctuating. It stands at 0.16 in fiscal year 060/61, which is minimum and 1.60 at the end of fiscal year 064/65, which is maximum over the study period. It stands at average 3.83 percent over the study period. From the above study we can easily find that the bank has been given effort to decrease its cost of service. There is no doubt that, the decrement of cost of service will result in maximizing profit of the bank. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.

The coefficient of correlation between investment and government securities and total deposits was +0.88, which is significant over the study period. The coefficient of correlation between loan and advances and total deposits stands at +0.98 that is significant. It means there is positive relationship between loan and advances and total deposits of the bank i.e. perfectively positive correlated. The bank should increased total deposits to increases loan and advances and vice versa. The coefficient of correlation between cash and bank balance and current liabilities was +0.42. It means low degree of correlation, which is insignificant. The coefficient of correlation between loan and advances and net profit was +0.91, it means high degree of positive relationship between loan and advances and net profit, which is significant.

5.2 Recommendation

Based on the major findings of this study, some recommendation has been made so as to overcome some shortfalls regarding the issue of working capital management of the bank.

- Working capital is essential to meet short term obligations. But high level of working capital increase idle fund which affects the profitability of the bank. Therefore, the bank should maintain sound working position. It means neither more nor less. The working capital of KBL has been following increasing trend. Thus, the bank should try to maintain sound working capital.
- The current and quick ratio of the bank is more than one. It means, the bank has sufficient liquidity to remain solvent even at the ratio of 1.06:1 in fiscal year 060/61, which was maximum ratio during the study period. It is true that such higher ratio supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets, it is an indication of unfavorable of distribution of current assets than current liabilities. Therefore, there is quite higher idle fund which may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability.
- The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposits in to loan and advances. It also majors the efficiency of management of utilize their available resources. As found in the above study, the bank could notable to mobilize its total deposit through loan and advances. Therefore, the bank should disburse its total deposit as much as possible means of loan and advances.
- Till now the bank is utilizing only net worth but not any debt to increase the profitability of the bank. Therefore, the bank should try to issue long term debt or debentures or maintain leverage capital ratio.

- From the above study we can easily find that the bank's interest earned to total assets ratio is not satisfactory so far. It indicates the bank could not able to utilize its total assets to earned interest. Therefore, the bank should utilize its available assets as property as possible to earned interest. For this the bank should lend only in performing loan, which makes sure to recovery of principle as well as interest.
- The net profit to total assets ratio of the bank is not satisfactory. From the above study, it is easily found that the bank could not able to utilize its available sources properly to earn profit. Therefore, the bank should utilize its total assets as possible as much.
- Although, the cost of service to total assets, ratio has been decreasing; it is not in satisfactory level. Therefore, the bank should try to decline its cost of services as possible as it can.

BIBLIOGRAOHY

Acharya, Dr. K. (1999) Problems and Implements in the Management of Working Capital in Nepalese Enterprises. ISDOC, Vol. 10 Kathmandu.

Agrawal, Dr, Govinda Ram "Dynamic of Business Enviroment in Nepal",M.K publishers and distributors, Kathmandu, Nepal, First edition, 2002 Eugene, F. Brigham and

Amatya, N Bahadur. (1999) An appraisal of financial position of Nepal Bank Ltd.Biratnagar, T.U Thesis, Kathmandu.

Brigham, Eugene f. and western, j. Fred (1996) managerial finance, Dryden press, New York.

Foster, George "Financial statement analysis", Pearson education Pvt Ltd, Indian Branch, Second edition, 2002

Gestemberg, C.W. "Financial Organazation Mangement of Business", Asia publishing House, New Delhi, Fourth Revised edition, 1990

Ghimire, Hiramani (2002) working Capital Position of Arihanta Multi fibers Ltd.,Biratnagar, Unpublished T.U. Thesis, Kathmandu.

Gitman, Lawrence j. (2000) principal of managerial finance, Delhi: Addison wisely Longman pte. Indian branch.

Gupta, Dr. S.C "Statistical methods", sultan Chand and sons Publishing House, Bombay, 1996

Gupta, S.C. " Fundamental of statistics", Himalaya Publishing House, Bombay, 1996

Hampton, Jhon J, "Financial deeision Marketing, Concepts, Problem and cases", Prentice –Hall inc., U.S.A. Fourth edition, 1998

Jain, p.k. and khan, M.Y. (1999) financial management text and problem. Third edition, Tata McGraw Pvt., New Delhi.

Jain,S.P. and Narang K.L… "Financial Management and Accouniancy",Kalyani Publishers, Rajinder Nagar, Ludhiyana, second Revised edition, 1988

Joshi, Arjun Lal. (1986) A study on Working Capital Management in Biratnagar Jute Mills Ltd. MBA. Unpublished Thesis, T.U.,Kathmandu.

jue F. Hlouston "Fundamentals of financial management", Harcout ublishers international Company , Nineth Edition, 2002

Khan, M. Y and Jain, P.K.,, "Financial Management", Tata Megraw-hill Publishing company limited, 1998

Kothari C.R. "Quantitative Techniques"Vikas publishing house (p) limited, Third Revised edition. 1999

Kothari C.R. "Research Methodology,Methods and Techniques", Wishwa Prakasan, Second edition.2002

Kothari, C.R. (1986) quantitative Techniques. Vikash Publishing Pvt. Ltd, New Delhi.

Munankarmi, S.P. "Accounting for Financial Analysis and planning", Education Enterprises,(p)Limited, Kathmandu, First edition 2000.

Nepal Rastra Bank (2003) Banking and Financial Statistic, Kathmandu.

Panday. L.M. "Financial Managanent", Vikas Publishing House.(P) Limited, India. Revised and reprint. 1990.

Panday. L.M. "Management Accounting, Vikas Publishing house (P) limited india, Third Revised edition,2000.

Pandey, I.M. (1995) Financial management, revised addition, Vikash Publishing House Pvt. Ltd. Masjid road, Janpur, New Delhi

Panthak P.K. (1992) An Evaluation of Working Capital between Nepal Bank Ltd. and Nepal Grindlavs Bank Ltd. Unpublished Master's Degree thesis, T.U., Kathmandu.

Pradhan Surendra "Basic of Financial Accounting", Educational enterprises (P) Ltd, First edition, Reprint 1996.

Pradhan, Dr. R.S. (1988) The demand of working capital by Nepalese corporation, Vol. 8, No. 1, Kathmandu.

Pradhan,Dr. Radhe Shyam (1986) Management of working capital, New Delhi, National Books Organization.

Sapkota, Rajendra Kumar (1998) A study on Measuring the effectiveness of Short-term Financial, Unpublished Thesis, T.U., Kathmandu.

Shreshtha, Basudev (2001) A study on Working Capital Management of dairy Development Corporation, SDC, Unpublished Thesis, T.U., Kathmandu.

Shreshtha, Monohar K. (1982) A study of Financial Results and Constraints. ISDOC Bulletin Ten Selected PE's, Vol. 8. No. 14, Kathmandu.

Shrestha Sunity and silwal Dhurba Prasad "Statistical Methods in management," Taleju Prakashan Bhotahity, Kathmandu, 2th edition, mangshir 2057.

Shrestha, K.N. and Manandhar, K.D. "Business Mathematic and statistics", Valley publishers Kathmandu, Nepal Ninth edition 2055.

Shrinivasan S., "Cash and Working capital management", Vikas Publishing House (P) Limited, India 1999.

Smith, Adam (1997) The wealth of Nation, Modem Library Inc. New York Harry.

"Statistics and Quantative Techniques for management", Valley Publishers, Kathmandu, Nepal, Second edition, 2051.

Upadhya, K.M. (1985) Financial Management, Kalyani Publishers, Narayangunj, New Delhi.

Van Horne, James C, "Financial of Management and policy", Prentice hall of India Limited Eleventh edition 1999.

Van Horne, James C. and Wachowich Jr, John M. (1986) Fundamentals of financial management, 10th edition. Prentice Hall of India Limited, New Delhi.

Weston, J. Fred and Eugene F. Brigham "Essential of Management Finance", The Dryden Press, Harcourt Brace college Publishers, Elevenths edition 1996.

Wolf, K. Howard and pant "Hand Book for social science – Research and thesis writing", Buddha Academic Enterprises (P) Limited, Kathmandu, Second edition 2000.

Websites:

http://iwww.bdc.claim/my_project/projects/growth/working_capital.html
http://www.bized.ac.uk
http://www.bnet.com.abstract.asp
http://www.bokleted.com.np
http://www.investorwords.com
http://www.planware.org
http://www.studyfinance.com
http://www.nrb.org.np
http://www.nepalstock.com

FINANCIAL SUMMARY OF KUMARI BANK LIMITED

KUMARI BANK LIMITED
PUTALISADAK, KATHMANDU
COMPERATIVE BLANCE SHEET FOR FIVE YEARS

Particular/Year	060/61	061/62	062/63	063/64	064/65
A. Cash & Bank Blance	683.65	692.71	782.88	740.51	728.68
B. Money at Call & Short Notice	127.39	30.35	272.32	328.87	594.04
C. Loans/Advances/Bills Payable	4613.70	4542.70	5646.70	5912.57	7259.09
i)Loans/Cash/Over Drafts	4327.77	4494.45	5336.97	5831.07	7239.10
ii)Bills Discounts/Purchases	288.93	48.54	309.73	81.51	19.99
D. Investments	619.45	1816.14	2477.41	2598.65	3374.71
i)Govt.Securities	522.65	1510.71	2371.38	2147.00	2658.37
ii)Other(Foreign Bank)	96.80	267.43	82.83	359.00	622.89
iii)Bonds, shares, Deb & Others	***	38.00	22.81	92.65	93.45
E. Others	147.93	168.87	104.06	71.26	22.94
i)Interest Receivable	99.04	70.37	45.09	43.35	12.78
Ii)Miscs. Current Assets	48.89	10.00	33.49	3.83	2.81
1. Total Current Assets (A+B+C+D+E)	6192.12	7250.77	9283.38	9651.24	11979.46
2. Fixed Assets	94.21	93.64	83.62	95.23	110.74
Gross Block	137.74	184.57	155.40	183.44	218.99
Less Depreciation	(43.53)	(54.93)	(71.78)	(88.21)	(108.25)
Miscellaneous Assets	22.31	100.39	129.35	142.00	188.09
Total Assets (1+2+3)	6356.65	7444.80	9496.35	9888.47	12278.29
F. Deposits & Others	5723.28	6170.70	7741.65	8975.70	10485.33
i) Saving	1850.02	2268.55	2873.81	3447.43	4581.96
ii) Fixed	1958.85	1990.93	2279.72	2878.85	2709.75
iii) Current	789.56	935.73	997.90	1302.62	1409.10
iv) Call & Short Deposits	995.02	854.66	1450.74	1162.11	1618.55
v) Other+ Margin	129.83	120.83	139.48	184.69	165.97
G. Short Term Loan	***	498.24	912.15	6.00	553.18
H. Bills Payable	12.57	35.14	38.71	19.87	11.62
I. Staff Bounce	2.99	13.57	20.51	22.69	30.12
J. Dividend Payables	4.76	3.92	8.58	11.93	98.71
K. Other Liabilities	71.58	144.10	124.00	133.15	59.60
L. Treasury Bills & Bond	-	-	-	-	200.00
M. Deferred Liabilities	21.29	-	-	-	22.30
4. Total Current Liabilities (F+G+H+I+J+K+L)	5836.47	6865.67	8845.60	9169.34	11460.84
5. Set Worth (6+7)	520.18	579.13	650.74	719.13	817.45
6. Share Capital:	463.58	463.58	463.58	463.58	463.58
i) Ordinary Share	463.58	463.58	463.58	463.58	463.58
ii) Bonus Share	***	***	***	***	***
iii)preference share	***	***	***	***	***

7.reserve	56.60	115.55	178.16	255.55	253.87
i) Proposed Bonus Share	***	***	***	***	***
ii) General Resenve	34.99	51.52	76.91	104.81	145.30
iii) Capital Adjusted Reserve Found	8.52	46.36	92.71	137.52	46.36
iv) Capital Reserve Found	0.16	0.16	0.16	0.15	0.16
v) Other Reserve Found	***	8.75	10.88	12.10	14.63
Add: Accumulated P\L	12.93	8.86	6.49	0.97	8.31
Total Liabilities(4+5)	6356.65	7444.80	9496.34	9888.47	12278.29

KUMARI BANK LIMITED
PUTALISADAK, KATHMANDU
COMPERATIVE PROFIT & LOSS A\C FOR FIVE YEARS

Particular/years	060/61	061/62	062/63	063/64	064/65
A. operating Income	570.58	636.22	710.81	756.02	884.80
1.Interest Earned	473.30	496.81	567.10	607.10	718.12
2.comm. & discount	47.87	60.74	77.71	72.35	70.77
3.exchange Income	48.64	67.44	64.04	72.11	78.95
4.Dividends	0.74	11.23	1.96	4.46	16.96
5.Other	***	***	***	***	***
B. Cost Of Services	335.16	328.37	334.00	295.25	367.26
6. Interest Paid	285.01	276.69	286.28	241.63	308.15
i) On Borrowing	2.59	2.93	6.79	8.98	13.64
ii) On Deposit	282.42	273.76	279.49	232.65	294.51
7. Salaries & Allowances	50.15	51.68	47.72	53.82	59.11
c. Provision For Bonus	2.99	13.57	20.51	22.69	30.12

D. Other General Expensess	190.46	168.32	184.23	233.62	195.97
E. Gross Profit	41.97	125.96	172.07	204.46	291.45
F. Depreciation	16.01	14.45	20.77	21.76	25.70
G. Operating Profit	25.96	111.51	151.30	182.72	265.75
H. Income From Other Sources	0.93	0.02	15.46	0.05	1.09
I. Per Tax Profit	26.89	111.53	166.76	182.75	266.84
J. Provision for Taxes	17.59	40.01	57.17	64.76	98.76
K. Net Profit	9.30	71.52	109.59	117.99	168.08

KUMARI BANK LIMITED
PUTALISADAK, KATHMANDU
FINANCIAL RATIONS FOR FIVE YEARS

Appendix 1

Calculation of Coefficient of Correlation between on Government Securities (G.S.) and Total Deposit (T.D.)

GS(X)	TD(Y)	X(X-$\overline{X}$)	X^2	Y(y-$\overline{Y}$)	Y^2	xy
522.62	5723.28	-1319.45	1740948.30	-2096.05	4393425.60	2765633.17
1510.71	6170.70	-331.39	109819.33	-1648.63	2717980.88	546339.49
2371.78	7741.65	529.68	280560.90	77.68	6034.18	4145.54
2147.00	8975.70	304.90	92964.01	1156.37	1337191.58	352577.21
2658.37	10485.33	816.27	666296.71	2666.00	7107556.00	2176175.82
∑X=9210.51	∑Y=39096.66		$\sum X^2$=2890589.25		$\sum Y^2$=15562188.24	∑XY=5881871.23

1. $\overline{X} = \frac{X}{N} = \frac{9210.51}{5} X1842.10$ **2.** $\overline{Y} = \frac{Y}{N} = \frac{39096.66}{5} X7819.33$

3. $¢_X X \sqrt{\frac{(X Z\overline{X})2}{N}} = \sqrt{\frac{2890589.25}{5}}$ =760.34

$¢_Y X \sqrt{\frac{(Y Z\overline{Y})2}{N}} = \sqrt{\frac{15562188.24}{5}} X1764.21$

4. $CV_{(X)} = \frac{¢_X}{\overline{X}} \varepsilon\ 100 = \frac{760.34}{1842.10} \varepsilon\ 100 = 41.28\%$,

$CV_{(Y)} = \frac{¢_Y}{\overline{Y}} \varepsilon\ 100 = \frac{1764.21}{7819.33} \varepsilon\ 100 = 22.56\%$

5. $r = \frac{XY}{\sqrt{X2Y2}} = \frac{588187.23}{\sqrt{2890589.25 * 15562188.24}} = \frac{5881871.23}{6707003.36} X0.88$

6. $PE(r) = 0.6745 \frac{1 Z r2}{\sqrt{N}} X0.6745 \frac{1 Z (0.88)2}{\sqrt{5}} X0.068$ 7.6PE(r) =6 χ

0.068=0.408

Appendix II

Calculation of Coefficient of Correlation between Loan & Advances (LA) and Total Deposit (T.D.)

LA (X)	TD (y)	$X(X-\overline{X})$	X^2	$Y(y-\overline{Y})$	Y^2	XY
4613.70	5723.28	-981.25	962851.56	-2096.05	4393425.60	2056749.06
4542.70	6170.70	-1052.25	1107230.06	-1648.63	2717980.88	1734770.92
5646.70	7741.65	51.75	2678.06	-77.68	6034.18	-4019.94
5912.57	8975.70	371.62	100882.46	1156.37	1337191.58	367286.24
7259.09	10485.33	1664.14	27669361.94	2666.00	7107556.00	4436597.24
∑X=27974.76	∑Y=39096.66		$\sum X^2$=4943004.08		$\sum Y^2$=15562188.24	∑XY=8591383.52

1. $\overline{X} = \frac{X}{N} = \frac{27974.36}{5} X5594.95$ **2.** $\overline{Y} = \frac{Y}{N} = \frac{39096.66}{5} X7819.33$

3. $¢_X X \sqrt{\frac{(X Z\overline{X})2}{N}} = \sqrt{\frac{4943004.08}{5}}$ =994.28

$¢_Y X \sqrt{\frac{(Y Z\overline{Y})2}{N}} = \sqrt{\frac{15562188.24}{5}} X1764.21$

4. $CV_{(X)} = \frac{¢_X}{\bar{X}} \varepsilon$ **100=** $\frac{994.28}{5594.95} \varepsilon$ **100=17.77%,**

$CV_{(Y)} = \frac{¢_Y}{\bar{Y}} \varepsilon$ **100=** $\frac{1764.21}{7819.33} \varepsilon$ **100= 22.56%**

r = $\frac{XY}{\sqrt{X2Y2}}$ **=** $\frac{8591383.52}{\sqrt{4943004.08 * 15562188.24}}$ **=** $\frac{5881871.23}{8770630.53}$ X0.98

6. PE(r) = 0.6745 $\frac{1Zr2}{\sqrt{N}}$ X0.6745 $\frac{1Z(0.98)2}{\sqrt{5}}$ X0.012

7. PE(r)=6 χ 0.012=0.072

Appendix III

Calculation of Coefficient of Correlation between Investment on Government Securities(G.S.) and Total Deposit (T.D.)

CB(X)	CL (Y)	X($X-\bar{X}$)	X^2	Y($y-\bar{Y}$)	Y^2	XY
683.65	6192.12	-42.04	1767.36	-267.93	71786.48	11263.78
692.71	7250.77	-32.98	1087.68	-1621.12	2628030.05	53464.54
782.88	9283.38	57.19	3270.70	411.99	169735.76	23561.70
740.51	9651.24	14.82	219.63	779.85	608166.02	11557.38
728.68	11979.46	2.99	8.94	3108.07	9660099.13	9293.13
∑X=3628.43	∑Y=44356.67		$\sum X^2$=6354.31		$\sum Y^2$=10438000.91	∑XY=109140.53

1. $\bar{X} = \frac{X}{N}$ **=** $\frac{3628.43}{5}$ X725.69 **2.** $\bar{Y} = \frac{Y}{N}$ **=** $\frac{44356.97}{5}$ X8871.39

3. $¢_X$ X $\sqrt{\frac{(X\ Z\bar{X})2}{N}}$ **=** $\sqrt{\frac{6354.31}{5}}$ **=35.649**

$¢_Y$ X $\sqrt{\frac{(Y\ Z\bar{Y})2}{N}}$ **=** $\sqrt{\frac{10438000.91}{5}}$ X435.64

4. $CV_{(X)}$ **=** $\frac{¢_X}{\bar{X}}$ ε **100=**$\frac{35.649}{725.69}$ ε **100=4.91%,**

$CV_{(Y)}$ **=** $\frac{¢_Y}{\bar{Y}}$ ε **100=**$\frac{435.64}{8871.39}$ ε **100= 4.91%**

5. r = $\frac{XY}{\sqrt{X2Y2}}$ **=** $\frac{109140.53}{\sqrt{6354.31*10438000.91}}$ **=** $\frac{109140.53}{257538.92}$ X0.42

6. PE(r) = 0.6745 $\frac{1Zr2}{\sqrt{N}}$ X0.6745$\frac{1Z(0.42)2}{\sqrt{5}}$ X0.025

7. PE(r)=6 χ 0.0.25=1.50

Appendix IV

Calculation of Coefficient of Correlation between Investment on Government Securities(G.S.) and Total Deposit (T.D.)

LA(X)	TD (Y)	X(X- $\bar{X}$)	X^2	Y(y- $\bar{Y}$)	Y^2	XY
4613.70	9.30	-981.11	962576.83	-86.00	7396.00	84375.46
4542.70	71.52	-1052.11	1106935.45	-23.78	565.49	25019.18
5646.70	109.59	51.89	2692.57	14.29	204.20	741.51
5912.57	117.99	317.76	100971.42	22.69	514.84	7209.97
7259.09	168.08	1664.28	2769827.92	72.78	5296.93	121126.30
∑X=27974.06	∑Y=478.48		$\sum X^2$=		$\sum Y^2$=13977.46	∑XY=233472.42

1. $\bar{X}$ **=** $\frac{X}{N}$ **=** $\frac{27974.60}{5}$ X5594.81 **2.** $\bar{X}$ **=** $\frac{Y}{N}$ **=** $\frac{476.48}{5}$ X95.30

3.¢ X $\sqrt{\frac{(X\ Z\bar{X})2}{N}}$ **=** $\sqrt{\frac{4943004.19}{5}}$ **=994.28**

¢ X $\sqrt{\frac{(Y\ Z\bar{Y})2}{N}}$ **=** $\sqrt{\frac{13977.46}{5}}$ X52.87

4. $CV_{(X)}$ **=** $\frac{¢_X}{\bar{X}}$ ε **100=**$\frac{994.28}{5594.81}$ ε **100= 17.77%,**

$CV_{(Y)}$ **=** $\frac{¢_Y}{\bar{Y}}$ ε **100=**$\frac{52.87}{95.30}$ ε **100= 55.47%**

5. r = $\frac{XY}{\sqrt{X2Y2}}$ **=** $\frac{238472.42}{4943004.19*13977.46}$ **=** $\frac{238472.42}{262850.99}$ X0.91

6. PE(r) = 0.6745 $\frac{1Zr2}{\sqrt{N}}$ X0.6745 $\frac{1Z(0.91)2}{\sqrt{N}}$ X0.05

7. PE(r) =6 χ 0.05=0.30