

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Nepal is a small, least developed and landlocked country situated between two large countries china and India. The country is surrounded by Tibet, the autonomous region of china in the north and several Indian states to the east, south and west. Nepal is an agricultural country. Most of the people of the nation are primarily engaged in agricultural sector and they are depended in agricultural fulfill their basic needs. Nepal's domestic market is limited. However, with the special relationship with India embodied in a trade treaty, Nepal has access to be the largest market in the region. Recently, Nepal has taken the membership of World Trade Organization (WTO) which allows trading with different countries.

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

A policy on privatization which laid down in the policies, modalities and administrative mechanism for the privatization of public enterprises. The privatization process in Nepal governed by the Act .The government may privatize any enterprises using any of the following methods:

- Selling shares of the enterprises to the general public including employees, workers and any other persons of companies interested in the management such enterprises
- Setting of co-operative.
- Selling the assets of the enterprises.
- Leasing out the assets of the enterprises.
- Involving the assets of the enterprises and
- Adopting any other modalities considered appropriate by the government on

the basic of the recommendation of the privatization committee. (Source Joshi Shyam, 2006:334)

1.1.1 An Overview of Industrial Development in Nepal

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

There is no doubt the Regime of Juddha Samsher can be called the innovator period in Nepal ease history, while contributed to the growth of industries. Juddha Samsher had not only launched the programs of industrialization in this period. First major step was establishment of udyog perished in 1936 A.D., 63 companies were registered with the total combined capital of rs. 700 millions I. C. and Rs.2.1 millions N.C. between 1964 to the down of democracy.

Nepal Bank Ltd, the first modern commercial bank in the country was established in 1964 B.S. in order to develop industrial and trading enterprises by providing financial and administrative help. Similarly, Ragupati Jute Mill (2003 BS), Morang Sugar Mill (2003 BS), Janakpur Cigarette Factory Limited (2021 BS}, Hetauda Cement Udyog Limited (2033BS), Lumbini Sugar Mill Limited (2038), Butwal Thread Factory Limited (2039BS), Udapur Cement Udyog Limited (2044) etc were also established in the country. In this way a number of industries in different sectors and fields like cotton, textiles, sugar, match hydropower, oil and rice and so on were set.

The growth of Nepalese industrial process took a race because the government had formulated various policies Acts rules and regulations for maintaining and operating industrial activities. Different rules, policies, Acts, rules and regulation were made and

amended according to time to support industrial sector. Some of policies are industrial policy 1992 AD, commercial policy 1992 A.D. foreign investment and are window policy, privatization set act 1993 AD, labour Act. 1992 etc.

1.1.2 Introduction of Sample Company

Bottlers Nepal Ltd (BNL) was established in 1973 as a private limited Company under the company act 1964. It was converted into public limited company in 1984. Coca-Cola was introduced in Nepal in 1973. That time it was imported from India .The local production of coca cola begins in 1979 by the Bottles Nepal Limited .Coca-Cola has been licensing bottlers around the world Bottlers Nepal Limited, Situated at the Balaju industrial District is also one of the host companies of Coca-Cola for Nepal established in 1979 under Company Act 1964. The registration no of Bottlers Nepal Ltd is 140/041. The Company was started as a private enterprise and converted into public enterprises in 1984 issuing shares to general public. The company is managed by Singapore based and N Coca-Cola private company Covers 10.648 SA. M of land and building covers 5823 SA m. It is one the world's most famous multinational company. The fully automatic Effluent Treatment plants (ETP) are established and both its plants have been operational since 2001, to protect the local environment as well as to meet the standards of the coca-cola quality system. Different types of inputs are used for the production of Different products. All the inputs are not available in the Nepali market, thus it is imported from Singapore, Iran, Pakistan, Indonesia, Germany and India. Quality products are main focus of BNL. They have well equipped laboratory for the identification of good quality finished goods. The raw materials for the soft drink production are imported from France and U.S.A.The crown crocks are imported from Philippines, Srilanka's, Singapore. The sugar is bought from the Nepalese market.

The main objective of this company is to produce soft drinks and to bottle under the brand name of coke, fenta, sprite etc. In 1986 under the company act, 1964 subsidiary company called Bottlers Nepal (Terai) limited was established in chitwan district, Bharatpur Narayangadh area with the objective of producing and bottling. Soft drink under the brand name of coke, sprite, fanta (orange, lemon and soda).These products are transferred into the markets in 1000ml,500ml, non-returnable plastic bottles and

200ml, 250ml, and 175ml returnable glass bottles. The installed capacity of the plant is 350 bottling per minute. It is the leading multinational company among the manufacturing and processing company in Nepal.

The Himalayan Distillery Limited is promoted by Jawalakhel distillery which is the largest player in Nepal's liquor market and for decades it has been synonymous with quality products. The founding chair man V.K. Shah is well qualified specialist in the field of alcoholic beverage and the family has been in the alcoholic business for the last generation. The distillery Ltd. is a culmination of a perfectionist's dream. It is not only a modern distillery but also a research unit.

Himalayan Distillery Limited, sister concern of Jawalakhel distillery subscribed to the same philosophy of setting new benchmarks. The HDL and Seagram manufacturing limited (SLM) have entered into a technical and marketing support agreement on November 5; 1999. The company is producing and marketing Seagram's product in Nepal. The distillery is located in serene surrounding at the foothills of the Himalayan in the southern part of Nepal. Its registered office has situated at Parsa, district, VDC Liphibirta -7, Paramour. The distillation unit stands as a landmark and is accessible by road. The local airport (i.e. Simra) is only minutes away and the nearest India boarder Birgunj to Raxaul is 12 kms from the factory site. The Indian broad gauge railway head terminals at Raxaul Boarder. The contact office of the company has stayed at Satobato Chowk Lalitpur.

Table No. 1.1
Product Lines of BNL and HDL:-

BNL	HDL	
1.Cocacola	1. E. NA	7.Bonny Charles
2.Fanta Orange	2.Royal Stage	8.Ultimate
3.Sprite	3.Emperial Blue	9.Play Boy
4.Fanta Lemon	4.Ruslan White	10.Ruslan Vodka
	5.Cleopatra	11.Dry Gin
	6.Triple Cross	12.Blue Diamond

(Source Annual report of BNL and HDL)

Cash is the lifeblood of a business enterprise without cash no activities can take place. So, a business must have an adequate amount of cash to operate. The decision maker must pay attention to the firm's cash position, events and transactions that affect cash position. The analysis of events and transactions affecting the cash position is termed as cash flow analysis. It is very remarkable to know the activity of cash from where it is received and to where it is applied. The cash flow statements answer such question. The cash flow is a statement to show all the cash receipts (inflows) and cash payment (outflows) of a firm for a period. Cash flow statement is prepared to understand the relationship between accrual accounting events and their cash impacts. This statement classifies cash flows from operating, financing and investing activities a required by accounting standards on the other hand, the statement facilities to convey information about cash receipts and cash payment of a firm during the accounting period. Through the same information comes through the cash book already prepared in a different manner so that decision maker knows how mach cash has increased or decreased in operating, financing and investing activities.

- Statement of cash flows reflects the ability of the company.
- To generate positive cash flows in future period.
- To meet its obligations and to pay dividend.

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

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

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

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

The statement of cash flow has now become a standard feature of financial reporting in a number of countries and is required in addition to the balance sheet and profit and loss statement. From 1988, companies in United State have been required to present statement of cash flows. Since the beginning 1992, British companies are required to present statement of cash flow information. Cash flow statements are also required in other many countries including Australia, New Zealand and South Africa, in 1992; the international accounting standard committee issued an accounting standard on cash flow statements. Nepal Company Act 2006(2053 B.S.) also made mandatory to present cash flow statement along with balance sheet and income statement. According to institute of chartered accountants of Nepal has published the financial statement which should include cash flow with the balance sheet and profit and loss account. So, every enterprise should prepare it as an integral part of its financial statement for each period foe which financial statements are presented. Cash flow analysis is done through the statement of cash flows. A cash flows statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing.

1.2 Focus of the Study

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

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

1.3 Statement of the Problems

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

It is important to find out why Bottlers Nepal Limited and Himalayan Distillery Limited are facing with such problem the present analysis have tried to find out answer of following basic questions:

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

1.4 Objectives of the Study

The main objective of the study is analyzing cash flow statement of BNL and HDL.

The specific objectives of the study are:

- To study the position of cash flow of Sample Company.
- To comparative analysis of cash flow of BNL and HDL.
- To study and evaluate the financial position of Sample Company.
- To provide information about the changes in the cash position of the company.

- To provide suggestions and recommendation for effective cash management.

1.5 Significance of the Study

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

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

1.6 Limitations of the Study

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

- The study has been confined only to cash flow analysis of BNL and HDL as a part of profit planning and control.
- The study has covered the data of last five years from FY 2004/05 to FY 2008/09.
- The study is based on the secondary data and primary data.
- The conclusion depends upon the reliability of data provided.

1.7 Organization of the Study

The entire study has been organized as follows:

Chapter-1

Introduction

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

Chapter 2

Review of Literature

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

Chapter 3

Research Methodology

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

Chapter 4

Presentation and Analysis of the Study

This is the most important and most extensive chapter as it includes the main theme of the study. This chapter deals with the presentation and analysis of collected data and information.

For this purpose various analytical tools will be used.

Chapter 5

Summary, Conclusion and Recommendations

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

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

CHAPTER -II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning of Cash

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

2.1.2. Meaning of Cash Flow Statement

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

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

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

2.2 Background on a Cash Flow Statement

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

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

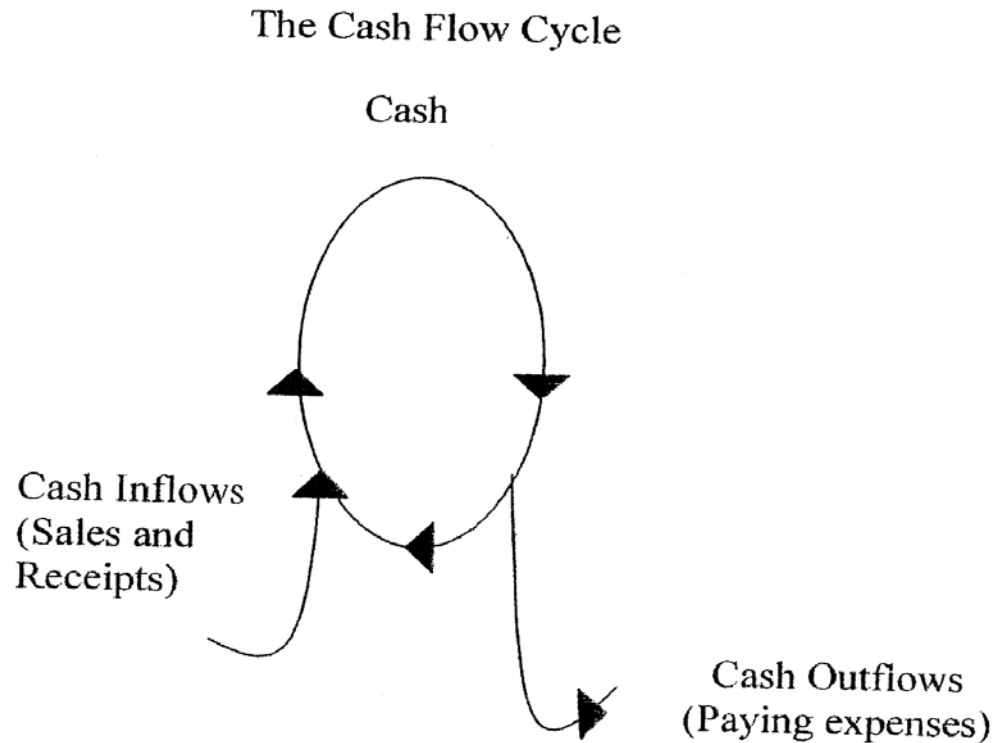
Two years later, accounting principles Board (APB) opinion No.3 was issued and provided funds statement preparation guidelines. Although opinion No.3 did not go so far as to make the funds statement mandatory, most businesses, aware of the statement's value, included it in their annual reports. Finally in 1971, APB opinion no 19 officially made the funds statement one of the three primary financial documents required in annual reports to shareholders. The APB said that funds statement must be covered by the auditor's report. Opinion no 19 did not specify a particular format for the funds statement, business still enjoyed considerable flexibility in how chose to report their funds flow information.

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

The statement of cash flows is now a standard feature of financing reporting in number of countries and is required in addition to the balance sheet and profit and loss statement. From 1988, companies in United States have been required to present statement of cash flows. Beginning 1992, British companies are required to publish cash flow information. Cash flow statements are also required in other many countries including Australia, New Zealand and South Africa.

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

2.2 Understanding How Cash Flow Works



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

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

Outflows: - outflows are the movement of money out of business. Outflows are generally the result of paying expenses. If business involves reselling goods, then

largest outflow is most likely to be for the purchase of retail inventory. A manufacturing business's largest outflows will mostly be for the purchase of raw materials and other components needed for the manufacturing of the final product. Purchasing fixed assets, paying back loans and paying accounts payable are also cash outflows.

2.4 Need of Cash Flow Statement

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

The needs of cash flow statement are presented below:

- The cash flows statement is prepared on the basis of cash. Hence, cash position of a firm can be easily evaluated.
- Cash flow statement is helpful to a firm for planning and coordinating financial operation properly.
- The statement can provide the concerned organization the necessary assistance for the effective steps to strengthen the internal financial position.
- It also helpful in planning the repayment of loan, repayment of fixed assets and other long term cash planning.
- It is useful for both internal & external users. The external users refer to the bank and other financial institutions. They provide the loan to the firm on the basis of cash flow statement (Dangol, 2059:545).

2.5 Importance of Cash Flow Statement

Information about the cash flows of enterprises is useful in providing user of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. The economic

decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation. It provides useful information to the users of the statement to:

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

2.6 Objectives of Cash Flow Statement

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

- To provide information about cash receipt and cash payment of a company during an accounting period
- To provide information about a company's operating, investing and financing activities during the activities during the accounting period.
- To provide information about the changes in cash position of the company.
- To evaluate the financial policies of the company.
- To help in understanding liquidity position of the firm.
- To locate the reasons for variations in cash position.

- To assist the firm in short term cash planning. (Dangol, 2059:546)

2.7 Benefits of Cash Flow Statement

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

2.8 Preparation of Cash Flow Statement

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

a) Operating Activities

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

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

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

B. Investing Activities

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

- a) Cash payments to acquire plants and equipment, intangibles and other long-term assets. This payment includes those relating to capitalized development costs and self constructed property, plant and equipment.
- b) Cash receipts from sale of property, plant and equipment, intangibles and other long- term assets;
- c) Cash payments to acquire equity or debt instruments of other enterprises and interests in joint venture (other than payments for those instruments considered to be cash equivalents or those held for deadline or trading purpose);
- d) Cash receipts from sales of equity or debt instruments of other enterprise and interest in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for deadline or trading purpose);
- e) Cash advances and loans made to other parties (other than advances and loans made by a financial Institution);
- f) Cash receipt from the repayments of advances and loan made to other parties
- g) (other than advances and loan of a financial intuition);
- h) Cash payments for future contracts, forward contracts, options contracts and swap contracts expect when the contracts are held for dealing or trading purpose or the receipt are classified as financing activities; and
- I) Cash receipts from future contract, forward contract, option contract and swap contract expect when the contracts are held for dealing or trading purpose or the receipts are classifieds as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flow of the contract is classified in the same manner as the cash flows of the position being hedged.

C. Financing Activities

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

- a) Cash proceeds of cash flows arising shares or other equity instruments;
- b) Cash payments to owners to acquire or freedom the enterprise's shares;
- c) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long- terms borrowings;
- d) Cash repayments of amounts borrowed; and
- e) Cash payments by lessees for the reduction or the outstanding liability relating to a finance lease.

2.8.1 Method of Preparation of Cash Flow from Operating Activities

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

- a) Direct method, where by major classes of gross cash receipts and gross cash payments are disclosed; or
- b) Indirect method, whereby net profit or loss is adjusted for the effect of transaction of a non- cash, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expenses associated with investing or business Cash flow.

Direct Method

Enterprises are encouraged to reports flows from operation activities using the direct method. The method provides information which may be useful in station of future cash

flows. Under the direct method, information about major classes of gross cash payments may be obtained either.

- a) From the accounting records of the enterprise: or
- b) By adjusting sales, cost of sales (interests and similar income and interest expenses and similar charges for a financial institution) and other items in the income statement for:
 - 1) Changes during the period in inventories and operating receivable and payables;
 - 2) Other non cash items; and
 - 3) Other items for which the cash effects are investing or financing cash flows

Table No. 2.1
Cash Flow Statement under Direct Method

Particular	Rs
Cash from operating activities	
A. Cash collection from debtor and cash sales
Net sales (less sales return)
Add: Decrease in debtor/ bills receivable/account receivable
Less: Increase in debtor/ bills receivable/ account receivable
Add: bad debt recovered
Less: Bad debt written off
Add: increase in provision for doubtful debt
Less: decrease in provision for doubtful debt
Total

B. Cash purchase and payment made to suppliers	.....
Net purchase/ cost of good sold/ material suppliers	.....
Add: Increase in inventory/ stock	.....
Less: Decrease in inventory / stock	.....
Add: Decrease in creditors/ bills payable/ account payable	.....
Less: Increase on creditors/ bills payable/ account payable	.....
Add: Purchase related expenses	.....
Total	.....
C. Payment made to employee and other operating expenses	.....
Direct labor	.....
Add: Manufacturing overhead	.....
Add: General expenses	.....
Add: selling expenses	.....
Add: Interest paid	.....
Add: Decrease in outstanding expenses	.....
Less: Increase in outstanding expenses	.....
Add: Increase in prepaid expenses	.....
Less: Decrease in prepaid expenses	.....
Total	.....
D: Payment for tax expenses	.....
Income tax paid	.....
Add: Opening tax payable	.....
Less: closing tax payable	.....
Total	.....

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

Payment of dividend	(.....)
3. Cash flow from financing activities	.....
Net change in cash or cash equivalents (1+2+3)	.....
Add: Opening balance of cash	.....
Less: Closing balance of Cash	.....

(Source: Gyawali, Fago and Sudebi; 2006:11.7)

Indirect Method

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

- a) Change during the period in investing and operating receivable and payables;
- b) Non cash items such as depreciation, provisions, taxes, unrealized foreign currency gains and losses, undistributed profits of associates and where consolidated financial statements are prepared, minority interest; and
- c) All other items for which the cash effect are investing or financing cash flows.

Alternatively, the net cash from operating activities may be presented under the indirect method by showing the revenue and expenses disclosed in the income statement and the changes during the period in investing and operating receivables and payables.

Table No. 2.2
Cash Flow Statement under Indirect Method

Particular	Rs
Cash flow from operating activities
Net profit for the year
Add: Non cash or non operating expenses
Depreciation for the period

Amortization of goodwill/ patent/ trademark/ copyright	.....
General reserve maintain	.....
Discount on issue of share and debenture	.....
Premium on redemption of preference share and debenture	.....
Loss on sale of fixed assets	.....
Preliminary expenses written off	.....
Provision for taxation	.....
Provision for dividend	.....
Less: Non operating income	.....
Appreciation on fixed assets	.....
Premium on share and debenture	.....
Discount on redemption of preference share and debenture	.....
Profit on sale of fixed assets	.....
Dividend received	.....
Refund of tax	.....
Funds from operation	.....
Add: Increase in current liabilities	.....
Add: Decrease in current assets	.....
Less: Decrease in current liabilities	(.....)
Less: Increase in current assets	(.....)
Net cash available from operating activity before tax	.....
Less: Tax paid	(.....)
1) Net cash available from operating activity	.....
Cash flow from investing activities	.....
Purchased of fixed assets	(.....)
Sales of fixed assets	.....
Purchase of investment	(.....)
Sales of share and debenture of other company	.....
2) Net cash flow from investing activities	.....
Cash flow from financing activities	.....

Issue of share and debenture	.....
Redemption of preference share and debenture	(.....)
Issue of long term loan	.....
Repayment of long term loan	(.....)
Payment of long term financing activities	.....
Payment of dividend	(.....)
3) Net cash flow from financing activities	.....
Net change in cash or cash equivalents (1+2+3)	.....
Add: Opening cash balance	.....
Closing balance of cash	.....

(Source: Gyawali, Fago and Sudebi; 2006:11.6)

Work Sheet Method

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

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

Table No. 2.3
Work Sheet Cash- Flow Statement

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

Role of Preparing the above Work Sheet

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

cash and excess of credits over debit represent the increase in cash. Hence, credit

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

Free Cash Flows

“Free cash flow is included to represent the cash flow available to management for discretionary purposes after the company has met all of its basic obligations relations to business operations. Many analyses put a company’s cash flows into respective by computing a subtotal called free cash flow. The term free cash flow is widely used within the business community. Different analysts compute this measure in different ways because there is no widespread agreement as to the basic obligation relating to business operations.” (Bjracharya, at all 2004:935).

Computation of free cash flow	.....
Net cash flow from operating activities	.....
Less: Net cash used for acquiring plant assets	.....
Dividend paid	.....
Free cash flow	<hr/>

2.9 Cash Budget: - a Tools of Assessing Future Cash Flow

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

Although a cash budget is similar to a statement of cash flows, it shows the result expected in future but cash flow statement shows the achievements in the past. The past budget is more detailed and prepared by showing expected cash flows month by month and separately for every department within the organization.

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

Importance of Cash Budget

- Forcing managers to plan and coordinate the activities of each department in advance.
- Providing managers with an advance notice of the resources at their disposal and the results they are expected to achieve.
- Providing targets useful in evaluating department performance.
- Providing advance warning of potential cash shortage.

2.10 Strategies for Improvement in Cash Flows

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

- i. Increase sales (particularly those involving cash payments).
- ii. Reduce direct and indirect costs and overhead expenses.
- iii. Defer discretionary projects which cannot achieve acceptable cash paybacks (E.g. within one year).
- iv. Increase price especially to show payers.
- v. Review the payment performances of customers-involved sales force
- vi. Become more selective when granting credit.
- vii. Seek deposits or multiple stage payments.
- viii. Reduce the amount/ time credit given to customers.
- ix. Bill as soon as work has been done or order fulfilled.
- x. Improve system for paying suppliers.
- xi. Use the 80/20 rule to control on inventories, receivable and payables.
- xii. Improve system of paying suppliers.
- xiii. Generate regular reports on receivable ratios and aging.
- xiv. Established and adhere to sound credit practices- train staff.
- xv. Increase the credit taken from suppliers.
- xvi. Use more pro- active collection techniques.
- xvii. Add late payment charges for fees where possible.
- xviii. Negotiate extended credit from suppliers.
- xix. Make prompt payments only when worthwhile discounts apply.
- xx. Reduce inventory levels and improve over work- in- progress.
- xxi. Sell off or return obsolete/ excess inventory.
- xxii. Use alternative financing methods, such as leasing to gain access to the use but not ownership of productive assets.
- xxiii. Re-negotiation bank facilities to reduce charges.
- xxiv. Seek to extend debt repayment periods.
- xxv. Net off of consolidate Bank balance.
- xxvi. Sell of surplus assets or make them productive.
- xxvii. Enter into sale and leaseback arrangements for productive assets.
- xxviii. Raise additional equity.
- xxix. Convert debt into equity.

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

2.11 Review of Articles

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

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

The starting point for analyzing a company's cash flows is the cash item in the company's balance sheet at the beginning of the period, and the end point is the cash item at the end of the forecasted or analyzed period. The change in the company's cash positions is the difference in its cash between these two points in time. This difference takes into account all of the movements and transactions in which the company was

involved. Therefore, this figure alone is insufficient to understand the company's cash needs, cash generation, and cash consumption over the period. Clearly, the value of cash infused into the company as a result of the sale of products or services is different from an inflow of cash to the company created by raising new capital.

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

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

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

Some people might confuse a cash flow statement with an income statement. An income statement only measures whether or not the company made a profit, whereas a cash flow statement can tell you whether or not the company generated cash during the

time period. These concepts may seem a bit confusing. Just because a company has generated cash does mean that it has generated profit and vice versa. Cash flow statements work particularly with cash where as income statements may also deal with assets.

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

2.12 Review of Previous Research Studies

2.12.1. Mr. Khila Nath Dahal (2004) has conducted a research entitled “A study in Financial Performance of STCL” submitted to Minbhavan Campus covering the period F.Y. 2049/50 to 2055/56. He has collected the data from secondary sources published by STCL and other information from questionnaire, journals and direct interview. The main objectives of his study are:

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

Some Major Findings of Study are:

- Liquidity position of corporation.
- Turnover position of STCL during the study period is in fluctuating trend. It indicates that the degree of utilization of resources varied year to year to the study period.

- The average collection period also exhibits wide fluctuation. It ranges between minimum of 25.33 day to maximum 64.57 days leading to average collection period of 44.62 days during the study period. Thus STCL has maintained more liberal credit policy which is a resultant to adverse impact on its profitability.
- The analysis of total assets turnover shows that STCL has not been able to utilize its total assets as it expected.
- The profitability position of the corporation is not satisfactory the ratio shows fluctuating trend during the study period.
- Operating expenses ratio of corporation is very high and so net income after tax of the corporation seems to very low.
- STCL has not satisfactory return over its total assets during the study period. An average return on a total asset of the corporation is only 7.11%.
- Return on capital employed and return on equity is 10.71% and 11.05% respectively.

2.12.2 Mr. Kiran Neupane (2006) has conducted a research entitled in “A study of cash Management of Nepalese public enterprises” (A case study of salt trading Corporation Limited). He has collected the data from secondary sources that are published by salt trading corporation limited and related information through the direct interview and questionnaire. The period covered was F.Y. 2055/56 to 2059/60.

He has set the following objectives

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

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

- Cash management in STCL is primarily based on the traditional practice lacking in scientific approach. A more serious aspect of cash management

has been the absence of any formalized system of cash planning and cash budgeting in STCL.

Modern practices with respect of debt collection, monitoring the payment behavior of customers and relevant banking arrangement in collection of receivable have been virtually ignored in STCL.

- STCL could not make the best use of available cash balance prudently.
- The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
- The average inventory conservation period into cash is found a little more than two months. I.e. 62 a day, which is very slow?
- Average cash conversion cycle takes 64 days. i.e. little more than two months which is not a good signal for the cash management or cash collection efficiency of corporation is very low.
- No optimum cash balance is maintained. The cash and bank balance with respect to current assets have been fluctuating. Similar is the cash with respect to the total assets.

2.12.3 Miss Sapana Shahi (2008) did a research work on “A study of financial performance and capital structure of STCL.” She has used secondary data covering the period F.Y. 2054/55 to 2058/59 and other published and unpublished reports and bulletins of the corporation. The objectives of her research work are:

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

She has drawn the following finding

- The analysis of liquidity position of the corporation concludes that the funds invested in current assets are more than the required amounts. On the other hand there is no appropriate adjustment between the current assets and current liabilities of the corporation holding more of the inventory.
- Assets utilization position of the corporation has been analyzed by using the various turnover ratios like inventory turnover, receivable turnover, current assets turnover, fixed assets turnover and total assets turnover.
- The inventory turnover on sales is 7.32 in average. I.e. inventory cycle is only 8 times in a year. The analysis shows that average inventory represent 24% of its total assets.
- On average account receivable turnover stands about 6.38 times and average collection period is 58 days.
- The current assets turnover ratio of the corporation during the study period is 1.88 on average. The analysis shows that corporation has invested more funds in current assets unnecessarily.
- The analysis of the total assets shows that STCL has been able to utilize its total assets as much as expected. The average ratio is 1.5 times which shows that STCL has not been able to utilize its resources to generate sales revenue as compared to inventory in total assets during the study period.
- Debt to net- worth of the corporation is 11.11 on average. Most of the total assets are financed by the debt capital. The corporation has maintained more risky capital structure and unable to take benefit of trading on equity by employing debt.
- An average gross margin of corporation is 8.47% which is not satisfactory for the trading corporation like STCL. Average net profit margin on sales during the study period is only 3.59% which is a very low margin. Due to unnecessary administrative and selling overheads, STCL is unable to earn sufficient net profit margin.

- Operating expenses ratio of the corporation seems to be in decreasing trend average ratio stands about 94% which is very expenses ratio

2.12.4 Mr. Niraj Adhikari (2009) has submitted a dissertation on topic “A comparative and Analytical study on cash flow of selected finance companies” to faculty of management T. U. in the course of partial fulfillment of M.B.S

The data were collected from both primary and secondary sources. The period covered way from F.Y. 2054/55 and 2057/58. the basic objectives of this research paper is to analyze the trend of cash flows of selected institutes, to examine and compare the cash flow statements of those financial intuitions, to identify the strengths and weaknesses of working capital management especially cash management of those financial institutions.

Major Findings

i. National Finance Company

- In the case of the NFC, the total cash flow from operating activities is in increasing trend in the first two years but in the final year it is decreasing.
- Deposit mobilization/collection is in decreasing trend.
- The amount of current liabilities and current assets is increasing trend.
- The cash flow from investing activities is not regular.
- Borrowing is in decreasing trends, which in the final fiscal year has decreased to zero.

ii. Lumbini Finance and Leasing Company

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

- The amount of loan is decreasing in the first two years of study period but it is increasing in the final year.
- Cash flow from investing activities is in decreasing trend.
- Borrowing is in decreasing trend.

2.12.5 Mr. Rohit Kumar Dhakal has conducted a research entitled “Cash flow budget analysis of service industry as component of profit planning and control” (A Case Study of Sagarmatha Insurance Company Pvt. Ltd) in 2009

The Objectives of the Study are:

- To find the tend of premium collection and investing and its impact in cash budget
- To evaluate various budgets with actual results.
- To analyze sales and expenses budgets with cash budget of Sagarmatha Insurance Co. Pvt. Ltd.
- To accomplish the above objectives, he has made research covering the F.Y. 2055/56 to 2059/60.

Other essential information was taken from the primary data while secondary sources of data were used in the research methodology.

His Major Findings are as Follows:

- The company follows the traditional method for planning the cash.
- The company posses a large amount of fund but it is not profitability invested. The company could not invest its available fund for national interest. The company is having narrow look for its investment. Even its return on investing is decreasing (10.4%) toward the end of study period.
- The company does not follow the optimum cash balance process. There is high idle cash (15-20%) of total cash available with it which invested prudently would have handsome returns.

- Though the total premium is increasing, its net profit is continuously decreasing.
- The company is under capitalized. It does not possess borrowed capital. Its return on assets is 7.95% and if it could get cheaper fund, it can do for borrowed capital.
- The company does not seem applying the effective managerial tool “Profit planning and Control” for controlling its activities.

He has drawn the following conclusion:

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

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

2.12.6 Mr. Surendra Karki (2009) conducted a study under topic "Cash Management in Listed Manufacturing Companies. Unilever Nepal Ltd, Nepal Lube Oil Ltd, Bottlers Nepal Ltd, Nepal Banaspati Ghee Ltd and Raghupati Jute Mills Ltd., Himalaya Distillery.

The Objectives of the Study are:

- To examine and critically analysis the cash management practices in listed manufacturing companies.
- To identify the liquidity position of the companies
- To study the relationship of cash with other influencing aspects of cash management. Whether it is significant or not.
- To analyze cash conversion cycle of the companies
- To provide necessary recommendation for improvement of cash management on the basis of analysis.
- To accomplish the above objectives, he has made research covering the F.Y. 2000/2001 to 2005/2006. Other essential information was taken from the primary data while secondary source of data were used in the research methodology

His major findings are as follows:

- Listed manufacturing companies don't have any definite policy regarding how much cash balance to hold in each period.
- Listed manufacturing companies have failed to maintain adequate proportion of cash on its current assets. The average cash to current ratio has been observed to be 7.95%, 1.25%, 5.71%, 11.92%, 10.06%, and 13.86 percent in 2000/01 to 2006 respectively.
- Companies have not been precisely meeting their current liabilities payment.
- Companies are found to maintain adequate proportion of cash as its quick assets.

- The average collection period and payable deferral period have been found to be 531 days and 88 days.
- Liquidity position of listed manufacturing companies has not been satisfactory. The companies overall averages of CR and QR have been obtained to be 1.51:1 and 0.92:1.

2.13 Research Gap

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

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

“Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variance” (Sthapit 2004, 45)
“Research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. (Kothari 2003, 81)

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

3.3 Population and Sample of the Study

Although there are many private enterprises which are involved in manufacturing and trading fields in our country. It is not possible to study all of them regarding the research topic. Therefore, among these reputed companies i.e. Bottlers Nepal Limited

& Himalaya Distillery Limited are taken as a sample company from population of this research study.

3.4 Source of Data

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

3.5 Data Collection Procedure

The data are collected from head office of Bottlers Nepal Limited, Balaju Kathmandu & Himalaya Distillery Limited, and Jawalakhel Kathmandu. This study is based on secondary data. The financial statement has been collected directly from the account department. Five years' Balance sheet, profit and loss account and other related document published are collected. The data are collected from the fiscal year 2004/05 to 2008/09.

3.6 Data Processing and Tabulation

The available data are compiled and processed according to the objectives of the study. Before processing the data, they are tabulated. This tabulation is based on the time series covering five years period from fiscal year 2004/05 to 2008/09. Percentage and index are also used in tabulation depending upon the necessity of the subject.

3.7 Tools and Techniques used to Analyze the Data

The data analysis is made on the basis of various financial and statistical tools. To find the true position of Bottlers Nepal Limited & Himalaya Distillery Limited following tools and techniques were used.

3.7.1 Financial Ratio Analysis

Financial analysis is the process of analyzing various items of financial statement of firm to ensure its comparative strength and weakness. Financial analysis is equally

fruitful to the internal as well as external parties concerned to a corporate firm. Financial statement analysis involves a study of the relationship between income statement and Balance sheet, how this relationship changes over time and how a particular firm with other firm in its industry.

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

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

3.7.2 Statistical Tools

The research holds various statistical tolls which are as follows

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

3.7.3 Cash Flow Statement

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

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

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

Research Variables

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

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Analysis of Cash and Bank Balance

The term "Cash" is the most important current assets for the operation of a business. Therefore the company should keep sufficient cash, neither more nor less. More cash balance reduces the rate of return on equity. Total cash balance refers to the cash in hand, cash at bank and cash in transit. The following table no 4.1 presents the level of Cash balance during the study period.

Table No. 4.1
Cash and Bank Balance **(Rs in lakh)**

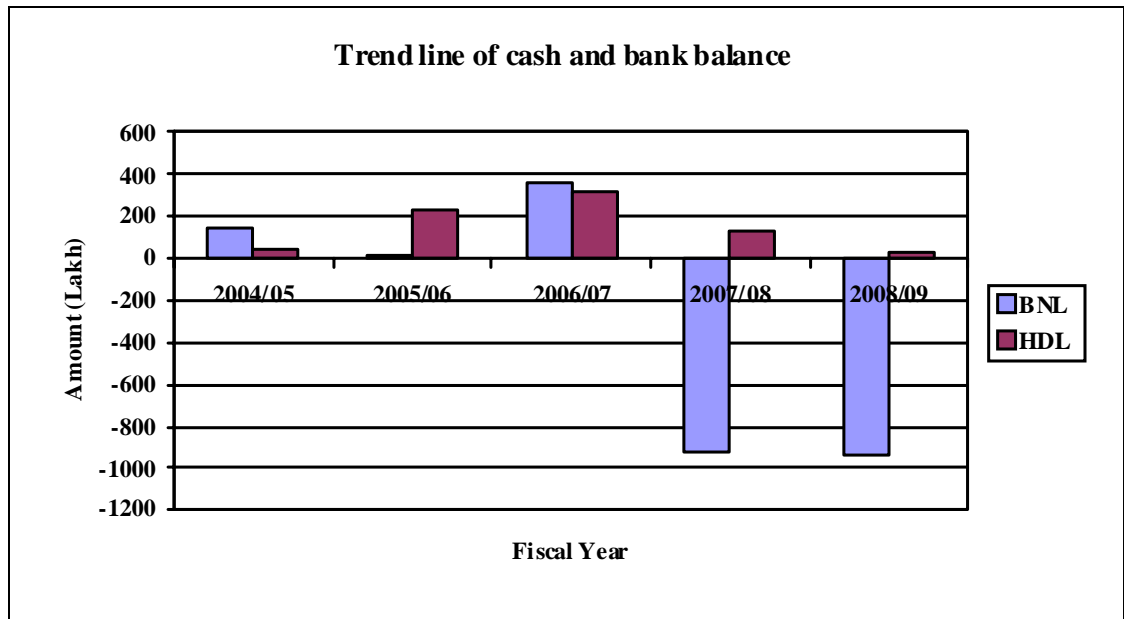
BNL				HDL			
F. Y.	Y	Y-Y	$(\bar{y} - \bar{y})^2$	F.Y.	Y	Y-Y	$(\bar{y} - \bar{y})^2$
2004/05	137.55	406.97	1,65,624.58	2004/05	46.08	(107.5)	11556.25
2005/06	19.18	288.60	83,289.96	2005/06	232.45	78.87	6220.48
2006/07	359.26	628.68	3,95,238.54	2006/07	321.40	167.82	28163.55
2007/08	(925.09)	(655.68)	4,29,903.15	2007/08	135.44	(18.14)	329.06
2008/09	(937.97)	(668.55)	4,46,959.10	2008/09	32.53	(121.05)	14653.11
Total	(1347.07)		15,21,015.3	Total	767.9		60922.45
Average	(269.42)		3,04,203.07	Average	153.58		12184.49
		SD	551.55			SD	110.38
		CV	(2.05)			CV	0.72

(Source: Annual reports of BNL and HDL and Appendix-10)

BNL held average Rs 269.42 lakh negative cash and bank balance during the study period. In the fly 2004/05 cash and bank balance of BNL were observed Rs 137.55 lakh that was decreased to Rs 19.18 lakh in fly 2005/06. In the fly 2006/07, it was sharply increased up to Rs 359.26 lakh. But in the fly year 2007/08 and 2008/09, negative cash and bank balance could be seen.

The average cash and bank balance held by HDL is 153.58. Cash holding of HDL is highest in the fiscal year 2006/07 i.e.321.40 and lowest in the fiscal year 2008/09 i.e. 32.53. HDL cash balance has been observed in a wide variation in different period of study poses high fluctuation on cash holding pattern. Cash and bank balance during the study period can be shown in graphical representation as follows:

Figure No. 4.1
Cash and Bank Balance of BNL and HDL



The strong position of cash balance of HDL has been observed in year 2006/07 and weak position has been observed in year 2008/09. Similarly, BNL has the strong position of cash balance has been observed in year 2006/07 and negative position in year 2007/08 and 2008/09. The company had taken facility to bank overdraft Rs 925.08 lakh in the fiscal year 2007/08. The company had increased its current assets in the fiscal year 2007/08. The company paid interest, gratuity and other operating expenses in the fiscal year 2007/08 and 2008/09. The company uses its fund in purchase of fixed assets addition to capital work in progress. The company had also paid its bank loan in the fiscal year 2007/08. In this way it can be said that the cash inflows is less than cash outflows so, the company's cash balance seems to be negative in last two years.

4.2 Cash and Sales

4.2.1 Analysis of Cash Turnover Ratio

The cash balance of the company should be optimum to meet its current obligation in course of daily business transaction. The cash turnover ratio explains how quickly cash is received from the sales. In other words it measures the speed with which cash move

through an enterprises operation. Higher ratio represents sound liquidity and vice-versa. However, too high ratio indicates excess cash balance being held idle.

Cash turnover ratio = Cash and Bank Balance / Sales

Table No. 4.2
Cash and Bank and Sales (Rs in Lakh)

BNL				HDL			
F. Y.	Cash	Sales	Ratio%	F. Y.	Cash	Sales	Ratio%
2004/05	137.55	6321.15	2.18	2004/05	46.08	2035.85	2.26
2005/06	19.18	6147.40	0.31	2005/06	232.45	3145.79	7.39
2006/07	359.26	6218.28	5.78	2006/07	321.40	4535.99	7.09
2007/08	(925.09)	6341.90	(14.59)	2007/08	135.44	5295.59	2.56
2008/09	(937.97)	7465.82	(12.56)	2008/09	32.53	6568.08	0.49
Total	ΣY = (1347.07)	32494.55	-	Total	ΣY =767.9	21581.3	-
Average	(269.42)	6498.91	(3.76)	Average	153.58		3.96

(Source annual report of BNL and HDL and appendix-10)

The table no 4.2 shows the BNL fluctuating cash turnover ratio. The highest ratio was recorded 5.78 times in the fiscal year 2006/07 and lowest ratio of (914.59) times were observed in the fiscal year 2007/08. The average ratio was (3.76) times negative. The company's cash turnover ratio is negative in last two years which shows that the cash collection policy of the company is not so much effective. The company's is not able to collect cash in time.

The table no 4.2 also shows the HDL has fluctuating cash turnover ratio. The highest ratio was recorded 7.39 times in the fiscal year 2005/06 and lowest ratio of 0.49 times were observed in the fiscal year 2008/09. The average ratio was 3.96 times.

As a fact the higher turnover ratio of cash indicates the sound liquidity position of the company and vice-versa, but too much ratio indicates the excess cash balance being held idle. The fluctuating of this ratio interprets that the cash management practices of the companies have not done by any definite policy and any planned approach.

4.2.2 Analysis of the Relation between Cash (y) and Sales (x)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination (r²)	P.E.	Remarks
BNL	(0.66)	High degree Negative Correlation	0.4356	0.17	In significant
HDL	0.07	Low degree Positive Correlation	0.005	0.30	In significant

(Source: Appendix - 10)

To analyze the relationship between cash (y) and sales (x), Karl Pearson's correlation coefficient has been observed to be (0.66) of BNL and 0.07 of HDL. Which, it indicates the high degree of negative relationship between cash and sales of BNL and low degree of Positive relationships between cash and sales of HDL. To make confirm, whether it is real or not selected companies, it is compared with probable error and $r < 6P.E.$ of BNL indicates that the correlation coefficient is not practically certain, i.e. the value of r is not significant. It is said that it is not sure that the increment of one may not increases in other. Similarly, correlation coefficient of HDL (r) less than 6P.E. indicates that the correlation coefficient between cash and sales is not practically certain. That is the value of is not significant.

4.3 Analysis of Cash to Total Assets Ratio

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

Cash to total assets ratio = Cash / Total Assets

Table No. 4.3
Cash to Total Assets Ratio (Rs in lakh)

BNL				HDL			
F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$	F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$
2004/05	0.0155	0.0357	0.00127449	2004/05	0.01006	(0.01974)	0.000389667
2005/06	0.00197	0.02217	0.00049151	2005/06	0.04752	0.01772	0.00313998
2006/07	0.0343	0.0545	0.00297025	2006/07	0.06104	0.03124	0.000975937
2007/08	(0.0739)	(0.0537)	0.00288369	2007/08	0.02481	(0.00499)	0.0000249
2008/09	(0.0788)	(0.0586)	0.00343396	2008/09	0.00562	(0.024184)	0.000584865
Total	-		0.0110539	Total	0.149046		0.005115349
Average	(0.0202)			Average	0.0298		
		S.D.	0.0526			S.D.	0.0358
		CV	(2.6039)			CV	1.2013

(Source Appendix-3)

Above table no 4.3 shows the cash to total assets ratio of selected manufacturing over the study period. The average investment in cash by BNL and HDL has been observed to be (0.0202) and 0.0298 respectively.

According to above table, cash to total assets ratio has been observed widely, in fluctuation trend in different study period. The ratio was highest for BNL is 0.0343 in the fiscal year 2006/07 and lowest (0.0739) in the fiscal year 2007/08. Similarly ratio of HDL was highest of 0.06104 in the fiscal year 2006/07 and lowest of 0.005616 in the fiscal year 2008/09.

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

4.3.1 Analysis of the Relation between Cash (x) and Total Assets (y)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination (r²)	P.E.	Remarks
BNL	(0.84)	Negative	0.7056	0.0888	In significant
HDL	0.10	Positive	0.01	0.2981	In significant

(Source: Appendix - 3)

To analyze the relationship between cash (y) and total assets (x), Karl Pearson's correlation coefficient has been observed to be (0.84) of BNL and 0.10 HDL. It indicates the high degree negative relationship between cash and total assets of BNL. Similarly positive relationship between cash and total assets of HDL To confirm, whether it is real or not, compared with probable error and $r < 6PE$ of BNL indicates that the correlation coefficient is not practically certain i.e. the value of r is not significant; it is said that it is not sure that increment of one may not increase in other. Similarly, correlation coefficient is not practically certain i.e. the value of r is not significant.

4.4 Analysis of Cash and Bank Balance to Current Assets Ratio

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

Table No. 4.4
Cash to Current Assets Ratio (Rs in lakh)

BNL				HDL			
F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$	F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$
2004/05	0.0307	0.08994	0.00809	2004/05	0.0366	(0.04786)	0.00229
2005/06	0.0035	0.06274	0.00394	2005/06	0.1381	0.05364	0.00288
2006/07	0.0824	0.14164	0.02006	2006/07	0.1473	0.06284	0.00395
2007/08	(0.197)	(0.13776)	0.01898	2007/08	0.0838	(0.00066)	0.000004
2008/09	(0.2158)	(0.15656)	0.02451	2008/09	0.0165	(0.06796)	0.004619
Total	0.2962)		0.07558	Total	0.4223		0.01374
Average	(0.05924)	S.D.	0.13746	Average	0.08446	S.D.	0.05861
		C.V.	(2.32)			C.V.	0.06939

(Source Appendix-4)

From the above table no 4.4 shows the cash to current assets of selected manufacturing companies over the study period. The average cash to current assets ratio has been observed in selected manufacturing companies in study period are (0.05924) percent and 0.08446 of BNL and UNL respectively.

The ratio varied widely over the study period. Ratio of BNL varies highest of 0.0824 percent in fiscal year 2006/07 and lowest (0.2158) negative in the fiscal year 2008/09. Similarly ratio of HDL varies highest of 0.1473 in the fiscal year 2006/07 to lowest 0.0165 in the fiscal year 2008/09.

The erratic fluctuation suggest that the companies haven't been following the definite policy regarding how much cash balance to hold at the end of fiscal year. However, HDL seems to more competent than of BNL on making payment of shorts term obligation, being the ratios greater.

4.4.1 Analysis of the Relation between Cash (x) and Current Assets (y)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination (r²)	P.E.	Remarks
BNL	(0.23)	Low degree Negative Correlation	0.0529	0.2852	In significant
HDL	0.55	Moderate degree Positive Correlation	0.3025	0.21	In significant

(Source: Appendix - 4)

The correlation coefficient between cash and current assets ' CA ' has been obtained to (0.23) and 0.55 Of BNL and HDL respectively. It shows the positive relation between cash and current assets in HDL and negative relationship in BNL. There is not significant relationship of cash and current assets of BNL and HDL, in other word there is no evidence that cash and CA are correlated i.e. $r < 6PE$, explain that it is not sure that increase in cash result to increase in current assets and vice- versa.

4.5 Analysis of Cash and Bank Balance to Current Liabilities Ratio

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

$$\text{Cash to Current Liabilities Ratio} = \text{Cash} \times 100 / \text{Current Liabilities}$$

Table No. 4.5
Cash to Current Liabilities (Rs in Lakh)

BNL				HDL			
F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$	F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$
2004/05	0.079	0.104	0.010816	2004/05	0.0121	(0.0403)	0.001624
2005/06	0.0084	0.0334	0.00116	2005/06	0.0717	0.0193	0.000372
2006/07	0.1304	0.1554	0.024149	2006/07	0.1042	0.0518	0.002683
2007/08	(0.1605)	(0.1355)	0.0183603	2007/08	0.0622	0.0098	0.000096
2008/09	(0.1845)	(0.1595)	0.025440	2008/09	0.0117	(0.0407)	0.001656
Total	(0.1272)		0.0798813	Total	0.2619		0.006431
Average	(0.025)	S.D.	0.14132	Average	0.0524	S.D.	0.04009
		C.V.	(5.6528)			C.V.	0.7651

(Source Appendix-5)

The above table no 4.5 shows the ratio between cash & bank balance and current liabilities. The average cash to current liabilities has been observed (0.025) of BNL and 0.0524 of HDL. The ratio of cash to current liabilities varied widely over the study period that ratio of BNL varies highest of 0.1304 in the fiscal year 2006/07 to lowest (0.1845) negative in the fiscal year 2008/09. Similarly ratio of HDL varies with highest 0.1042 in the fiscal year 2006/07 to lowest 0.0117 in the fiscal year 2008/09. Standard deviation shows ratio of HDL is less fluctuating in the comparison of BNL and coefficient of variance shows ratio of BNL is negative in comparison of HDL.

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

4.5.1 Analysis of the Relation between Cash (y) and Current Liabilities (x)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination (r^2)	P.E.	Remarks
BNL	(0.93)	Negative	0.8649	0.0407	In significant
HDL	(0.043)	Negative	0.001849	0.3	In significant

(Source: Appendix - 6)

Correlation coefficient between cash and current liabilities of BNL and HDL are (0.93) and (0.043) respectively. Here, negative relationship between cash (x) and current liabilities (Y) of both companies. But it is not significant result for BNL and HDL because the result was seen to be $r < 6PE$.

4.6 Analysis of Cash and Quick Assets Ratio

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

Table No. 4.6
Cash to Quick Assets (Rs in Lakh)

BNL				HDL			
F. Y.	Ratio (x)	$(x - \bar{x})$	$(x - \bar{x})^2$	F. Y.	Ratio (x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2004/05	0.05233	0.1433356	0.0205451	2004/05	0.05325	(0.06418)	0.0041191
2005/06	0.00625	0.097276	0.009463	2005/06	0.19430	0.07687	0.0059089
2006/07	0.13865	0.229676	0.0527511	2006/07	0.19423	0.0768	0.0058982
2007/08	(0.32986)	(0.238834)	0.0570417	2007/08	0.11892	0.00149	0.0000022
2008/09	(0.3225)	(0.231474)	0.0535802	2008/09	0.02646	(0.09097)	0.0082755
Total	(0.45513)		0.1933811	Total	0.58716		0.0242039
Average	(0.091026)	S.D.	0.219876	Average	0.11743	S.D.	0.077788
		C.V.	(2.4155)			C.V.	0.66242

(Source Appendix-6)

The above table no 4.6 shows cash to quick assets ratio of selected manufacturing companies over the study period. The average cash to quick assets ratio of selected

manufacturing companies BNL and HDL are (0.091026) and 0.11743. The ratio of cash to quick assets varied widely over the study period that ratio of BNL varies highest of 0.13865 percent in the fiscal year 2006/07 to the lowest (0.32986) percent in the fiscal year 2007/08. Similarly ratio of HDL varies with highest of 0.19430 percent in the fiscal year 2005/06 to lowest 0.02646 in the fiscal year 2008/09.

4.6.1 Analysis of the Relation between Cash (y) and Quick Assets (x)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination (r ²)	P.E.	Remarks
BNL	(0.40)	Low degree Negative Correlation	0.160	0.2529	In significant
HDL	0.52	Moderate degree Positive Correlation	0.2704	0.2197	In significant

(Source: Appendix - 6)

Correlation coefficient between cash and quick assets of BNL and HDL are (0.40) and 0.52 respectively. There is positive relationship between cash and quick assets of HDL and low degree negative relationship between cash and quick assets of BNL. But it is not significant result for BNL and HDL because the result was seen to be $r < 6PE$. So, it is explain increase in cash may not be increase quick assets of both companies and vice-versa.

4.7 Analysis of Cash and Net Profit

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

Table No 4.7
Cash to Net Profit Ratio (Rs in Lakh)

BNL				HDL			
Fiscal Year	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$	F. Y.	Ratio (×)	$(x - \bar{x})$	$(x - \bar{x})^2$
2004/05	0.3639	(0.1252)	0.0156750	2004/05	(0.1044)	0.4986	0.2486020
2005/06	0.0552	(0.4339)	0.1882692	2005/06	(1.0997)	(0.4967)	0.2467109
2006/07	1.4393	0.9502	0.9028800	2006/07	(2.3501)	(1.7471)	3.0523584
2007/08	3.3915	2.9024	8.4239258	2007/08	(0.5757)	0.0273	0.0007453
2008/09	(2.8044)	(3.2935)	10.847142	2008/09	1.1148	1.7178	2.9508368
Total	2.4455		20.377892	Total	(3.0151)		6.4992534
Average	0.4891	S.D.	2.2571	Average	(0.6030)	S.D.	1.2747
		C.V.	4.6148			C.V.	(2.1139)

(Source Appendix-7)

The above table no 4.7 shows cash to net profit ratio of selected manufacturing companies over the study period. The average cash to net profit of selected manufacturing companies over BNL and HDL are 0.4891 and (6030). The ratio of cash to net profit varied widely over the study period that ratio of BNL varies highest of 3.3915 percent in the fiscal year 2007/08 to the lowest (280.44) percent in fiscal in year 2008/09. Similarly ratio of HDL varies with highest of 1.1148 percent in the fiscal year 2008/09 to lowest 2.3501 in the fiscal year 2007/08.

4.7.1 Analysis of the Relation between Cash (y) and Sales (×)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination (r^2)	P.E.	Remarks
BNL	0.54	Positive	0.2916	0.2133	In significant
HDL	0.1	Positive	0.01	0.2981	In significant

(Source: Appendix - 7)

Correlation coefficient between cash and net profit of BNL and HDL are 0.54 and 0.1 respectively. There is positive relationship between cash and net profit of both companies. But it is not significant result for both companies because the result were seen to be $r < 6PE$. So, it is explain increase in cash may not be increase net profit of both companies and vice-versa.

4.8 Financial Ratios

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

- (a) In proportion
- (b) In rate or time or coefficient
- (c) In percentage

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

They are as follows:

- (i) Liquidity Ratios
- (ii) Leverage / Capital Structure Ratio
- (iii) Profitability Ratios

4.8.1 Liquidity Ratios

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

4.8.1.1 Current Ratio

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

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

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

Lower current ratio indicates insufficient liquid to meet current obligations in time when they become due.

Table No. 4.8

Current Ratio

(Rs in Lakh)

BNL				HDL			
Fiscal Year	Current Assets	Current Liabilities	Current Ratio	Fiscal Year	Current Assets	Current Liabilities	Current Ratio
2004/05	4478.31	1740.22	2.57	2004/05	1259.49	3818.29	0.33
2005/06	5531.58	2289.90	2.42	2005/06	1683.61	3242.83	0.52
2006/07	4360.43	2754.82	1.58	2006/07	2182.60	3084.32	0.71
2007/08	4697.03	5763.99	0.81	2007/08	1616.90	2178.55	0.74
2008/09	4345.59	5079.94	0.86	2008/09	1972.14	2776.84	0.71
Average	4682.588	3525.78	1.65	Average	1742.92	3020.17	0.60

(Source: Annual report of BNL and HDL and Appendix-12)

Above table no 4.8 shows the current ratio of selected manufacturing companies over the study period. The average current ratio during the study period has been studied 1.65 and 0.60 times respectively of BNL and HDL. There is very wide varies on the current ratio. However both companies are unable to meet the standard ratio of 2:1 current ratio. But, BNL perform best than that of HDL in terms of current ratio.

4.8.1.2 Quick Ratio

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

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

Higher the quick ratio, better the liquidity position is.

Table No. 4.9

Quick Ratio

(Rs in Lakh)

BNL				HDL			
Fiscal Year	Quick Assets	Current Liabilities	Quick Ratio	Fiscal Year	Quick Assets	Current Liabilities	Quick Ratio
2004/05	2628.51	1740.22	1.51	2004/05	865.25	3818.29	0.23
2005/06	3068.79	2289.90	1.34	2005/06	1196.37	3242.83	0.37
2006/07	2591.07	2754.82	0.94	2006/07	1654.73	3084.32	0.54
2007/08	2804.47	5763.99	0.49	2007/08	1138.9	2178.55	0.52
2008/09	2905.55	5079.94	0.57	2008/09	1229.63	2776.84	0.44
Average	2799.678	3525.78	0.97	Average	1216.98	3020.17	0.42

(Source: Annual report of BNL and HDL and Appendix-12)

Above table no 4.9 shows the quick ratio of selected companies over the study period. The average quick ratio of the companies during the study period has been observed 0.97 and 0.42 times respectively of BNL and HDL There is very wide varies on the Quick ratio. However both companies are unable to meet the standard ratio of 1:1 current ratio. But, BNL perform best than that of HDL in terms of Quick ratio.

4.8.2 Leverage Ratio

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

4.8.2.1 Debt - equity Ratio

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

$$\text{Debt - equity ratio} = \frac{\text{Long term debt}}{\text{Shareholder's Equity}} \text{ or}$$

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

Table No. 4.10

Debt - equity ratio

(Rs in Lakh)

BNL				HDL			
Fiscal Year	Total Debt	Shareholders Equity	DER (%)	Fiscal Year	Total Debt	Shareholders Equity	DER (%)
2004/05	1740.22	7271.54	0.24:1	2004/05	6363.37	3757.76	1.69:1
2005/06	2289.90	7618.89	0.30:1	2005/06	3242.83	3761.46	0.86:1
2006/07	3474.82	7045.68	0.49:1	2006/07	3084.32	3765.15	0.82:1
2007/08	5763.99	6759.14	0.85:1	2007/08	4320.63	3767.03	1.15:1
2008/09	7079.98	4821.77	1.47:1	2008/09	4603.51	3767.03	1.22:1
Total	20348.91	33517.02	-	Total	21614.66	18818.43	-
Average	4069.782	6703.404	0.67	Average	4322.93	3763.69	1.15

(Source: Annual report of BNL and HDL and Appendix-12)

Above table no 4.10 shows the debt equity ratio of selected companies over the study period. The average debt equity ratio of the companies during the study period has been observed 0.67 and 1.15 respectively of BNL and HDL. There is very wide varies on the debt equity ratio. BNL indicates less risk to debt holder but HDL shows that more of the funds invested in the business are provided by the owners.

4.8.2.2 Debt to Total Assets Ratio

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

Table No: 4.11
Debt to Total Assets Ratio (Rs in Lakh)

BNL				HDL			
Fiscal Year	Total Debt	Total Assets	D/A Ratio (%)	Fiscal Year	Total Debt	Total Assets	D/A Ratio (%)
2004/05	1740.22	8865.55	19.62	2004/05	6363.37	4582.08	138.88
2005/06	2289.90	9752.65	23.48	2005/06	3242.83	4891.65	66.29
2006/07	3474.82	10483.51	33.15	2006/07	3084.32	5265.45	58.58
2007/08	5763.99	12520.67	46.04	2007/08	4320.63	5458.35	79.16
2008/09	7079.98	11901.51	59.49	2008/09	4603.51	5792.06	79.48
Total	20348.91	53523.89	-	Total	21614.66	25989.59	-
Average	4069.782	10704.778	36.356	Average	4322.93	5197.92	83.17

(Source: Annual report of BNL and HDL and Appendix-12)

Above table no 4.11 shows the debt to total assets ratio of selected companies over the study period. The average debt to total assets ratio of the companies during the study period has been observed 36.36 and 83.17 respectively of BNL and HDL There is very

wide varies on the debt to total assets ratio. HDL indicates better solvency position than that of BNL in terms of debt to total assets ratio.

4.8.3. Activity Ratios

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

4.8.3.1 Inventory Turnover Ratio

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

4.8.3.2 Average Collection Period

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

$$ACP = \frac{Debtors \times 365}{Sales}$$

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

Table No: 4.12
Average Collection Period (Rs in Lakh)

BNL				HDL			
Fiscal Year	Sales	Receivables Debtors	ACP in days	Fiscal Year	Sales	Receivables Debtors	ACP in days
2004/05	6321.15	1241.78	71.70	2004/05	2035.85	294.35	52.77
2005/06	6147.40	1585.84	94.16	2005/06	3145.79	358.94	41.64
2006/07	6218.28	594.62	34.90	2006/07	4535.99	403.28	32.45
2007/08	6341.90	528.23	30.40	2007/08	5295.59	515.59	35.54
2008/09	7465.82	368.03	17.89	2008/09	6568.08	849.87	47.23
Average	6498.91	863.70	49.83	Average	4316.26	484.41	40.96

(Source: Annual report of BNL and HDL and Appendix-12)

The above table no 4.12 shows that the average collection period of BNL during the first two years of the study period was too high which indicated that BNL had not been collecting its credit sales. ACP was 71.70 and 94.16 days in the both fiscal years. But, during the year 2006/07, it drastically fell down to 34.90 days and again in 2008/09 it reached the lower point, i.e. 17.99. The average receivable is not so satisfactory. Similarly the average collection period of HDL has been observed 40.96 days. In the fiscal year 2004/05 is 52.77days, similarly 41.64 days, 32.45 days, 35.54 days and 47.23 days from fiscal year 2005/06 to 2008/09. The average collection period of HDL is satisfactory than that of BNL.

4.8.3.3 Fixed Assets Turnover Ratio

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

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

4.8.3.4 Total Assets Turnover Ratio

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

$$\text{FATR} = \frac{\text{Sales}}{\text{Total Assets}}$$

4.8.4 Profitability Ratio

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

4.8.4.1 Gross Profit Margin

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

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

4.8.4.2 Net Profit Margin

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

$$\text{NPM} = \frac{\text{Net profit after tax}}{\text{Net Sales}} \times 100$$

4.8.4.3 Return on Assets (ROA)

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

This ratio is computed by:

$$\text{ROA} = \frac{\text{Net profit before interest and taxes}}{\text{Total Assets}} \times 100$$

Table No: 4.13

Return on Assets Ratio

(Rs in Lakh)

BNL				HDL			
Fiscal Year	NPBIT	Total Assets	ROA (%)	Fiscal Year	NPBIT	Total Assets	ROA (%)
2004/05	1050.56	8865.55	11.85	2004/05	108.30	4582.08	2.36
2005/06	1013.54	9752.65	10.39	2005/06	319.84	4891.65	6.54
2006/07	989.88	10483.51	9.44	2006/07	437.03	5265.45	8.30
2007/08	419.72	12520.67	3.35	2007/08	317.14	5458.35	5.81
2008/09	492.28	116901.51	4.14	2008/09	565.71	5792.06	9.77
Average	793.196	10704.778	7.83	Average	349.61	5197.92	6.73

(Source: Annual report of BNL and HDL and Appendix-10 and 12)

From the above table no 4.13, BNL observed that the return on assets in the all fiscal years of the period was positive, i.e. 11.85%, 10.39%, 9.44%, 3.35% and 4.14%. This

indicates that the company was able to use available resources. The average return on assets was observed 7.83% which was considered as low return on the company's assets. Similarly HDL observed that the return on assets in the all fiscal years of the period was positive, i.e. 2.36%, 6.54%, 8.30%, 5.81% and 9.77%. The average return on assets was observed 7.83% which was considered as low return on the company's assets. The return on assets of HDL is lower than that of BNL.

4.9 Analysis of Cash Flow Statement

This statement of cash flow reflects the change in financial position from F/Y 2004/05 to 2008/09, classifying transactions into three categories: Operating, investing and financing activities. Bottlers Nepal Limited Prepares cash flow statement under indirect method that is most often used in annual reports. Under indirect approach, net profit or loss is adjusted for the effect of transaction of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows. The following table shows the cash flow statement of Bottlers Nepal Limited during the study period.

Table No: 4.14
Cash Flow Statement (BNL) (Rs in Lakh)

Fiscal Year Particular	2004/05	2005/06	2006/07	2007/08	2008/09
Cash flow from operating activities					
1. Profit/(loss) before taxation	450.09	438.76	309.62	(272.77)	302.72
Add :					
Depreciation	573.31	491.75	641.65	602.27	654.14
Amortization	60.41	66.01	5.03	5.32	10.30
Write offs	19.65	-	-	-	-
Interest expenses	0.036	2.65	13.28	88.75	207.89
Provision for Bonus & Staff quarter	70.19	69.27	48.89	-	51.33
Provision for Gratuity	-	-	-	70.22	-

Other non-cash exp.	34.84	-	25.44	39.89	-
Loss/(profit) on sale of fixed assets	-	-	-	(3.85)	100.70
2. Cash flows from operating before change in WC	1208.53	1068.46	1043.93	459.60	1397.34
Decrease/(Increase) in CA	245.05	(1173.57)	224.27	(631.99)	821.43
Increase/(Decrease) in CL	(993.11)	(472.01)	463.01	2058.20	859.33
Interest Paid	(0.036)	(2.65)	(13.29)	(88.14)	(149.64)
Payment for Gratuity	(3.98)	(0.399)	(18.99)	(4.38)	(29.10)
Payment for Bonus & SQ	(47.01)	(76.15)	(69.27)	(44.27)	-
Special fees paid	(6.32)	(5.56)	-	-	-
Taxes paid in respect of earlier years	(94.88)	-	-	(13.77)	(29.59)
Net Cash flows (A) from operating activities	308.23	282.14	1629.65	1735.25	1113.48
Cash flow from Investing Activities					
Sale/(Purchase) of FA/Inv.	(79.98)	(324.56)	(364.32)	(257.55)	(21.28)
Proceeds from sale of FA	-	-	-	-	4.99
Addition of FA	-	-	-	-	(14.18)
Addition of CWIP	-	-	(1761.07)	(2042.03)	(854.67)
Other (Capitalization)	-	-	114.10	-	-
Additional to Deferred Expenditure	(46.60)	(755.95)	-	-	-
Net cash flow from investing activities (B)	(126.58)	(400.51)	(2011.29)	(2299.58)	(885.14)
Cash flows from FA					
Borrowing/(repay) of bank loan	-	-	720	(720)	2000
Others	-	-	1.72	-	-
Dividend Paid	(97.44)	-	-	-	(2241.22)

Net cash flow from FA (C)	(97.44)	-	721.72	(720)	(241.22)
Net increase/(Decrease) in cash (A+B+C)	84.20	(118.37)	340.08	(1284.33)	(12.88)
Cash & cash eq.at the beg	53.34	137.55	19.17	359.25	(925.08)
Cash & cash eq. at the end	137.54	19.17	359.25	(925.08)	(937.96)

(Source: Annual Reports of BNL & Appendix - 13)

Cash Flow Statement (HDL)

(Rs in Lakh)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Particular					
Cash flow from operating activities					
1. Profit/(loss) before taxation	(441.42)	(211.38)	(136.76)	(235.27)	29.17
Add :					
Depreciation	216.27	220.43	223.32	227.37	237.28
Amortization	-	-	-	-	-
Write offs	78.52	65.41	123.79	50.63	40.06
Interest expenses	254.93	245.36	226.68	274.42	256.28
Provision for Bonus & Staff quarter	-	-	-	-	-
Provision for Gratuity	-	-	-	-	-
Other non-cash exp.	-	-	-	-	-
Loss/(profit) on sale of fixed assets	-	-	-	-	6.43
2. Cash flows from operating before change in WC	378.3	319.82	437.03	317.14	569.22
Decrease/(Increase) in CA	246.53	284.57	(324.57)	264.96	(458.16)
Increase/(Decrease) in CL	600.03	224.09	458.96	265.55	116.53
Interest Paid					
Payment for Gratuity					

Payment for Bonus & SQ					
Special fees paid					
Taxes paid in respect of earlier years					
Net Cash flows (A) from operating activities	711.09	806.19	571.42	869.94	741.36
Cash flow from Investing Activities					
Purchase of Fixed Assets	(345.69)	(324.59)	(274.51)	(241.43)	(254.43)
sale of Fixed Assets	-	-	-	-	32.68
Addition of FA	-	-	-	-	-
Addition of CWIP	-	-	-	-	-
Other (Capitalization of Deferred Expenditure)	(26.23)	(32.13)	(13.21)	(23.80)	(18.41)
Additional to Deferred Expenditure	-	-	-	-	-
Net cash flow from investing activities (B)	(371.91)	(356.72)	(287.72)	(265.23)	(240.56)
Cash flows from FA					
Borrowing/(repay) of bank loan	(180.25)	(187.46)	(95.86)	(398.36)	(318.33)
Interest Rate	(170.25)	(139.42)	(98.89)	(328.57)	(255.10)
Dividend Paid	-	-	-	-	-
Net cash flow from FA (C)	(350.50)	(326.88)	(194.75)	(726.93)	(573.43)
Net increase/(Decrease) in cash (A+B+C)	18.94	186.37	88.95	(185.96)	(102.91)
Cash & cash eq.at the beg.	27.14	46.08	232.45	321.40	135.44
Cash & cash eq. at the end	46.08	232.45	321.40	135.44	32.53

(Source: Annual Reports of BNL & Appendix - 13)

4.9.1 Analysis of Cash Flow from Operating Activities

Net cash flows from operating activities of BNL was Rs 308.23 Lakh in F/Y 2004/05, but in the fiscal year 2005/06, it has decreased to Rs 282.14 Lakh due to increase in current liabilities and decrease in current assets. In the fiscal year 2006/07, it has increased to Rs 1629.65 Lakh due to decrease in current assets and increase in current liabilities. In the fiscal year 2007/08, it has 1735.25 Lakh due to decrease in current assets and increase in current liabilities. In the current fiscal year, the cash flows from operating activities was Rs 1113.48 Lakh due to decrease in current assets and increase in current liabilities. Similarly net cash flows from operating activities of HDL was Rs 711.09 Lakh in F/Y 2004/05, but in the fiscal year 2005/06, it has increased 806.19 due to decrease in current liabilities and increase in current assets. In the fiscal year 2006/07, it has decreased to Rs 571.42 due to increase in current liabilities and decrease in current assets. In the fiscal year 2007/08, it has 869.94 Lakh due to decrease in current assets and increase in current liabilities. In the current fiscal year, the cash flows from operating activities was Rs 741.36 Lakh due to decrease in current assets and increase in current liabilities.

The above statement of cash flow shows that BNL and HDL had maintained the positive cash flows from operating activities. But CFOA was fluctuating during the study period. The CFOA of BNL decreased in F/Y 2005/06, drastically increased in F/Y 2006/07 and 2007/08 respectively. But in the F/Y 2008/09, it fell down to Rs 1113.48 Lakh due to the payment of current liabilities of the company. The CFOA of HDL decreased in fiscal year 2006/07, drastically increased in F/Y 2005/06 and 2007/08 respectively. But in the F/Y 2008/09, it fell down to Rs 741.36 Lakh due to the payment of current liabilities of the company. Overall performance of the both company was good which helped the creditors.

Both companies are positive correlation between sales revenue and CFOA. The higher sales revenue results in higher CFOA and vice-versa. The correlation co-efficient (r) between sales revenue (x) and CFOA (y) of BNL identified 0.13, this shows that the sales revenue and CFOA are positively less correlated. The reliability of r was tested by

calculating $6 \times P.E.$, Which was found to be 1.78. Since $r < 6 \times P.E.$, it was not significant which shows the calculated value of r was not reliable. Similarly The correlation coefficient (r) between sales revenue (x) and CFOA (y) of HDL identified 0.42, this shows that the sales revenue and CFOA are positive correlation. The reliability of r was tested by calculating $6 \times P.E.$, Which was found to be 1.43. Since $r < 6 \times P.E.$, it was not significant which shows the calculated value of r was not reliable (Appendix - 1).

4.9.2. Analysis of Cash Flows from Investing Activities

Cash flow from investing activities of BNL was observed negative in the following fiscal years, i.e. 2004/05, 2005/06, 2006/07, 20067/07 and 2008/09 that indicated more procurement of fixed assets and purchase of investments. There was small portion of cash inflows from sale of fixed assets. It was observed that the cash flows from investing activities were (Rs 126.58), (Rs 400.51), (Rs. 2011.29), (Rs 2299.58) and (Rs 885.14) Lakh during the study period. Similarly Cash flow from investing activities of BNL was observed negative in the following fiscal years, i.e. 2004/05, 2005/06, 2006/07, 20067/07 and 2008/09 that indicated more procurement of fixed assets and purchase of investments. There was small portion of cash inflows from sale of fixed assets. It was observed that the cash flows from investing activities were (371.91), (Rs 356.72), (287.72), (265.23) and (Rs 240.56) Lakh during the study period.

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

The correlation coefficient (r) between sales revenue (x) and cash flow from investing activities (y) of BNL was observed 0.11 which showed there was low degree of positive correlation between them. The value of r was tested by calculating the value of $6 \times P.E.$ which was found to be 1.79 and that indicated the value of r was not reliable because $r < 6 \times P.E.$ Similarly, the correlation coefficient (r) between sales revenue (x) and cash flow from investing activities (y) of HDL was observed 0.52 which showed there was

positive correlation between them. The value of r was tested by calculating the value of $6 \times P.E.$ which was found to be 1.32 and that indicated the value of r was not reliable because $r < 6 \times P.E.$ (Appendix - 2).

4.9.3 Analysis of Cash Flow from Financing Activities

Financing activities involve obtaining resource from owners and providing them with a return of, their investment, borrowing money and repaying amounts borrowed. It also includes incoming of cash by issues of share and debenture, issue of long term loan etc. Outgoing of cash is due to redemption of preference share and debenture, repayment of long term loan, payment of dividend, repayment of principal with interest etc. The cash flow statement of BNL showed that the company had borrowed Rs 720 Lakh in fiscal year 2006/07 and repaid this in the fiscal year 2007/08. BNL has borrowed loan Rs 2000 Lakh in the F/Y 2008/09. The company paid dividend Rs 97.44 Lakh in F/Y 2004/05 and Rs 2241.22 Lakh in F/Y 2008/09 respectively. The company had borrowed others loan Rs 1.72 Lakh in the fiscal year 2006/07. Similarly the cash flow statement of HDL showed that the company repaid loan in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09. Interest paid in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09.

The financing activities of BNL has been observed positive in the F/Y 2006/07, i.e. Rs 721.72 due to the inflows of secured and unsecured loans to the company, but it was negative i.e. (Rs 97.44 Lakh), (Rs 720 Lakh) and (Rs 241.22 Lakh) in the fiscal years 2004/05, 2007/08 and 2008/09 due to the payment of the loans and dividend. Similarly the financing activities of HDL has been observed negative i.e. (350.50), (326.88), (194.75), (726.93) and (573.43) in the F/Y 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09.

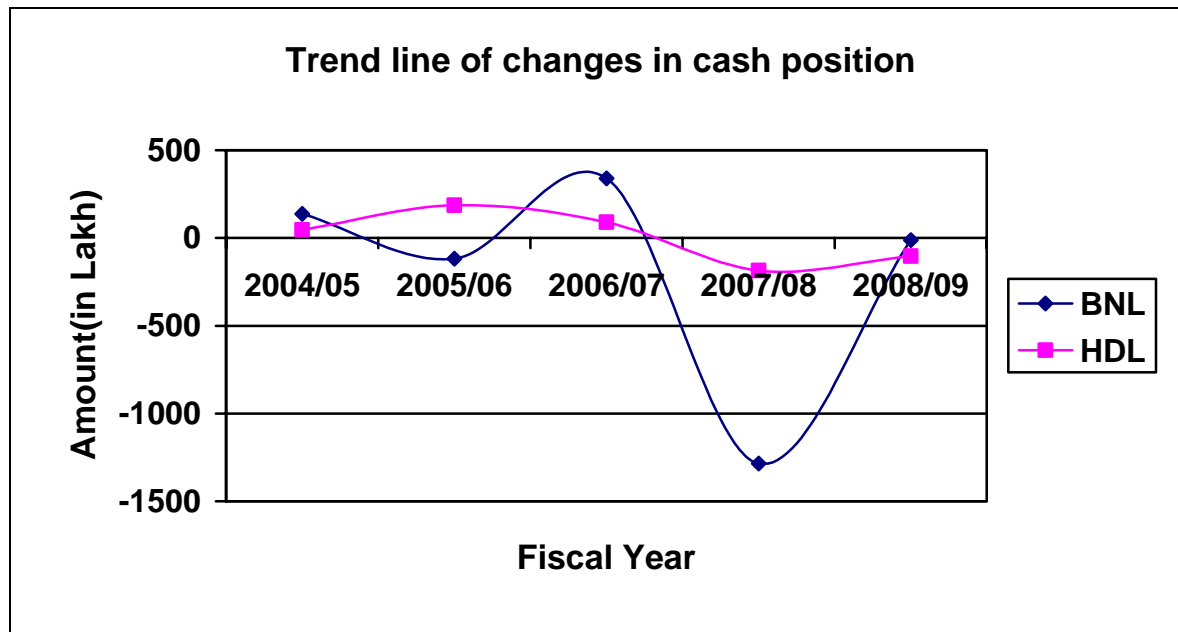
The correlation coefficient (r) between sales revenue (x) and CFFA (y) of BNL has been observed 0.027 which shows there was positive correlation between them. The value of r was tested by calculating the value of $6 \times P.E.$ which was 1.80 and indicated that the value of r was not reliable because $r < 6 \times P.E.$ The correlation coefficient (r)

between sales revenue (x) and CFFA (y) of HDL has been observed 0.049 which shows there was positive correlation between them. The value of r was tested by calculating the value of $6 \times P.E.$ which was 1.73 and indicated that the value of r was not reliable because $r < 6 \times P.E.$ (Appendix-4)

4.10 Cash Position Analysis

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

Figure No. 4.2



The above trend line shows the fluctuating change in cash position. In the first year of the study period, BNL was positive change in cash position, which signified the increasing trend. In the F.Y. 2005/06, the cash position of the company was decreased to (Rs 118.37). But in the fiscal year 2006/07 it has increased sharply to its highest point. Then, dramatically it feels down to the lowest point in the fiscal year 2007/08. It was due to the purchase of the fixed assets and payment of the loans by the company. Similarly, HDL was positive in the cash position, which signified the increasing trend. In the fiscal year 2005/06 and 2006/07, the cash position of the company was

increased to 186.37 and 88.97. But the fiscal year 2007/08 and 2008/09, the cash position of the company was decreased to (Rs 185.96) and (102.91).

The both companies should make policy to maintain consistent change in cash position. The trend line shows the unstable cash position of the both companies which are not so much satisfactory.

4.11 Analysis of Profit and Loss

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

Table No. 4.15
Profit and Loss (Rs in Lakh)

BNL		HDL	
Fiscal Year	Profit and Loss	Fiscal Year	Profit and Loss
2004/05	450.09	2004/05	(441.42)
2005/06	438.76	2005/06	(211.38)
2006/07	309.62	2006/07	(136.76)
2007/08	(272.78)	2007/08	(235.27)
2008/09	302.73	2008/09	29.18
Total	1228.47	Total	(992.73)
Average	245.69	Average	(198.55)

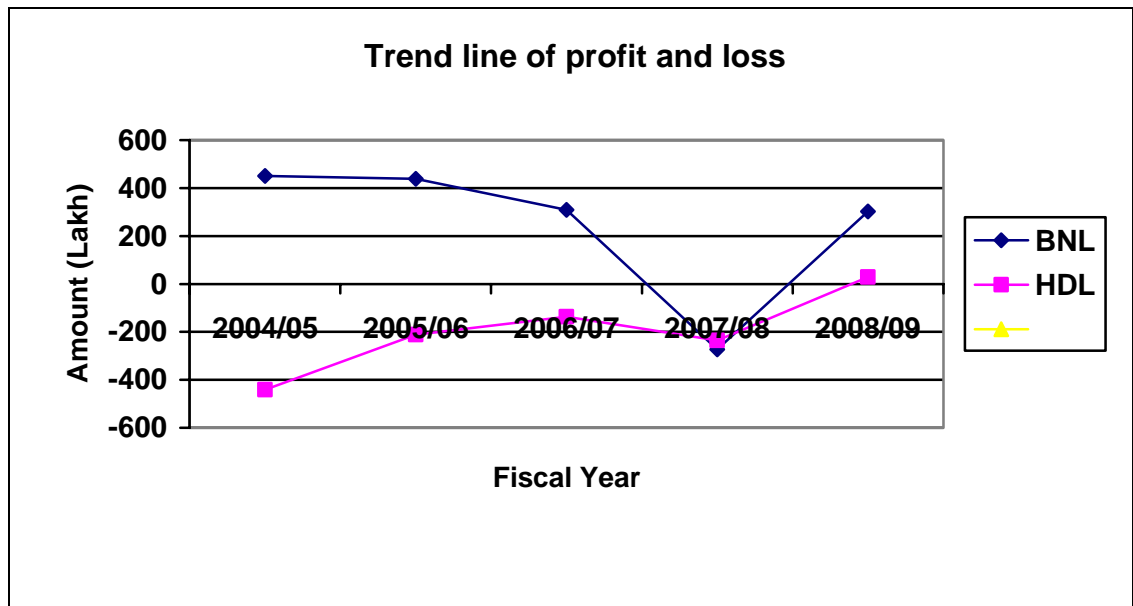
(Source: Annual Reports of BNL and HDL)

From the above table, it is observed that the net profit before tax Of BNL was positive in the first three years of the study period, i.e. Rs 450.09 Lakh, Rs. 438.76 Lakh, Rs 309.62 in F/Y 2004/05, 2005/06 and 2006/07 respectively. But after 2006/07, it was negative i.e. (Rs 272.78) and in the F/Y 2008/09 the company's showed positive profit. It was average Rs 245.69 during the study period.

In the fiscal year 2007/08 the net profit before tax was negative, i.e. (272.78).In this fiscal year, the company’s distribution and administrative expenses were excess in comparison with fiscal year 2006/07.It is better to control unnecessary expenses, then the company will be able to make maximum profit. Similarly, it is observed that the net profit before tax of HDL was negative in the first four year of the study period, i.e. Rs (441.42) Lakh, Rs (211.38) Lakh, Rs (136.76), Rs (235.27) in the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. But after 2008/09, it was positive Rs 29.18. It was average Rs (198.55) during the study period.

It can be shown with the help of graphical representation as follows

Figure 4.3



From the above trend line of P/L, it is obvious that BNL had incurred profit in the first three years of study period. The BNL had incurred loss in the fourth year of study period and in the last year the company obtained profit. Similarly, The HDL had incurred profit in the first four years of the study period. The HDL had incurred profit in the fifth years in the study period.

Generally, there is positive relationship between sales and profit & loss. It is assumed that when sale increases, then P/L also increases and vice-versa.

4.12 Major Findings of the Study

- Selected manufacturing companies don't have any definite policy regarding how much cash balance to hold in each period. Cash and bank balance held during different period of study were observed to be highly fluctuated and thus the fact indicates the firm to be lacking definite policy regarding how much of cash balance to hold during each period. The average cash balance held by BNL is (Rs 269.42) Lakh and HDL is Rs 153.58 Lakh.
- Cash turnover ratio: As a fact the higher cash turnover ratio of cash indicates the sound liquidity position of company and vice versa. Average cash turnover ratio of BNL and HDL are (3.776) and 3.96 respectively. However, the cash turnover ratio was found to be highly fluctuated. Correlation coefficient has been observed to 0.66 negative of BNL and 0.51 positive of HDL. It indicates the negative relationship between cash and sales of BNL and positive relationship of HDL. The company has not planned to hold cash specific proportion of sales volume in any year of study.
- Both companies have not been precisely meeting their current liabilities payment. The proportion of cash to current liabilities of BNL and HDL are 0.25 negative and 0.0524 positive. Cash and bank balance held compared to current liabilities indicates that for some year it was high whereas for some other years it was very low. This shows mismanagement of cash. However BNL (0.25) has shown sound liquidity.

- BNL has failed to maintain adequate proportion of cash on its current assets while HDL maintained cash to current assets. Relationship between cash to current assets of BNL is low positive and HDL is high degree positive relationship. Level of significant of BNL in terms of cash to current assets is not significant where as HDL has significant.
- BNL is unable to maintain adequate proportion of cash as its quick assets, i.e. (0.0191026) of BNL in an average. HDL is able to maintain adequate proportion of cash as its quick assets, i.e. 0.11743 of HDL in an average
- HDL seems to be able to maintain the adequate proportion of cash in total assets i.e. Average 0.0358 percentages. But BNL seems to be unable to maintain the adequate proportion of cash in total assets, i.e. Average (0.0202) percentage.
- Average collection period of BNL is 49.83 days and HDL is 40.96 days. So, the both companies neither in better position nor in the worst position.
- Liquidity position of BNL is satisfactory, i.e. CR is 1.65 and QR is 0.97 which is able to meet the standard 2:1 and 1:1. While liquidity position of HDL is not satisfactory i.e. CR is 0.60 and 0.42 which is not able to meet standard 2:1 and 1:1.
- Both companies are holding higher level of inventory which is considered to be unproductive and treated as idle assets that earn nothing.
- The cash flow from operating activities of BNL is positive and the company is able to meet the short term and long term obligations. The trend of cash flow from operating activities fluctuated and on an average it was Rs 1013.75 Lakh. The cash flow from operating activities of HDL is positive and the company is able to meet the short term and long term obligations. The trend of cash flow from operating activities fluctuated and on an average it was Rs 740 Lakh.
- Both companies had not adequate cash and bank balance to meet its short term and long term debts.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

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

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

5.2 Conclusion

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

Both Manufacturing companies are not holding optimum level of cash balance at the end of each year, which are indicated by unstable ending balance of cash of BNL and HDL. Shortage of cash puts obstructions in smooth operation of the business where as excessive cash than what are required contribute nothing to the profitability of the both companies, since idle cash earns nothing. So, the companies should follow the policy to purchase marketable securities at the time of excessive cash balance and sell them at the time of shortage of cash.

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

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

5.3 Recommendations

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

- Company should properly segment its internal as well as external markets and make accordingly sales plan for the future period.
- Company should take the advantage of new market by extending its market in various places. For this purpose, the company should introduce new

qualitative products according to the demand of existing and potential customers and also make research and development programs effectively.

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

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Appendix - 1

Correlation of CFOA & Sales Revenue of BNL

Fiscal Year	Sales (X)	CFOA(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	6321.15	308.23	(177.76)	(705.53)	31598.62	497772.58	125415.02
2005/06	6147.40	282.15	(351.51)	(731.61)	123559.28	535253.20	257168.24
2006/07	6218.28	1629.66	(280.63)	615.90	78753.20	379332.81	(172840.02)
2007/08	6341.90	1735.25	(157.01)	721.49	24652.14	520547.82	(113281.15)
2008/09	7465.82	1113.48	966.91	99.72	934914.95	9944.08	96420.27
n = 5	$\Sigma X=32494.55$	$\Sigma Y=5068.77$	-	-	$\Sigma x^2=1193478.19$	$\Sigma y^2=1942850.49$	$\Sigma xy=192882.36$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = \frac{32494.55}{5} = 6498.91$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{5068.77}{5} = 1013.76$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{192882.36}{\sqrt{1193478.19} \sqrt{1942850.49}}$$

$$= 0.13$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.0169}{\sqrt{5}} = 0.2965$$

Therefore, P.E. = 0.24 i.e. 6.P.E. = 1.78

Correlation of CFOA & Sales Revenue of HDL

Fiscal Year	Sales (X)	CFOA(Y)	x=(X-X̄)	y=(Y-Ȳ)	x ²	y ²	xy
2004/05	2035.85	655.03	(2280.41)	(89.62)	5200269.77	8031.74	204370.34
2005/06	3145.79	625.15	(1170.47)	(119.5)	1370000.02	14280.25	139871.17
2006/07	4535.99	925.66	219.73	181.01	48281.27	32764.62	39773.33
2007/08	5295.59	806.18	979.33	61.53	959087.25	3785.94	60258.17
2008/09	6568.08	711.09	2251.82	(33.56)	5070693.31	1126.27	(75571.08)
n = 5	ΣX=21581.3	ΣY=3723.11	-	-	Σx ² =12648331.62	Σy ² =59988.82	Σxy=368701.93

As we know,

$$\bar{X} = \frac{\sum x}{n} = 4316.26$$

$$\bar{Y} = \frac{\sum y}{n} = 744.65$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= 0.42$$

$$r^2 = (0.42)^2 = 0.1764$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times 0.2378 = 0.2378$$

Therefore, P.E. = 0.2378 i.e. 6.P.E. = 1.4268

Appendix - 2

Correlation of CFOA & Sales Revenue of BNL

Fiscal Year	Sales (X)	CFIA(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	6321.15	(126.59)	(177.76)	1018.04	31598.62	1036405.45	(180966.79)
2005/06	6147.40	(400.52)	(351.51)	744.11	123559.28	553699.70	(261562.11)
2006/07	6218.28	(2011.30)	(280.63)	(866.67)	78753.20	75116.89	243213.61
2007/08	6341.90	(2299.59)	(157.01)	(1154.96)	24652.14	1333932.61	181340.27
2008/09	7465.82	(885.14)	966.91	259.49	934914.95	67335.06	250903.48
n = 5	$\Sigma X=32494.55$	$\Sigma Y=(5723.14)$	-	-	$\Sigma x^2=1193478.19$	$\Sigma y^2=3742489.71$	$\Sigma xy=232928.46$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = \frac{32494.55}{5} = 6498.91$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{5723.14}{5} = (1144.63)$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{0.11}{\sqrt{1-r^2}}$$

$$\begin{aligned} \text{P.E.} &= 0.6745 \times \frac{1-r^2}{\sqrt{n}} \\ &= \frac{0.6745 \times 0.9879}{\sqrt{5}} \\ &= 0.2979 \end{aligned}$$

Therefore, P.E. = 0.2979

Correlation of CFOA & Sales Revenue of HDL

Fiscal Year	Sales (X)	CFIA(Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy
2004/05	2035.85	(370.55)	(2280.41)	1018.04	5200269.77	7411.49	196320.50
2005/06	3145.79	(220.52)	(1170.47)	744.11	1370000.02	4088.32	(74839.85)
2006/07	4535.99	(325.45)	219.73	(866.67)	48281.27	1680.18	(9006.73)
2007/08	5295.59	(265.23)	979.33	(1154.96)	959087.25	369.79	18832.52
2008/09	6568.08	(240.57)	2251.82	259.49	5070693.31	1926.33	98832.38
n = 5	$\Sigma X=21581.3$	$\Sigma Y=(1422.32)$	-	-	$\Sigma x^2=12648331.62$	$\Sigma y^2=15476.11$	$\Sigma xy=230138.82$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = 4316.26$$

$$\bar{Y} = \frac{\Sigma y}{n} = (284.46)$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}} = 0.52$$

$$r^2 = (0.52)^2 = 0.2704$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.22$$

Therefore, P.E. = 0.2979

i.e. 6.P.E. = 1.32

Appendix - 3

Correlation between cash and Total Assets of BNL

Fiscal Year	Cash (X)	Total Assets(Y)	$x=(\bar{X}-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy	Ratio
2004/05	137.55	8865.55	406.97	-1839.23	165624.58	3382766.99	(748511.44)	0.01552
2005/06	19.18	9752.65	288.60	-952.13	83289.96	906551.54	(274784.72)	0.00197
2006/07	359.26	10483.51	628.68	-221.27	395238.54	48960.41	(139108.02)	0.0343
2007/08	(925.09)	12520.67	(655.67)	1815.89	429903.15	3297456.50	(1190624.59)	(0.0739)
2008/09	(937.97)	11901.51	(668.55)	1196.73	446959.10	1432162.69	(800073.85)	0.0788
n = 5	$\Sigma X=(1347.07)$	$\Sigma Y=53,523.89$			15,21,015.33	9067898.13	(3153102.62)	-

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = (269.42)$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{53523.89}{5} = 10704.78$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= \frac{(31,53,102.62)}{\sqrt{1521015.33} \sqrt{9067898.13}}$$

$$= (0.84)$$

$$r^2 = (0.84)^2 = 0.7056 \qquad \text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.7056}{\sqrt{5}} = 0.0888$$

$$6 \times \text{P.E.} = 6 \times 0.0888 = 0.5328$$

Correlation between cash and Total Assets of HDL

Fiscal Year	Cash (X)	Total Assets(Y)	x=(X-\bar{X})	y=(Y-\bar{Y})	x²	y²	xy	Ratio
2004/05	46.08	4582.08	(107.5)	(615.838)	11556.25	379256.422	66170.33	0.01006
2005/06	232.45	4891.65	78.87	(306.268)	6220.48	93800.09	(24155.36)	0.04752
2006/07	321.40	5265.45	167.82	67.532	28163.55	4560.06	11333.22	0.06104
2007/08	135.44	5458.35	(18.14)	260.432	329.06	67824.83	(4724.24)	0.02481
2008/09	32.53	5792.06	(121.05)	594.142	14653.11	353004.72	(71920.89)	0.00562
n = 5	$\Sigma X=767.9$	$\Sigma y=25989.55$	-	-	$\Sigma X^2=60922.45$	$\Sigma y^2=898446.13$	$\Sigma XY=(23296.93)$	-

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = 153.58$$

$$\bar{Y} = \frac{\Sigma y}{n} = 5197.92$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}} = 0.10$$

$$r^2 = 0.10^2 = 0.01$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times 0.4420 = 0.2981$$

$$6 \times \text{P.E.} = 6 \times 0.2981 = 1.788$$

Appendix - 4

Correlation between cash and Current Assets of BNL

Fiscal Year	Cash (X)	Current Assets(Y)	$x=(\bar{X}-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy	Ratio
2004/05	137.55	4478.31	406.97	(204.28)	165624.58	41730.32	(83135.83)	0.0307
2005/06	19.18	5531.58	288.60	848.99	83289.96	720784.02	245018.51	0.0035
2006/07	359.26	4360.43	628.68	(322.16)	395238.54	103787.07	(202535.55)	0.0824
2007/08	(925.09)	4697.03	(655.67)	14.44	429903.15	208.51	(9467.87)	(0.197)
2008/09	(937.97)	4345.59	(668.55)	(337)	446959.10	113569	(225301.35)	(0.2158)
n = 5	$\Sigma X=(1347.07)$	23412.94	-	-	15,21,015.33	980078.92	(275422.09)	(0.2962)

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = (269.42)$$

$$\bar{Y} = \frac{\Sigma y}{n} = 4682.59$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= (0.23)$$

$$r^2 = (0.23)^2 = 0.0529$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.2852$$

$$6 \times \text{P.E.} = 6 \times 0.2852 = 1.711$$

Correlation between cash and Current Assets of HDL

Fiscal Year	Cash (X)	Current Assets(Y)	x=(X-\bar{X})	y=(Y-\bar{Y})	x²	y²	xy	Ratio
2004/05	46.08	1259.49	(107.5)	(483.46)	11556.25	233733.57	51971.95	0.0366
2005/06	232.45	1683.61	78.87	(59.34)	6220.48	3521.24	(4680.15)	0.1381
2006/07	321.40	2182.60	167.82	439.65	28163.55	193292.12	73782.06	0.1473
2007/08	135.44	1616.90	(18.14)	(126.05)	329.06	15888.6	2286.55	0.0838
2008/09	32.53	1972.14	(121.05)	229.19	14653.11	52528.06	(27743.45)	0.0165
n = 5	767.9	8714.74	-	-	60922.45	498963.59	95616.96	0.4223

As we know,

$$\bar{X} = \frac{\sum x}{n} = 153.58$$

$$\bar{Y} = \frac{\sum y}{n} = 1742.95$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= 0.55$$

$$r^2 = 0.55^2 = 0.3025$$

$$6 \times \text{P.E.} = 6 \times 0.21 = 1.26$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.21$$

Appendix - 5

Correlation between cash and Current Liabilities of BNL

Fiscal Year	Cash (X)	Current Liabilities(Y)	$x=(\bar{X}-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy	Ratio
2004/05	137.55	1740.22	406.97	(1785.56)	165624.58	3188224.52	(726669.35)	0.079
2005/06	19.18	2289.90	288.60	(1235.88)	83289.96	1527399.37	(356674.97)	0.0084
2006/07	359.26	2754.82	628.68	(770.96)	395238.54	594379.32	(484687.13)	0.1304
2007/08	(925.09)	5763.99	(655.67)	2238.21	429903.15	5009584.01	(1467527.15)	(0.1605)
2008/09	(937.97)	5079.97	(668.55)	1554.19	446959.10	2415506.56	(1039053.73)	(0.1845)
n = 5	$\sum X=(1347.07)$	17628.90	-	-	15,21,015.33	12735093.78	(4074612.33)	(0.1272)

As we know,

$$\bar{X} = \frac{\sum x}{n} = (269.42)$$

$$\bar{Y} = \frac{\sum y}{n} = 3525.78$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= (0.93)$$

$$r^2 = (0.93)^2 = 0.8649$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.0407$$

$$6 \times \text{P.E.} = 6 \times 0.0407 = 0.244$$

Correlation between cash and Current Liabilities of HDL

Fiscal Year	Cash (X)	Current Liabilities(Y)	x=(X-\bar{X})	y=(Y-\bar{Y})	x²	y²	xy	Ratio
2004/05	46.08	3818.29	(107.5)	798.12	11556.25	637001.92	(85797.9)	0.0121
2005/06	232.45	3242.83	78.87	222.66	6220.48	49577.48	17561.19	0.0717
2006/07	321.40	3084.32	167.82	64.15	28163.55	4115.22	10765.65	0.1042
2007/08	135.44	2178.55	(18.14)	(841.62)	329.06	708324.22	15266.99	0.0622
2008/09	32.53	2776.84	(121.05)	(243.33)	14653.11	59209.49	29455.10	0.0117
n = 5	767.9	15100.83	-	-	60922.45	1458228.33	(12749.43)	0.2619

As we know,

$$\bar{X} = \frac{\sum x}{n} = 153.58$$

$$\bar{Y} = \frac{\sum y}{n} = 3020.17$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= (0.043)$$

$$r^2 = (0.043)^2 = 0.001849$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.3$$

$$6 \times \text{P.E.} = 6 \times 0.3 = 1.8$$

Appendix - 6

Correlation between cash and Quick Assets of BNL

Fiscal Year	Cash (X)	Quick Assets(Y)	$x=(\bar{X}-X)$	$y=(Y-\bar{Y})$	x^2	y^2	xy	Ratio
2004/05	137.55	2628.51	406.97	(171.17)	165624.58	29298.48	(69661.05)	0.05233
2005/06	19.18	3068.79	288.60	269.11	83289.96	72420.19	77665.15	0.00625
2006/07	359.26	2591.07	628.68	(208.61)	395238.54	43518.13	(131148.93)	0.13865
2007/08	(925.09)	2804.47	(655.67)	4.79	429903.15	22.94	(3140.66)	(0.32986)
2008/09	(937.97)	2905.55	(668.55)	105.87	446959.10	11208.46	(70779.39)	(0.3225)
n = 5	$\Sigma X=(1347.07)$	13998.39	-	-	15,21,015.33	156468.2	(197064.88)	(0.45513)

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = (269.42)$$

$$\bar{Y} = \frac{\Sigma y}{n} = 2799.68$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= (0.40)$$

$$r^2 = (0.40)^2 = 0.160$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.2529$$

$$6 \times \text{P.E.} = 6 \times 0.2529 = 1.52$$

Correlation between cash and Quick Assets of HDL

Fiscal Year	Cash (X)	Quick Assets (Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy	Ratio
2004/05	46.08	865.25	(107.5)	(351.73)	11556.25	123713.99	37810.98	0.05325
2005/06	232.45	1196.37	78.87	(20.61)	6220.48	424.77	(1625.51)	0.19430
2006/07	321.40	1654.73	167.82	437.75	28163.55	191625.06	73463.21	0.19423
2007/08	135.44	1138.9	(18.14)	(78.08)	329.06	6096.49	1416.37	0.11892
2008/09	32.53	1229.63	(121.05)	12.65	14653.11	160.02	(1531.28)	0.02646
n = 5	767.9	6084.88	-	-	60922.45	322020.33	73348.3	0.58716

As we know,

$$\bar{X} = \frac{\sum x}{n} = 153.58$$

$$\bar{Y} = \frac{\sum y}{n} = 1216.98$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= 0.52$$

$$r^2 = 0.52^2 = 0.2704$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.2197$$

$$6 \times \text{P.E.} = 6 \times 0.2197 = 1.32$$

Appendix - 7

Correlation between cash and Net Profit of BNL

Fiscal Year	Cash (X)	Net Profit(Y)	x=(\bar{X}-X)	y=(Y-\bar{Y})	x²	y²	xy	Ratio
2004/05	137.55	378.01	406.97	170.74	165624.58	29152.15	69486.06	0.3639
2005/06	19.18	347.35	288.60	140.08	83289.96	19622.41	40427.09	0.0552
2006/07	359.26	249.61	628.68	41.19	395238.54	1756.45	25895.33	1.4393
2007/08	(925.09)	(272.77)	(655.67)	(480.04)	429903.15	230438.40	314747.83	3.3915
2008/09	(937.97)	334.15	(668.55)	126.88	446959.10	16098.53	(84825.62)	(2.8044)
n = 5	$\Sigma X=(1347.07)$	1036.35	-	-	15,21,015.33	297067.94	365727.69	2.4455

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = (269.42)$$

$$\bar{Y} = \frac{\Sigma y}{n} = 207.27$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= 0.54$$

$$r^2 = 0.54^2 = 0.2916$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.2133$$

$$6 \times \text{P.E.} = 6 \times 0.2133 = 1.28$$

Correlation between cash and Net Profit of HDL

Fiscal Year	Cash (X)	Net Profit (Y)	x=(X-\bar{X})	y=(Y-\bar{Y})	x²	y²	xy	Ratio
2004/05	46.08	(441.42)	(107.5)	(242.29)	11556.25	58704.44	26046.18	(0.1044)
2005/06	232.45	(211.38)	78.87	(12.25)	6220.48	150.06	(966.16)	(1.0997)
2006/07	321.40	(136.76)	167.82	62.37	28163.55	3890.02	10466.93	(2.3501)
2007/08	135.44	(235.27)	(18.14)	(36.14)	329.06	1306.10	655.58	(0.5757)
2008/09	32.53	29.18	(121.05)	228.31	14653.11	52125.46	(27636.93)	1.1148
n = 5	767.9	(995.65)	-	-	60922.45	116176.08	8565.6	(3.0151)

As we know,

$$\bar{X} = \frac{\sum x}{n} = 153.58$$

$$\bar{Y} = \frac{\sum y}{n} = (199.13)$$

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= 0.1$$

$$r^2 = 0.1^2 = 0.01$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.2981$$

$$6 \times \text{P.E.} = 6 \times 0.2981 = 1.79$$

Appendix - 8
Correlation of CFFA & Sales Revenue of BNL

Fiscal Year	Sales (X)	CFFA(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	6321.15	(97.45)	(177.76)	(30.06)	31598.62	9496.51	5343.47
2005/06	6147.40	-	(351.51)	67.39	123559.28	4541.42	(23688.26)
2006/07	6218.28	721.72	(280.63)	789.11	78753.20	622694.60	(221447.94)
2007/08	6341.90	(720)	(157.01)	(652.61)	24652.14	425899.82	102466.30
2008/09	7465.82	(241.22)	966.91	(173.83)	934914.95	30216.87	168077.97
n = 5	$\Sigma X=32494.55$	$\Sigma Y=(336.95)$	-	-	$\Sigma x^2=1193478.19$	$\Sigma y^2=1092849.22$	$\Sigma xy=30751.54$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = 6498.91$$

$$\bar{Y} = \frac{\Sigma y}{n} = (67.39)$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= 0.027$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1-0.000729}{\sqrt{5}}$$

$$= 0.3014$$

Therefore, P.E. = 0.3014

Correlation of CFFA & Sales Revenue of HDL

Fiscal Year	Sales (X)	CFFA(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	2035.85	(525.58)	(2280.41)	(445.50)	5200269.77	198470.25	1015922.66
2005/06	3145.79	(495.59)	(1170.47)	(415.51)	1370000.02	172648.56	486341.99
2006/07	4535.99	415.25	219.73	495.33	48281.27	245351.81	108838.86
2007/08	5295.59	(412.24)	979.33	(332.16)	959087.25	110330.27	(325294.25)
2008/09	6568.08	(573.43)	2251.82	(493.35)	5070693.31	243394.22	(1110935.4)
n = 5	$\Sigma X=21581.3$	$\Sigma Y=(400.41)$	-	-	$\Sigma x^2=12648331.62$	$\Sigma y^2=970195.11$	$\Sigma xy=174873.86$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = 4316.26$$

$$\bar{Y} = \frac{\Sigma y}{n} = (80.08)$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}} = 0.049$$

$$r^2 = (0.049)^2 = 0.0024$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times 0.4271 = 0.29$$

$$6 \times \text{P.E.} = 6 \times 0.29 = 1.728$$

Appendix - 9

Correlation of Sales & Profit and Loss of BNL

Fiscal Year	Sales (X)	P&L(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	6321.15	450.09	(177.76)	204.39	31598.62	41775.28	(36332.37)
2005/06	6147.40	438.76	(351.51)	193.06	123559.28	37272.17	(67862.52)
2006/07	6218.28	309.62	(280.63)	63.92	78753.20	4085.77	(17937.87)
2007/08	6341.90	(272.78)	(157.01)	(518.48)	24652.14	268821.51	81406.55
2008/09	7465.82	302.73	966.91	57.03	934914.95	3252.42	55142.88
n = 5	$\Sigma X=32494.55$	$\Sigma Y=1228.47$	-	-	$\Sigma x^2=1193478.19$	$\Sigma y^2=355207.15$	$\Sigma xy=14416.67$

As we know

$$\bar{X} = \frac{\Sigma x}{n} = 6498.91$$

$$\bar{Y} = \frac{\Sigma y}{n} = 245.70$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}}$$

$$= 0.022$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.3015$$

Therefore, P.E. = 0.3015

Correlation of Sales & Profit and Loss of HDL

Fiscal Year	Sales (X)	P&L(Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy
2004/05	2035.85	(441.42)	(2280.41)	(242.87)	5200269.77	58985.84	553843.18
2005/06	3145.79	(211.38)	(1170.47)	(12.83)	1370000.02	164.61	15017.13
2006/07	4535.99	(136.76)	219.73	64.79	48281.27	48281.27	14236.31
2007/08	5295.59	(235.27)	979.33	(36.72)	959087.25	1348.36	(35960.99)
2008/09	6568.08	29.18	2251.82	227.73	5070693.31	51860.95	512806.97
n = 5	$\Sigma X=21581.3$	$\Sigma Y=(992.73)$	-	-	$\Sigma x^2=12648331.62$	$\Sigma y^2=160641.03$	$\Sigma xy=1059942.6$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = 4316.26$$

$$\bar{Y} = \frac{\Sigma y}{n} = (198.55)$$

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}} = 0.7435$$

$$r^2 = (0.7435)^2 = 0.5529$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.1346$$

Therefore, P.E. = 0.1346

$$6 \times \text{P.E.} = 6 \times 0.1346 = 0.8076$$

Appendix - 10

Correlation of Sales Revenue and Cash & Bank Balance of BNL

Fiscal Year	Sales (X)	Cash & Bank(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	6321.15	137.55	(177.76)	406.97	31598.62	165624.58	(73342.99)
2005/06	6147.40	19.18	(351.51)	288.60	123559.28	83289.96	(101445.79)
2006/07	6218.28	359.26	(280.63)	628.68	78753.20	395238.55	(176426.47)
2007/08	6341.90	(925.09)	(157.01)	(655.67)	24652.14	429903.15	102946.75
2008/09	7465.82	(937.97)	966.91	(668.55)	934914.95	446959.10	(646427.68)
n = 5	$\Sigma X=32494.55$	$\Sigma Y=(1347.07)$	-	-	$\Sigma x^2=1193478.19$	$\Sigma y^2=1521015.33$	$\Sigma xy=(894696.18)$

As we know,

$$\bar{X} = \frac{\Sigma x}{n}$$

$$\bar{Y} = \frac{\Sigma y}{n}$$

$$\text{Correlation Co-efficient (r)} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}} = \frac{(894696.18)}{\sqrt{1193478.19} \sqrt{1521015.33}} = (0.66)$$

$$\text{Co-efficient of determination (r}^2\text{)} = (0.66)^2 = 0.4356$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.4356}{\sqrt{5}} = 0.6745 \times 0.2524 = 0.17$$

Therefore, P.E. = 0.17

$$6 \times \text{P.E.} = 6 \times 0.17 = 1.02$$

Correlation of Sales Revenue and Cash & Bank Balance of HDL

Fiscal Year	Sales (X)	Cash & Bank(Y)	x=(X- \bar{X})	y=(Y- \bar{Y})	x ²	y ²	xy
2004/05	2035.85	46.08	(2280.41)	(107.5)	5200269.77	11556.25	245144.08
2005/06	3145.79	232.45	(1170.47)	78.87	1370000.02	6220.48	(92314.97)
2006/07	4535.99	321.40	219.73	167.82	48281.27	28163.55	36875.09
2007/08	5295.59	135.44	979.33	(18.14)	959087.25	329.06	(17765.05)
2008/09	6568.08	32.53	2251.82	121.05	5070693.31	14653.11	272582.81
n = 5	$\Sigma X=21581.3$	$\Sigma Y=767.9$	-	-	$\Sigma x^2=12648331.62$	$\Sigma y^2=60922.45$	$\Sigma xy=444521.96$

As we know,

$$\bar{X} = \frac{\Sigma x}{n} = 4316.26$$

$$\bar{Y} = \frac{\Sigma y}{n} = 153.58$$

$$\text{Correlation Co-efficient (r)} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \sqrt{\Sigma y^2}} = 0.51$$

$$\text{Co-efficient of determination (r}^2\text{)} = (0.51)^2 = 0.2601$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times 0.3309 = 0.22$$

$$\text{Therefore, P.E.} = 0.22 \quad 6 \times \text{P.E.} = 6 \times 0.22 = 1.32$$

Appendix - 11
Income Statement of Bottlers Nepal Limited for the five years

Fiscal Year	2008/09	2007/08	2006/07	2005/06	2004/05
Particulars					
Net Sales	746581607	634189582.81	621827381.14	614739440.05	632114113.07
Cost of Sales	455134051	389258445.10	351080038.62	375349931.34	358376805.07
Gross Profit	291447556	244931137.71	270747342.52	257389508.71	273737308
Other income	1317254	1092417.13	859030.73	1161381.99	89737.48
Business expenses					
Distribution expenses	25972087	21178947.35	16954763.06	19735971.32	24199363.30
Administrative expenses	217564636	182872778.35	155663785.39	137461055.81	144571422.15
Profit from Operation	49228087	41971829.14	98987824.80	101353863.57	105056260.03
Interest	20789989	8875722.15	1328930.84	265317.04	3590.84
Depreciation	65414572	60227418.11	64165898.83	49175556.61	57330469.11
Amortization	1030864	531622	503470	6601640.99	6040966.63
Dividend from Bottlers Nepal (Terai) Ltd, a subsidiary co.	(83483872)	-	-	(5492360)	(10984720)
(Profit)/Loss on sale of fixed assets	10070535	(385302)	(2860982)	-	638092.70
Provision for staff quarter	1770300	-	1792525	2540185.45	2573599.79
Provision for Bonus	3363570	-	3096180	4387593.04	4445308.72
Profit before tax	30272129	(27277331.12)	30961802.13	43875930.44	45008952.24
Income tax	2209062	-	-	-	-
Deferred tax	(5351571)	-	-	-	-
Provision for tax	-	-	5539056.96	8503311.32	7208393
Provision for special fees	-	-	461588.00	687748.35	-
Net Profit after tax	33414638	(27277331.12)	24961157.17	34734870.77	37800559.24
Balance brought forward	86786462	342592656.53	399912949.48	365178078.71	343582519.47
Provision for tax in respect to earlier years	-	-	24332000	-	16205000
Depreciation expense for earlier years	-	-	579949450.12	-	-
Dividend Tax in respect of Dividend from Earlier years	-	1376840	-	-	-
Profit available for appropriation	120201100	313938485.41	342592656.53	399912949.48	365178078.71
Proposed dividend	-	-	-	-	-
Balance of profit transferred to Balance Sheet	120201100	313938485.41	342592656.53	399912949.48	365178078.71

Income Statement of Himalayan distillery Limited for the five years

Fiscal Year	2008/09	2007/08	2006/07	2005/06	2004/05
Particulars					
Net Sales	656808311	529559164	453598946	314578626	203585108
Cost of Sales	477337267	364583271	314133834	209248240	148600723
Gross Profit	179471044	164975893	139465112	105330386	54984385
Other income	3854956	798643	958562	658562	712568
Business expenses	-	-	-	-	-
Distribution expenses	85059185	87856152	62143122	43239715	20092320
Administrative expenses	41695609	46204128	34577529	30764327	24774250
Profit from Operation	56571206	31714256	43703023	31984906	10830383
Interest	25627742	27441653	22667944	24535798	25493333
Depreciation	23727579	22736872	22332192	22043661	21626888
Deferred Expenses written of	4006289	5063178	12378894	6540804	7852394
Dividend from Himalayan Distillery Ltd,	-	-	-	-	-
(Profit)/Loss on sale of fixed assets	-	-	-	-	-
Provision for staff quarter	-	-	-	-	-
Provision for Bonus	291781	-	-	-	-
Profit before tax	2917815	(23527447)	(13676007)	(21138357)	(44142232)
Income tax	-	-	-	-	-
Deferred tax	-	-	-	-	-
Provision for tax	-	-	-	-	-
Provision for special fees	-	-	-	-	-
Net Profit after tax	2917815	(23527447)	(13676007)	(21138357)	(44142232)
Balance brought forward		-	-	-	-
Provision for tax in respect to earlier years	-	-	-	-	-
Depreciation expense for earlier years	-	-	-	-	-
Proposed dividend	-	-	-	-	-
Net Profit After Tax and Dividend	2917815	(23527447)	(13676007)	(21138357)	(44142232)
Accumulated Loss	(255166176)	(231638729)	(80113646)	(107047656)	(257525143)
Balance of profit transferred to Balance Sheet	(252248361)	(255166176)	(93789653)	(128186013)	(301667375)

Appendix - 12
Balance Sheet of Bottlers Nepal Limited for the Five Years

Source of Funds	2008/09	2007/08	2006/07	2005/06	2004/05
Capital and liabilities					
Share capital	194888700	194888700	194888700	194888700	194888700
Reserves and retained earnings	287288120	481025505.41	509679676.52	566999969.48	532265098.71
<u>Long term liabilities</u>					
Bank loan	200000000	-	720000000	-	-
Grand Total	682176820	675914205.14	776568376.53	761888669.48	727153798.71
Assets					
Fixed Assets	558537941	631540108.21	323572714.78	309479252.24	326096312.11
Capital work in progress	84426230	38195677.39	176107306.86	-	-
Investments	112627648	112627648.32	112627648.32	112627648.32	112627648.32
Current Assets					
Inventories	144004094	189256239.03	176935642.55	246278420.69	184980038.80
Trade and other receivables	36802988	52823249.04	59462200.14	158583987.89	124178057.13
Cash and bank balances	2427935	3464143.98	35925490.23	1917252.76	13754659.06
Prepaid, advances, loans and deposits	204608751	224159390.19	163719806.42	146377923.84	124918361.06
Deferred Tax Assets	46715433	-	-	-	-
Total Current Assets	434559200	469703022.24	436043139.34	553157585.18	447831116.76
Less : Current liabilities and provisions					
Current liabilities	432637964	512493745.89	210700866.41	164399548.84	117198202.28
Provision	75359804	63905301.35	64781380.35	64590124.18	56823749.23
Total Current liabilities and provisions	507997768	576399047.24	275482246.76	228989673.02	174021951.51
Net Current assets	(73438567)	(106696025)	160560892.58	324167912.16	273809165.25
Deferred Expenses (To the extend not written off)	23568	246796.49	3699813.99	15613856.76	14620673.03
Grand Total [FA-NetCA]	682176820	675914205.41	776568376.53	761888669.48	727153798.71

Balance Sheet of HDL for the Five Years

Source of Funds	2008/09	2007/08	2006/07	2005/06	2004/05
<u>Capital and liabilities</u>					
Share capital	358291000	358291000	358291000	358291000	358291000
Reserves and retained earnings	18411500	18411500	18224200	17854800	17484900
<u>Long term liabilities</u>					
Bank loan	182375199	214208054-	-	-	254508095
Grand Total	559077699	590910554	376515200	376145800	630283995
<u>Assets</u>					
Fixed Assets	384145256	384145256	353248296	333932420	303840522
Capital work in progress	-	-	-	-	-
Investments	-	-	-	-	-
<u>Current Assets</u>					
Inventories	74252191	47799872	52787343	48724358	39423587
Trade and other receivables	84987452	51559113	40328432	35894275	29434582
Cash and bank balances	3252692	13543767	32140256	23245232	4608000
Prepaid, advances, loans and deposits	34722496	48786975	72489576	60497524	52482528
Deferred Tax Assets	-	-	-	-	-
Total Current Assets	197214831	161689727	197745607	168361389	125948697
Less : Current liabilities and provisions					
Current liabilities	277683869	217855150	308432409	324283405	381829304
Provision	291781	-		-	-
Total Current liabilities and provisions	277975650	217855150	308432405	324283405	381829304
Net Current assets	(80760819)	(56165423)	(110686802)	(155922019)	(255880607)
Deferred Expenses (To the extend not written off)	5599086	7764545	8432452	9894287	15478272
Grand Total [FA-NetCA]	306829338	335744378	250993946	452775102	263694217

Appendix - 13

Cash flow statement of Bottlers Nepal Limited for Five Years

Particulars	2008/09	2007/08	2006/07	2005/06	2004/05
<u>Cash Flows From Operating Activities</u>					
1. Profit /(Loss) before taxation	30272129	(27277331.12)	30961802.13	43875930.44	45008952.24
<u>Adjustment</u>					
<u>Add</u>					
Depreciation	65414572	60227418.11	64165898.83	49175556.61	57330996.63
Amortization	1030864	531662	503470	6601640.99	6040996.63
Write offs	-	-	-	-	1965653.13
Interest expenses	20789989	8875422.15	1328930.84	265317.04	3590.84
Provision for Bonus & staff quarter	5133870	-	4888705	6927778.49	7018908.51
Provision for Gratuity	-	7022290	-	-	-
Other non-cash expenditures	-	3989013	2544341.70	-	3484817
Loss/(Profit) on sale of fixed assets	10070535	(385302)	-	-	-
2. Cash Flows from operation before working capital changes	139734249	45960842.14	104393148.50	106846223.57	120853357.46
Decrease/ (Increase) in current assets	821431715	(63199833.65)	22427229.66	(117357092.94)	24505336.70
Increase/(Decrease) in current liabilities	85933594	205820352.57	46301317.57	(47201346.56)	(99311485.62)
Interest Paid	(14963996)	(8814422.15)	(1328930.84)	(265317.04)	(3590.84)
Payment for gratuity	(2910719)	(437812)	(1899507)	(39995)	(395399.90)
Payment for bonus & staff quarter	-	(4427280)	(6927778.49)	(7614908.51)	(4701259.48)

Special fees paid	-	-	-	(555865)	(632755)
Taxes paid in respect of earlier years	(2959078)	(1376840)	-	-	(9488150.25)
Net cash flows from operating activities	111347917	173525006.88	162965479.40	28214391.64	30823053.97
Cash flows from investing activities					
Sale/(Purchase) of fixed assets / investments	(2128305)	(25755359.79)	(36432400.57)	(32456973.22)	(7998665.22)
Proceeds from sale of fixes assets	499854	-	-	-	-
Addition of fixed assets	(1418432)	-	-	-	-
Addition of CWIP	(85467057)	(204203520.32)	(176107306.86)	-	-
Others (Capitalization of deferred expenses on bottlers & crates)	-	-	11410572.77	-	-
Additional to deferred expenditure	-	-	-	(75594824.72)	(4660034.69)
Net cash flows from investing activities	(88513939)	(229958880.07)	(201129134.66)	(40051797.94)	(12658699.91)
Cash flows from financing activities					
Borrowing /(repayment) of bank loan	200000000	(72000000)	72000000	-	-
Others	-	-	171892.73	-	-
Dividend Paid	(224122005)	-	-	-	(9744435)
Net cash flows from financing activities	(24122005)	(72000000)	72171892.73	-	(9744435)
Net increase/(decrease) in cash (A+B+C)	(1288027)	(128433873.19)	34008237.47	(11837406.30)	8419919.06
Cash and cash equivalents at the beginning of the year	(92508383)	35925490.33	1917252.76	13754659.06	5334740.00
Cash and cash equivalent at the end of the year	(93796410.00)	(92508382.96)	35925490.23	1917252.76	13754659.06

(*)Includes the Income tax provisions net of adjustments related with earlier years.

Cash flow statement of HDL for Five Years

Particulars	2008/09	2007/08	2006/07	2005/06	2004/05
<u>Cash Flows From Operating Activities</u>					
1. Profit /(Loss) before taxation	2917815	(23527447)	(13676007)	(21138357)	(44142232)
<u>Adjustment</u>					
<u>Add</u>					
Depreciation	23727579	22736872	22332192	22043661	24626888
Amortization	-	-	-	-	-
Write offs	4006289	5063178	12378894	6540804	27852394
Interest expenses	25627742	27441653	22667944	24535798	29493333
Provision for Bonus & staff quarter	-	-	-	-	-
Provision for Gratuity	-	-	-	-	-
Other non-cash expenditures	-	-	-	-	-
Loss/(Profit) on sale of fixed assets	642535	-	-	-	-
2. Cash Flows from operation before working capital changes	56921960	31714256	43703023	31981906	37830383
Decrease/ (Increase) in current assets	(45816179)	26495945	(32456824)	28456526	24652985
Increase/(Decrease) in current liabilities	60002908	22408763	45895568	26555454	11652530
Special fees paid	-	-	-	-	-
Interest Paid	-	-	-	-	-
Payment for gratuity	-	-	-	-	-
Payment for bonus & staff quarter	-	-	-	-	-

Taxes paid in respect of earlier years	-	-	-	-	-
Net cash flows from operating activities	71108689	80618964	57141767	86993886	74135898
Cash flows from investing activities					
Purchase of fixed assets	(25484071)	(24142628)	(27450585)	(32458681)	(34568721)
Sale of fixes assets	3268142	-	-	-	-
Addition of fixed assets	-	-	-	-	-
Addition of CWIP	-	-	-	-	-
Others (Capitalization of deferred expenses)	(1840830)	(2380058)	(1321325)	(3213215)	(2622515)
Additional to deferred expenditure	-	-	-	-	-
Net cash flows from investing activities	(24056759)	(26522686)	(28771910)	(35671896)	(37191236)
Cash flows from financing activities					
Borrowing /(repayment) of bank loan	(31832855)	(39835832)	(9585545)	(18745698)	(18025265)
Dividend Paid	-	-	-	-	-
Interest Paid	(25510150)	(32856935)	(9889324)	(13942024)	(17025062)
Net cash flows from financing activities	(57343005)	(72692767)	(19474869)	(32687722)	(35050327)
Net increase/(decrease) in cash (A+B+C)	(10291075)	(18596489)	8894988	18637268	1894335
Cash and cash equivalents at the beginning of the year	13543767	32140256	23245268	4608000	2713665
Cash and cash equivalent at the end of the year	3252692	13543767	32140256	23245268	4608000