A STUDY ON WORKING CAPITAL MANAGEMENT OF FURNITURE INDUSTRIES INPOKHARA SUB-METROPOLITANCITY

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RECOMMENDATION

This is to certify that the thesis

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A Study on Working Capital Management of Furniture Industries in PokharaSub-metropolitanCity

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of Master of Business Studies (MBS).

Viva-Voce Committee

Chairperson, Research Committee: …….

Member (Thesis Supervisor): ……...

Member (External expert): ……...

Member: ……...

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DECLARATION

I hereby declare that the work reported in this thesis entitled ***A Study on Working Capital Management of Furniture Industries in Pokhara Sub-metropolitan City*** submitted to Central Department of Management, T.U, Kirtipur, is my original work done in the form of partial fulfillment of the requirement for the Master Degree of Business Studies (MBS) under the supervision of Dr.Dilli Raj Sharma, University Campus.

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This thesis entitled "**A Study on Working Capital Management of Furniture Industries in Pokhara Sub-metropolitan City**", has been prepared in the form as required by the Central Department of Management for the partial fulfillment of master degree in business study. I hope it would provide the key stone to understand and acknowledge positive realistic appearance of working capital management practice, who are interested in it.

I acknowledge my deep gratitude to my thesis advisor Dr.Dilli Raj Sharma, lecturer, Department of Management, University Campus, Kirtipur for providing continuous guidelines, valuable comments and constructive suggestions.

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GANESH BHANDARI

University Campus, Kirtipur

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ABBREVIATION

CAs	:	Current Assets
CCA	:	Cash to Current Assets
CCC	:	Cash Conversion Cycle
CLs	:	Current Liabilities
CR	:	Current Ratio
etc.	:	and the other
FA	:	Fixed Assets
F/Y	:	Fiscal Year
GWC	:	Growth Working Capital
HMG	:	His Majesty's Government
HPMC	:	Horticulture Produce Marketing and Processing Corporation Ltd.
ICP	:	Inventory Conversion Period
Ind.	:	Indices
Ltd.	:	Limited
MBA	:	Master of Business Administration
MBS	:	Master of Business Studies
Mfg	:	Manufacturing
Mgt	:	Management
NWC	:	Net Working Capital
P.E	:	Probable Error
Rs.	:	Rupees
SPSS	:	Statistical Package for Social Science
TA	:	Total Assets
TL	:	Total Liabilities
WC	:	Working Capital

CHAPTER-ONE

INTRODUCTION

1.1 Background of the Study

Nepal is a small beautiful Himalayan kingdom lying between two emerging giants, China and India. It occupies 0.03 and 0.3 percent land of World and Asia respectively within the average length of 885 km. and average breadth of 195 km. the elevation of the country ranges from 59 m. to the highest peak of the earth i.e. 8848m. This variation fosters an incredible variety of ecosystems, snowcapped mountains, thundering rivers, valleys, plains with flora and fauna. Nepal is agro based country with mixed economy and is depended on foreign aid too.

Nepal is a developing country. Developments of small scale and cottage industries have required special importance in the country's progress and contribute both economic and social reasons. It is a well known fact that most countries of Asia and Africa i.e. third world are recognizing the rapid development of their economy to solve serious problems such as poverty and unemployment. It is true that rapid industrialization is one of the solutions to these problems. But generally speaking an industrialization program which gives top priority to the establishment of big and heavy industries can not all ways solve the problem of unemployment, because employment-investment ratio is rather low in heavy industries in the sense that the number of the jobs created by the large investment required in such industries is less than what could be created through investment in agriculture or in small or cottage industries. Furthermore heavy industries make use of heavy automation, thereby aggregating the problem of unemployment.

Therefore, third world has been accepting this sector as vital component of the national economy. Pointing out the desirable features of providing immediate large scale employment, offering a method of ensuring a more equitable distribution of the national

income and fascination of effective mobilization of resources of capital and skill which might otherwise remain unutilized, industrial polices of developing nations have been emphasizing the need for integrating the development of this sector with that of the large scale industries.

But the definition of small scale of cottage industries varies from country to country. Even within a country, such definition changes as economy pass through the path of development and so it may be regarded that such periodically change in the definition is a healthy symptom of economic growth of the country. In Nepal industrial, enterprises act 2049 of H.M.G. has defined Nepalese rural and cottage industry as "Cottage industry means with a fixed capital investment up to rupees two lakhs, smalls industry as small rupees three hundred lakhs". [Industrial Entrepreneur Act. 2049: P.3]

Again such act has defined fixed capital as "fixed capital means the building, land, machinery, tools, spare parts, furniture and fixture of any industry as well as the pre-investment and pre-operation cost and its interest, electricity, water supply, communication, transportations vehicle." [Industrial Entrepreneur Act. 2049: P.3]

It is difficult to obtain the accurate history of the development of Nepalese furniture manufacturing activities. The ancient Nepalese furniture had been decorated with carvings like that of the ancient furniture and for decorating those furniture, painting was also used. Present study focus to the working capital management of the furniture industries in Pokhara sub metropolitan city area which are mostly include in the cottage small industry. The present study refers to the furniture industries in Pokhara sub-metropolitan area. Such industry is most popular in the economic life of the towns' area which is growing as mostly cottage and small scale industry. Thus, the furniture industry in Pokhara town can be grouped into the cottage and small scale industry on the basis of the definition of given in the industrial enterprise act 2049. The investment in base year made in such industries which are registered in cottage industry department of H.M.G.

1.2 Focus of the Study

Present study focus to the Working Capital Management of the Furniture Industries in PokharaSub-metropolitanCity area which are mostly include in the cottage and small industry. *For better management of every organization there are many kind of activities and one of them is working capital management. It plays a vital role in every business organization. It is the life blood and controlling nerve centre for any types of business because without the control upon it no business organization can run smoothly.* So, the study is focused on how the working capital management is managing in the furniture industries in Pokhara metropolitan area.

1.3 Statement of the Problem

Working capital management is the determinant of success or failure of the business organization both lower as well as higher working capital positions are dangerous from the business point of view. Excessive working capital means idles, which earns low profit for the firm, purity of working capital not only impairs but also results in production interruption and inefficiencies. Thus, *the main problem is how to maintain the optimal level of working capital in manufacturing enterprises*. Working capital management is linked with the continued existence of enterprise. Regardless of excellent products, effective marketing, efficient production and optimum fixed assets management. Management has lost the control of its firm because of liquidity.

Every organization has to manage their assets properly otherwise it is impossible to success in the competitive business environment. So, how to manage the working capital, which is a main problem for today's business organization. The efficient and effective management of working capital is must for smooth operation of the firm. *The main problem of this study on is how working capital management has done in furniture industry in Pokhara valley.* This study focus to solve the following question.

The main problem to which this study focuses on is how working capital management has been done in furniture industry in Pokhara valley. This study focus to solve the following questions:

- Is there proper investment in current assets appropriate to total sales level?
- What is the factors affecting element of working capital?
- Is there sound liquidity position in the industry?
- What is the current situation in the industry?

1.4 Objective of the Study

The fundamental objective of the study is to analyze the Working Capital Management of the Furniture Industry in Pokhara sub-metropolitan city area. The specific objectives of the study are as follows:

- To analyze the Working Capital Policy used in the Furniture Industries in Pokhara.
- To analyze the factors affecting Working Capital of furniture industries in Pokhara.
- To analyze about liquidity position and turnover position.
- To analyze the general information about furniture industry in Pokhara like: types of product to sell, location of raw material, market situation of furniture industry and current problem of furniture industry.

1.5 Significance of the Study

This study has significance to reduce cost of working capital financing with proper liquidity maintenance and management of current liability for the benefit of furniture firm and industry. Further more we get the insite regarding what are the factors lies in furniture industry that influence in working capital management.

1.6 Limitation of the Study This study will be limited to the working capital management of the furniture industries in Pokhara. There are some specific limitations of this study.

- The study covers the period of only five years. i.e. from 2063/064to 2067/068.
- The analysis will be based upon the primary as well as secondary data.
- Only 14 firms are taken as a sample and random sampling is used.
- The study will be strictly confined to the working capital management of the furniture industry in Pokhara valley.

1.7 Organization of the Study

The study has been organized into five chapters. The titles of these chapters are as follows:

Chapter I:Introductin

Introduction chapter comprises background of the study, statement problem, objective of study, significance of the study and limitations of the study.Chapter II: Review of Literature

Review of literature chapter comprises conceptual review of the capital structure and review of the related studies.

Chapter III: Research Methodology

Research methodology deals with the method of investigation and includes research design, nature of the data, data collection procedure and tools used.

Chapter IV: Presentation and Analysis of Data

Data presentation and analysis of data deals with different statistical and financial tools that used in the analysis of the data.

Chapter V: Summary, Conclusion and Recommendation

Last chapter includes the summary, findings of the study and recommendation.

CHAPTER- TWO

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. It is also a way to avoid investigating problems that have already been definitely answered. The purpose of literature review is to find out, what research studies have been conducted in one's chosen field of the study and what remains to be done. [Pant, 2000: p. 49]

The study about selected furniture industries in Pokhara sub-metropolitan city has been streamlined to some extent in the first chapter regarding their growth, objectives, statement of problem and working capital practices in general. The main objectives of this chapter are to clarity the need of the study rationally and systematically. It reviews all the related studies on working capital management. Including different views of experts and researchers who had accomplished their researchers on different companies of Nepal. So, the review of literature is organized as below.

2.1 Conceptual Review

Working capital is as all the short term assets used in day to day operation of firms. The management of such assets described, as working capital management. It is one of the most important aspects of the overall financial management. Technically, working capital is an integral part of overall financial management (Khan and Jain, 1999: p. 61). It represents that part of fund, which circulates from one form of current assets to another form in the ordinary course of business for example cash is used to purchase materials, merchandise goods, fuel, labor, staff etc. It creates inventories, and then finished goods, inventories are sold in market and change to cash (Khan and Jain, 1999: p. 61).

Working capital management is a difficult task for financial manage because both excess working capitals and less working capital are harmful to the business. Greater the relative

proportion of liquid assets, lesser the risk of running out of cash, all other being equal. However profitability will also be less (Kuchhal, 1988: p. 63). On the other hand inadequate amount of working capital can threaten the solvency of the organization if it fails to meet its current financial obligation. The higher return is due to the less money tied up in non-income earning assets and then higher risk is due to the possibility of shortage of cash in the event of urgency. Thus, a low liquidity is associated with high rate of return (Pradhan, 1986: p.45). Main objective of shareholders and investors is to maximize the return of their investment. But it does not mean that low liquidity is the best interest of shareholders wealth but liquidity has to do with assuring that the enterprises is able to satisfy its entire current financial obligations (Pradhan, 1986: p.38).

Thus, it plays the crucial role in the success and failure of an organization an it deals with that part of assets, which are transformed from the another during the course of manufacturing cycle. Therefore, the role of working capital management is more significant for every business organization irrespective to their nature. The financial decision on working capital management is planning, utilizing and controlling its current assets/short term assets in term of the requirement of the company and liquidity position of the company. The skill of working capital management should be unique to make an efficient use of funds of minimizing the risk of loss to attain profit objectives.

2.1.1 Concept of Working Capital

There are two main concepts of working capital namely, gross working capital concept and net working capital concept.

I. Gross Working Capital Concept:

This concept makes the implied meaning of working capital to current assets only. Current assets are the assets which can be converted into cash within an accounting cycle that is, usually a period of one year. Current assets include cash, short-term securities, account receivables, inventories, prepaid expenses etc. Supporters of the gross working

capital concept argue that the real working operation of public enterprises solely rely on current assets. So it is reasonable to consider working capital as current assets only.

G ross Working Capital = Total Current Assets

II. Net Working Capital Concept:

This concept refers to the difference between current assets and current liabilities. The need for this concept arises because the gross concept fails to consider current liabilities. he current liabilities are those liabilities, which can be claimed by outsider/suppliers ithin a year. It includes account payable, bills payable and outstanding expenses. Net Working Capital (NWC) can be positive or negative. A negative net working capital occurs when Current Liabilities (CL) is in excess of Current Assets (CA) and when current assets exceed current liabilities; it is positive net working capital.

This concept helps to determine optimum mixture of short-term capital and long-term capital of business enterprises.

Networking Capital = Current Asset-Current Liabilities

The management should be promoted to initiate an action and imbalance. The definition described above convey in same way or other, the same meaning. It seems that there is consensus on the following special characteristics of the working capital.

1. Short Life:

Working capital characterized by assets with a life span of less than one year like cash, marketable securities, account receivable and inventories etc. This short life span leads to high volatility the level of investment required financing WC.

2. Nearness of Cash or Liquidity:

The basic characteristics the first line of defense against technical insolvency. Cash is the most liquid assets having zero conversion period time and 100% conversion rate. But for inventory and marketable securities two factors i.e. (i) nearness to cash or amount of time required converting asses in to cash (ii) price realized on conversion must be considered.

3. Lack of Synchronization:

Since the enterprise cannot produce on order only and cannot insist on cash payments, there are always the problems of synchronization in cash receipt and disbursement. It is also due to the level of investment in Working Capital (WC) that is affected by the sales volume, production policies and collection policies.

The basic characteristics of WC as mentioned above indicate that it is a form of capital intended to be kept moving of circulating and its potential or earning comes from movements. Though the expenditures controlled and planned its income is usually subject to random variation and is not controllable (Gallagher 1979, p. 51)

2.1.2 Types of Working Capital

Working capital can be classified into two parts, permanent and variable working capital. These two types of working capital are necessary for continuous production and sales without any interruptions.

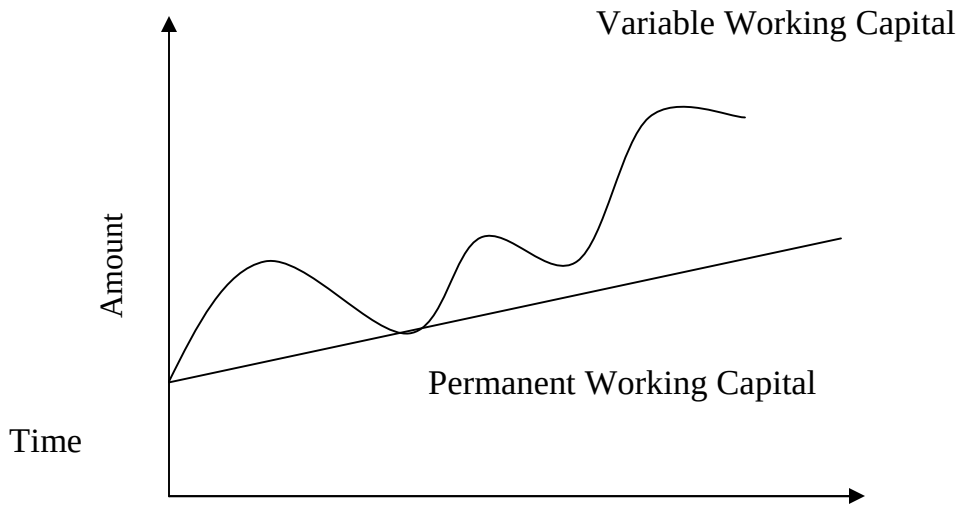
I. Permanent Working Capital:

These assets are required on a continuing basis over the entire year. They represent the amount of cash, receivables, and inventory maintained as a minimum to carry on operations at any time.

II. Variable Working Capital:

This represents additional assets required at certain time during the year. Added inventory must be maintained to support peak selling periods. Receivable will increase and must be financed after a period of high sales. Cash may be needed to pay for increased supplies preceding high activities.

Figure 2.1: Types of Working Capital



Graphically displays permanent and variable working capital needs for a firm whose level of business is growing. The level of working capital is higher in the summer than in the winter, reflecting a cyclical business activity.

2.1.3 Determinants of Working Capital

A firm should plan its operations in such away that is should have neither too much nor too little working capital. Since, there are no set of rules to determine the working capital, the firm itself should manage working capital in proper way by considering the need of business. Generally, the following factors affect the working capital requirement of the firm:

I. Nature and Size of Business:

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger then it requires more working capital. While a small firm needs less working capital. Trading financial firms require larger amount of working capital relatively to public utilizes. While manufacturing's concern lies between these two extremes.

II. Manufacturing Cycle:

Working capital requirement of an enterprise is also influenced by the manufacturing or production cycle. It refers to the time involved to make the finished goods from the raw materials during the process of manufacturing cycle; funds in ties-up. The longer the manufacturing cycle, the larger will be working capital requirement and vice-versa.

III. Production Policy:

Working capital requirement is also determined by its product in policy. If a firm produces seasonal goods, then it sells its products in a certain month of the year in this situation, it can either confine its production only that period when goods are sold or follow a steady production policy producing goods at level to meet the peak demand. The former policy does not need more working capital than the later does.

IV. Growth and Expansion Activities:

Growth and expansion also affects the working capital requirement of a firm. However, it is difficult to precisely determine the relationship between the growth and expansion of the firm and working capitals needs. But the other things being the same growing firm needs more working capital than those static ones.

V. Level of Taxes:

The level of taxes also influences working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulations. But the firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice-versa (Hampton 1998).

2.1.4 Source of Working Capital

Working capital helps to meet daily requirements of business. Specially, it is required to spend on raw materials, salary, wages, rent, electricity, advertisement and other sales related expenses. Depending upon the business organization add it's timely need of working capital, it can be financed from different sources as follow:

- **For regular or permanent working capital:** Long term instrument of financing such as share and debenture are issued.
- **For variable or seasonal working capital:** Different sources such as working capital of indigenous bankers, commercial banks, public deposit, retained earnings etc. are used to finance depending upon the volatile nature of the enterprises activities.

2.1.5 Working Capital Financing and Investing Policy

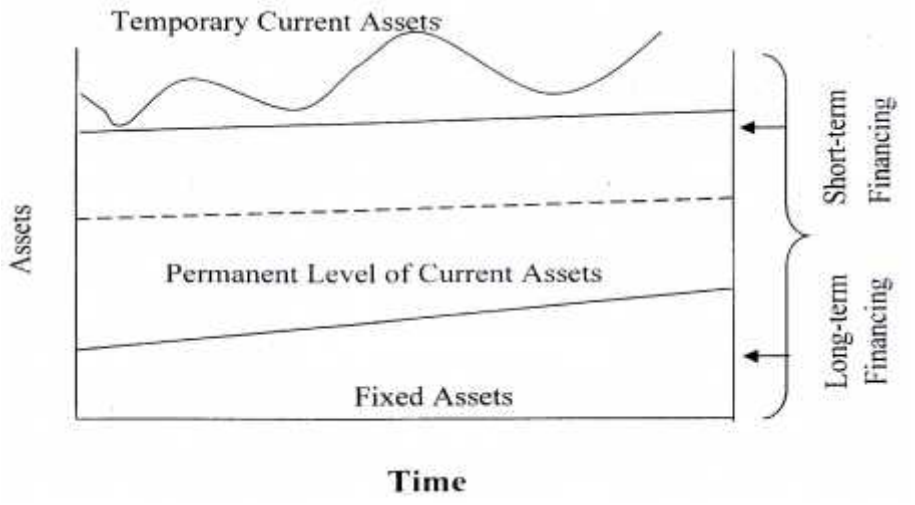
A) Current Assets Financing Policy

It is the manner in which the permanent and temporary current assets are financed. Current assets are financed with funds raised from different sources. Current assets financing policy should clearly outline the sources of financing of current assets. There are three variants aggressive, conservative and moderate policies of current financing.

I. Aggressive Approach:

Aggressive policy carries a low of current assets (marketable securities, cash, inventories and receivables) to sales. Aggressive policy uses more short term debt and less long-term debt for financing current assets. Therefore, an aggressive policy results in a higher risk and higher profitability.

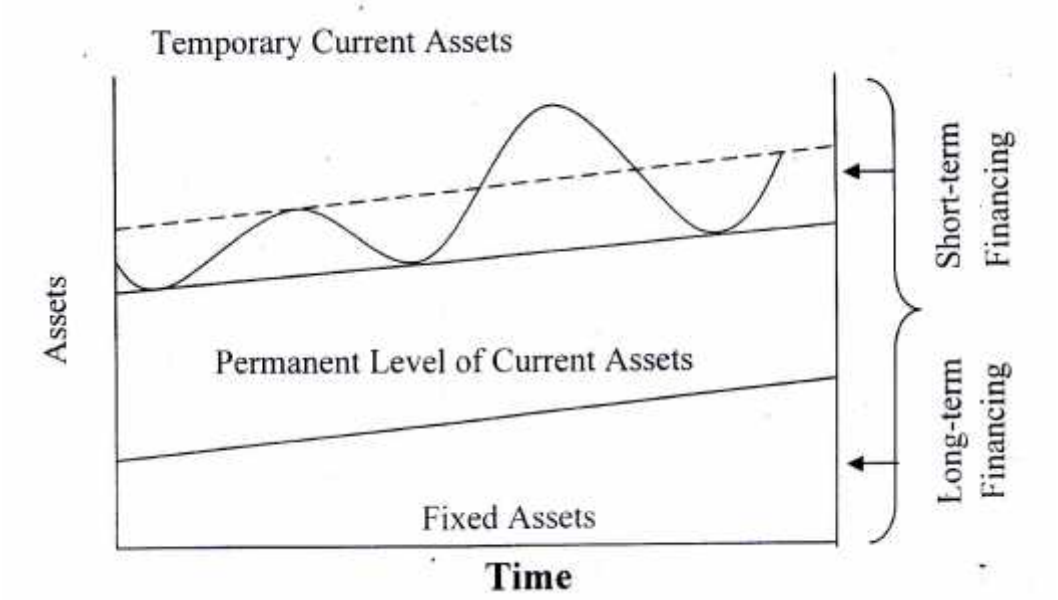
Figure 2.2: Aggressive Policy



II. Conservative Approach:

Conservative policy carries a high level of current assets to sales. Conservative policy uses more long term debt and less short term debt for financial current assets. Therefore, conservative policy lowers the risk and return.

Figure 2.3: Conservative Policy

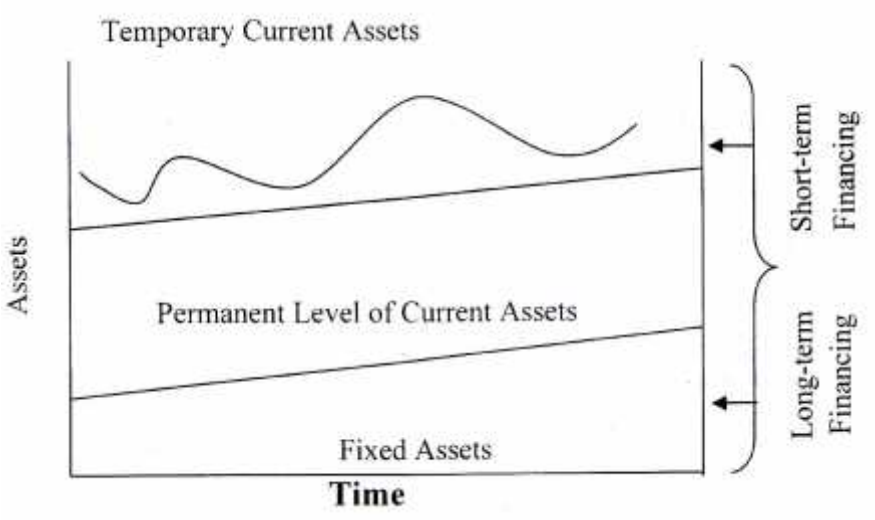


Source: Weston, Bestley, Brigham, Essential of Managerial Finance, 1996

III. Moderate Approach:

Moderate carries an average level of current assets to sale. Moderate uses mid range of short-term and long-term debt of above two policies. Therefore, the moderate current assets policy results in mid range risk and profitability.

Figure 2.4: Moderate Policy



Source: Weston, Bestley and Brigham, Essential of Managerial Finance, 1996

B) Current Assets Investment Policy

Current assets investment policies determine the appropriate level of current assets, both in total and by specific accounts. Generally, there are three types of investment policies which can be followed by business enterprises.

I. Relaxed Working Capital

In this policy, the firm holds relatively large amount of cash, marketable securities, and receivable to support a given level of sales. In addition, a company is motivated to sale by applying liberal credit policy. Therefore, it creates longer receivable collection period. Similarly, it creates longer inventory and cash conversion cycles. Thus, this policy provides the lowest expected return on investment with lower risk.

II. Restrictive Working Capital

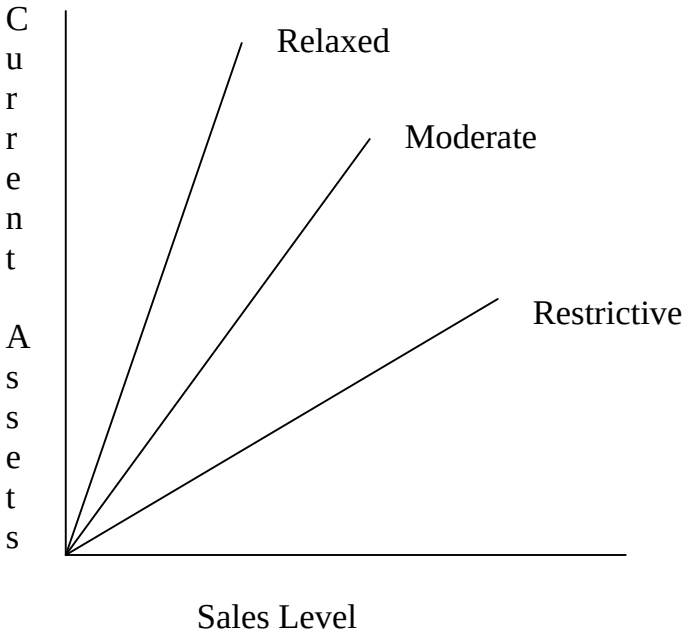
Under restricted working capital assets policy, a company has high control in current asset. The firm holds minimum level of inventory, marketable securities, receivable and cash to support given level of sales. This policy tends to reduce the inventory, receivable

and cash conversion period. The company follows tight credit policy and bears the risk of losing sales. However, this policy provides the highest return on investment.

III. Moderate Working Capital

In this policy, both the risk and return are moderate. The company holds the amount of current assets in between relaxed and restricted policies. We can show these policies with the help of following figure.

Figure 2.5: Current Assets Investment Policy



2.2. Review of Different Studies

This section mainly focuses on the review of journals and research works published by the different management experts in working capital management.

An article on **working capital management in Public Enterprises (PEs)** by Manohar Krishna Shrestha, has studied the working capital management of ten selected PEs. He has also found that out of ten PEs six were operating in losses while only four were

getting some percentage of profit. With the reference of his findings he has brought certain policy issues such as lack of suitable financial planning, negligence of working capital management, deviation between turn over and return on net working capital. At the end, he has made some suggestive measure to overcome form the above policy issue i.e. identification of needs funds regular check of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short term and long term sources of funds to finance working capital needs (Shrestha 1982-1983).

Another article related to working capital management by Dr. R.S. Pradhan is "**The Demand for Working Capital by Nepalese Corporation**". For the analysis, nine public corporations were selected covering 12 years data from 1973 to 1984. For the analysis, the regression equation has been adopted. The earlier studies concerning the demand for cash and inventories by business firms didn't report unanimous findings. A lot of controversies existed with the respect to the presence of economics of scale, rate of capital cost, and the capacity utilization relates and the speed with which actual cash and inventories are adjusted to describe cash inventories respectively. The pooled result shows the presence of economics of scale with respect to the demand for working capital and its various components. The regression result, suggest strongly that the demand from working capital and its components is a function of both scales and their capital costs.

The another article related to working capital management published by Dr. K. Acharya. In his article on "**Problems and Impediment in the Management of Working Capital in Nepalese Enterprises**", he has said that, working capital management, especially in public sector, has been a relatively weak area. He has described operational problems as well as organizational problems faced by the organization. Some of these problems are:

a. Operational Problem:

- Slow inventory turnover.
- Change in working capital had low impact on profitability.
- Current liabilities increased largely than current assets.
- They had not followed the conventional proportion of debt and equity as 1:1.
- Absent or apathetic information management system.
- The performance evaluation tools and techniques like break even analysis, funds flow analysis, ratio analysis were either undone or ineffective in most public enterprises.
- Monitoring of the proper functioning of working capital management has never been considered a managerial job.

b. Organizational Problems:

- Lack of regular evaluation of financial results as well as regular internal and external audit system.
- Most of public enterprises being unable to present their capital requirements with proper justifications.
- Functioning of finance department was not satisfactory.
- Some public enterprises are facing the problem of under utilization of capacity.

Mr. Acharya was not satisfied with the performance of enterprises. To make an efficient use of funds of minimizing the risk of loss and to attain, Mr. Acharaya has made some suggestions and recommendations. They are,

- Public enterprises should take care of negatively affecting policies directives from HMG Nepal itself.
- Public enterprises should keep their consumers alive to consume their commodity.
- Public enterprises should avoid fictitious holding of assets immediately.

- They are also suggested to avoid the system of crisis decision, which prevailed frequently in their operations.
- Finance staff must be acquainted with the modern scientific tools used for the presentation and analysis of data.
- Their level of investment should optimize.

2.3 Review of Related Thesis

In this section, an attempt has been made to review some of the selected research studies related to working capital management of different companies. Besides review of available research studies, some of these relevant unpublished thesis/dissertations of MBA/MBS students. Vary few dissertation have been submitted in the topics of working capital management of Furniture Industry in PokharaValley.

Kayastha, Rabi Prasad has tried to point out some features and problems of furniture industry in Bhaktapur town. (**A survey of furniture industry in Bhaktapur town-** 1979). He has submitted to an institute of humanities and social science. Kayastha has focused to the consumption of raw materials used, capital investment and labour employment in the furniture industry in the Bhaktapur town.

His major findings are as follows:

- It is found that one of the main problems confronting in growth of furniture industry is the lack of adequate timber supply. Thus, firms in the town have been forced to postpone the production of furniture by such timber problem.
- The timber corporation does not supply the seasoned timber and there is no timber seasoning plant in the town.
- Firms are operating below their optimum capacity due to the lack of sufficient capital supply and are unable to run as large scale production unit.

- Most of firms are operated by Silpakar and many proprietors of these firms are uneducated persons.
- The market situation of furniture industry in the town is not developed in organized manner.

His suggestions for the furniture industry are:

- To increase the timber supply.
- Furniture industry through the regular supply of seasoned timber in market.
- The flow of capital must be increased by commercial banks and other financial units.
- It is necessary to develop a cooperative organization of proprietors and workers of furniture industry which helps to solve the problems and it develops communication about the market situation, new designs, new technique of production process etc.
- Products can be sold at reasonable price.

SubediPurushottam, Khanal Rabi Chandra and Singh ChetanAnanda has submitted as these on the topic *Current liability, management in furniture industry in Pokhara.* They have focused their basic objectives of the study was to high the current practice of the current liability management in furniture industry in Pokhara.

Major Findings of Research are as Follows:

- In the furniture industry 75.00 percent firms used wood, 23.93 percent firm used steel and 1.07 percent used plastic as a raw material to produce furniture.
- Furniture industry of Pokhara is using local, national and imported raw materials to produce furniture. The portion of raw material that has been used: 29 percent is local, 57 percent is inside Nepal and 14 percent is imported.
- In current situation sales volume of individual firms in furniture industry is slowly declining. Increasing number of the new entries and the decreasing economic growth of the national economy are two major reasons for this sales declining.

- The sales and demand condition, nature of the business, availability of credit, credit policy for customers are the major determinants of working capital requirement in the furniture industry. Furthermore, technology and manufacturing policy, price level change of raw material and uncertain raw material supply also influence the need of working capital.
- Regarding the use of sources of short-term financing trade credit, short-term loan from bank, short-term loan from relatives and accruals financing are major sources that are utilized by the firms.
- There are mainly five reasons to use short term financing sources. These five reasons are as follows, according to their importance:

  - Use of existing business relationship for taking loan without paying any interest.
  - Interest rate of this sources are comparatively low.
  - Less formality for granting loan.
  - Existing asset of the business can be used for short-term financing.
  - Use of current liabilities like taxes, wages, and rent is useful for very short period.
- Furniture industry in Pokhara, currently suffering from following current liability management problem:
  - The slow collection turnover creates need for cash to pay current liability.
  - For the imported goods, down payment is immediately required.
  - Sometimes creditor charge high interest on delay payment.
  - Supplier or banks has not been given in consideration for the timely loan repayment behavior.
  - Bank is not interested to lend in unsecured financing.
  - Irregularity of sales or declining market also create problem for the current liabilities management.
  - Penalty change by the supplier on delay payment and cancellation of the order adversely affect the market demand fulfillment/cash collection cycle, which ultimately affect the current liability of the firm.

- While financing the working capital in the furniture industry average of cost free source is 18 percent and with cost source 82 percent.
- In the furniture industry monthly average amount of sales is Rs. 3818426 and among profit, margin in the industry is 13 percent.
- Industry average of debt use is 30 percent, equity use is 69 percent. Fixed capital of industry among is 37 percent and working capital is 62 percent is total capital invested so that management of working capital is important in the business short-term source occupies 32 percent and long-term source occupies 68 percent in the industry.
- Free source of financing and total working capital has positive correlation coefficient 0.32, cost free source and fixed capital has negative correlation 0.32. This clearly indicates when there is cost free source of financing the business firm in furniture industry in Pokhara are more likely to finance more working capital through cost free source.
- Regarding the relationship in between average monthly sales amount and total capital of the firm correlation coefficient is 0.829. This is a high amount of correlation. It clearly indicates when there is increase in sales of the firm there should be increasing total capital investment in the firm.

Suggestions for management of the furniture manufacturers:

- While using cost-free source firm should think about how it will be paid in the future on time when creditor demands.
- Through, industry is using 18 percent of cost free source of financing but there is no significant relationship between cost free source and profitability of the firm. Therefore, company, should properly utilize cost free source of financing to enhance its profitability in the business operation.
- The industry average of short-term financing/current liability is 31 percent, which is significant. While using this source management of the firm should match it with future cash inflows to pay the liability on time.

- The industry average of working capital is 64 percent which is large in amount so that it should be properly managed to achieve high return on investment with customer satisfaction.

Pande, Basanta Raj has carried out his study on *A study on substantive plan of furniture industries in Pokhara sub-metropolitan city area*. The objective of this study was to highlight the goals, objectives, strategy, to compare budgeted sales and production with actual sales and production of furniture industries in Pokhara.

His major findings are as follows:

- The furniture industries of the Pokhara valley 91% of the firms are found sole/proprietorship and remaining other firms i.e. 9% firms are found private limited.
- The broad objectives of the furniture industries are the expanding and satisfactions of consumers.
- The most valuable goals of the organization is sales maximization.
- Most of the organization only 18.18% of the organizations are known and 81.82% of the organizations are unknown about the substantive and financial plan.
- Period covered for the short range plan of the organizations. 63.64% organization prepared for one year plan, 18.18% organization prepared for one month and three month plan. Similarly for long range plan 63.64% organization prepared for more than year 22.72% organization for five year and 13.64 organizations for two year.
- Participative planning approach is not applied in organization.
- Out of total organization 91% of the organizations are not able to utilize full capacity of the firm and 9% of the organization is not fully used.
- Most of proprietor i.e. 90.9% are involved in fixing price of product and few number of general manager i.e. 9.1% are not involved in fixing price.
- For the communication system, they communicate both top to bottom and bottom to top system.

- All organizations are produce both kinds of furniture i.e. household and official.
- Strength of the organizations are low price, high and attractive quality, located in main market area and no problems of sales, weakness of the organizations are lack of skilled manpower, rough competition and high price of product goods.
- Both budgeted sales and production are greater then actual sales and production. His suggestion for the furniture industries in Pokhara valley.
- Like Timber Corporation of Nepal, other industrialists should have to be provided wood in minimum royalty price. It helps to preserve industrial workers.
- Furniture businessmen should get loan in low interest rate.
- The workers should be provided trainings in appropriate times.
- There should be continuous flow of information among various level of management and various group of employees. All personal should be participated on decision making and planning process.

Pokhrel, Jaya Prakashhas conducted his research on "*A study on working capital management practices in Nepalese manufacturing company*". The main objectives of the study was to analyze the cash conversion cycle, composition of working capital, liquidity position of selected manufacturing companies i.e Bottlers Nepal Limited (BN Ltd.), Unilever Nepal Limited (UNL), Nepal Lube Oil Limited (NLO).

Major findings of the study are:

- Moat of the manufacturing companies have followed a conservative working capital policy.
- Liquidity positions of Nepalese manufacturing companies are inconsistent and facing liquidity crises.
- The volatile cash conversion cycle shows that there is no consistent working capital policy in Nepalese manufacturing companies.

- The overall average percentage of net profit to sales is 5.957. The highest percentage is 13.654 of UNL Ltd. and the lowest percentage is 1.1484 of NLO Ltd.
- The overall company's average of return on total assets is 8.7951%. The highest percentage is 23.0667 of ULN Ltd. and lowest is 1.20 of NLO Ltd.
- Under the statistical analysis, the correlation coefficient between CAs and CLs, sales and receivable, sales and net WC, sales and inventory. CAs and sales and net profit and net WC are highly positive correlation.

Related Study in the Indian Context

Joginder Singh Datta has done the study in 2000 on the *Working CapitalManagement of Horticulture Industry in H.P.- A case study of HPMC*in his research for doctoral dissertation has pointed out following points:

- During the course of the analysis that the size of current assets and current liabilities with all variations, registered a slight increase but the net working capital position has worsened continuously during the period as the current liabilities increased proportionally at a faster rate than the current assets.
- All attempts to analysis the financial pattern of the working capital reflects that all the sources of finance i.e. spontaneous short-term and long-term are being used by the corporation accounted for 27.98 percent whereas long-term loans constituted 11.18 percent of the total liabilities. The long and short term loans raised by the corporation mainly comprises borrowing from banks at its own or with the assistance of state government have been found the most popular source of finance during the period of the study. The other current liabilities which mainly constitute the provision for depreciation, reserve and surplus etc. are not being used efficiently and effectively, furthermore, in the use of other current liability, no systematic policy has been found in operation and excessive use of bank borrowing were in practice to meet its working capital requirements. Interestingly, in recent years of the study period, short-term

loans raised by (Horticulture Produce Marketing and Processing Corporation Ltd.) HPMC have been found in excess of total working capital, which is a matter of grave concern to the corporation as far as utilization of funds are concerned.

Another study of **S. Harinath Reddy** in 2000 on *Working Capital Managementin Small Scale Industries - A Study of Cuddapah District, Andhra Pradesh* in his research for doctoral dissertation has pointed out the following points:

- None of the industry groups had cent percent coverage of current liabilities from cash flows generated internally. This fact is also supported by the ratio of coverage of current liabilities. But relatively speaking the plastic and mineral industry groups possessed better ability to generate cash funds internally to liquidate the currently maturing obligations. Both technical liquidity and actual liquidity are dissatisfactory in sample units.
- **R. Siva Ram Prasad** has also done the study in 2000 on *Working CapitalManagement in Paper Industry* in his research for doctoral dissertation has pointed out the following points:
- Financing is another important issue in the management of working capital of paper mill. The creation of capacity and procurement of funds for capital expenditures but little efforts are laid for accomplishment. Many unfavorable consequences follow this. Mills with inadequate working capital suffer from under utilization of capacity resulting in extension of break even. Under conditions of severe shortage of working capital, the mill incurs deficits. Mostly financing of working capital is meet from internal sources. The analysis and the components of the internal sources revealed that there was substantial fall in the contribution of reserves and surplus followed by the capitalization of reserves and other provisions. Further, the share or depreciation almost remained constant during these ten years. Diversion of working funds for meeting long-term requirement because of negative Net Working Capital is also observed.

2.4 Research Gap

The above mention study will be first study of furniture industries in Pokhara sub-metropolitan city. This research study is based on newly data (2062/063 to 2066/067), it also be focuses only the working capital of furniture industries in Pokhara valley. Many more industries have also come up in recent year. So, it is necessary to bring out a fresh study in working capital management of manufacturing industries, whether the findings of above studies will be also valuable for all the needed person and organization.

CHAPTER-THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It facilitates the research work and provides reliability and validity. It may be understood as a science of studying how research is done scientifically. A sound research study needs to follow in order to achieve predetermined objectives. Research Methodology is a sequential procedure and methods to be adopted in a systematic study. The basic objective of this study as described in first chapter is a examine and analyze the working capital management of furniture industries in Pokhara sub metropolitan city area. In this chapter, deals with the research design, nature of data, data collection, processing and statistical tools used.

3.2 Research Design

A research design is alogical and systematic plan prepared for directing a research study.This study is followed the descriptive types research design.These types of study seek to describe a problem by using questionnaire and optins.Questionnaire is made to obtain information from the respondents as accuracy as possible.In using this descriptive approach we desire to gain insights into other aspects to the problem which otherwise may not be with in the scop of research problem.

The analysis of this study is based on certain research design keeping in mind on the objectives of the study. This study attempts to make composition and establish the relationship between two or more variables, this study to be termed as analytical, informative, descriptive, challenging and feedback study. For the study of working capital management financial tools, as well as statistical tools are employed to provide analytical insight and to achieve desired results.

3.3 Population and Sample

The research work related with working capital management aspect of the furniture industries in Pokhara. The total number of firm in furniture industry in Pokhara valley is 198, this is population of the study and 14firms from the population have been chosen by the method of random sampling for the sampling purpose. Data are collected for five years form 2063/064 to 2067/068.

Nowadays there are 198 Furniture firms in Pokhara. Sample of selected Furniture Industry in Pokhara Sub-metropolitan city are presented below:

1. Ashok KasthaKaryalaya
2. Binayak Steel Furniture
3. Bindhyeswari Furniture Industry
4. DurgaBhawaniKasthaUdhyog
5. GandakiKastaUdhyog
6. Nava DurgaKastaUdhyog
7. New SurajKastaUdhyog
8. Padam Furniture Udhyog
9. Paudel Furniture Udhyog
10. Purna Furniture Udhyog
11. SammichyaKasthaUdhyog
12. Shiva Shankar KasthaUdhyog
13. Tanahun Furniture Udhyog
14. TripathiKasthaUdhyog
15. *(Source: - GhareluUdhyogKaralaya, Pokhara)*

3.4 Nature and Sources of Data

Data which is essential to analyze the study it is collected from both sources i.e. primary and secondary. The primary data are collected from questionnaires, field visit and information received through personal interviews of the respondents. The secondary data are collected from books published by "*Pokhara Furniture Business Forum, 2065"*.

3.5 Tool for Analysis of Data

To study the working capital management of furniture industries, following financial and statistical tools are employed to achieve the prescribed results.

3.5.1 Financial Tools

The major tools employed for the analysis in this study are ratio analysis, which establishes the quantitative or numerical relationship between two variables of the financial statements. Ratio analysis is a widely used tool of financial analysis. Various ratios are employed and grouped for the analysis of composition of working capital turnover position and liquidity position. All these are briefly described below.

A. Composition of Working Capital

The composition of working capital has been studied by analyzing following ratios.

I. Ratios of Cash to Current Assets:

The working capital is directly affected by it. Higher ratio indicates the poor cash management and vice -versa. It is calculated as:

$$\text{Cash to Current Assets Ratio} = \frac{Cash}{Current\ Assets} \times 100$$

II. Ratios of Inventory to Current Assets:

This ratio implies the percentage of current assets that is in form of inventory. If the ratio increases of percentage increases, it means greater part of current assets is occupied by inventory. So the increase in the ratio is an indication of weak current assets management of the enterprises. It is derived as:

$$\text{Inventory toCurrent Assets Ratio} = \frac{Inventory}{Current\ Assets} \times 100$$

III. Ratio of Receivable to Current Assets:

This ratio indicates the share of receivables on current assets. Higher ratio indicates the inability of company to collect receivables promptly. Thus, high percentage indicates the greater working capital. It is calculated as:

$$\text{Receivable to Current Assets Ratio} = \frac{\text{Re}ceivables}{Current\ Assets} \times 100$$

IV. Ratio of Current Assets to Total Assets:

This ratio of current assets to total assets indicates what percentage of an firm's total assets invested in the form to current assets. As the ratio increases, the risk and profitability of firm would decrease. It is calculated as:

$$\text{Current Assets to Total Assets Ratio} = \frac{Current\ Assets}{Total\ Assets} \times 100$$

V. Ratio of Receivables to Total Assets:

Ratio indicates the percentage of total assets invested in the form of receivables. The increase in the ratio indicates the liberal credit policy followed by the company. As

receivable is a part of working capital, if the ratio increases the working capital also increase. It is calculated as:

$$\text{Receivables to Total Assets Ratio} = \frac{\text{Re}\,ceivables}{Total\ Assets} \times 100$$

VI. Ratio of Current Asset to Fixed Assets:

This ratio parent the relationship between the current assets and fixed assets. If the ratio is large, it indicates the sound working capital. It is calculated as:

$$\text{Current Assets to Fixed Assets Ratio} = \frac{Current\ Assets}{Fixed\ Assets} \times 100$$

B. Turnover Position

These ratios are very important for a concern to judge low well facilities at the disposal of the concern are being used or to measure the effectiveness with a concern uses its resources at its disposal. Higher the ratio, the better the profitability and use of capital or resources will be. The following are the important turnover ratios that are calculated analyze the company's turnover position.

I. Current Assets Turnover Ratio:

This ratio indicates the number of times the current assets are turned over during the year. The increase in ratio shows the good utilization of current assets. Low ratio indicates greater working capital and high ratio indicates lower working capital. It is computed by dividing sales by current assets, i.e. gross working capital.

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

II. Net Working Capital Turnover Ratio:

Here, the higher ratio shows the utilization of net working capital and lower ratio vice versa. It is computed by dividing sales by net working capital, i.e. difference of current assets and current liabilities.

$$\text{Net Working Capital Turnover Ratio} = \frac{Sales}{Net\,Working\,Capital}$$

III. Cash Turnover Ratio:

This ratio shows the number of times the average cash balance is turned over during the year. It is computed by dividing sales by cash balance and it measures the speed with cash moves through an enterprise's operations.

$$\text{Cash Turnover Ratio} = \frac{Sales}{Cash}$$

IV. Receivable Turnover Ratio:

The ratio indicates the number of times the receivables are turned over during the year. It gives the general measure of the productivity of the receivable investment. The higher ratio indicates the higher amount of working capital and lower ratio vice versa. This ratio is computed by dividing sales by the total amount of receivables.

$$\text{Receivable Turnover Ratio} = \frac{Sales}{\text{Re}\,ceivables}$$

C. Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. An industry should ensure that it does not suffer from lack of liquidity, and also that it is not too much highly liquid.

The most common ratio which indicates the extent of liquidity or lack of it is:

a) Current Ratio (CR)

The current ratio is calculated by dividing current assets by current liabilities. This shows the solvency and financial strength of the industry. It is basic yardstick of measuring the solvency and liquidity position of the industry. It is determined by the following way.

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

The higher ratio indicates the position of the industry is in liquid and able to pay its bills. Generally, the current ratio of 2:1 is considered to be satisfactory. Higher ratio indicates the greater amount of working capital and less ratio vice-versa.

D. Cash Conversion Cycle

Cash flow concept is used for analyzing the effectiveness of a firm's working capital management. The cash conversion cycle model reflects the length of time between when the company makes payment and when it receives cash. The following terms in this model:

I. Inventory Conversion Period

This period indicates the average length of time required to convert materials into finished goods and then to sell of those goods. It is calculated by dividing inventory on hand by sales per day.

$$\text{Inventory Conversion Period} = \frac{Inventory}{Sales} \mid 365$$

II. Receivable Collection Period

This period determines the average length of time required to convert receivable into cash, that is, to collect cash following a sale. It is calculated by dividing accounts receivable by the average credit sales per day.

$$\text{Receivable Collection Period} = \frac{\text{Re}\,ceivables}{Sales} \mid 365$$

III. Payable Deferral Period

The payable deferral period is the average length of time between the purchase of material, labor and the payment of cash for them. This period is calculated as:

$$\text{Payable Deferral Period} = \frac{Payables}{Sales} \mid 365$$

IV. Cash Conversion Cycle

The cash conversion cycle nets out the three periods just defined and thus equal the length of time between the firm's actual cash expenditure for productive resource and its own cash receipts from the sales of products. The cash conversion cycle equals to average length of time cash is tied up in current assets.

Cash Conversion Cycle as:

I	+	II	-	III	=	IV
Inventory Conversion Period		Receivable Collection Period		payable Deferral Period		Cash Conversion Cycle

3.5.2 Correlation Coefficient (r)

Correlation analysis is the statistical tools generally used to describe the degree to which one variable is linearly related to other variables. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree and direction of relationship or association between the variables. It does not tell about causes and effects relationship between the variables.

$$r = \frac{n \quad x_1 x_2 \; Z \quad x_1 x_2}{\sqrt{n \quad x_1^{\,2} \; Z(\quad x_2)^2}\sqrt{n \quad x_2^{\,2} \; Z(\quad x_2)^2}}$$

Where,

r = Coefficient of variation

$x_1 x_2$ = The total items of two series

x_1 & x_2 = The total sum of x and y series

$x_1^{\,2}$ & $x_2^{\,2}$ = The total square of item in x and y series

n = The total number of year

Interpretation of Correlation Coefficient:

I. It lies always between + 1 and -1
II. When r = + 1, there is perfect positive correlation.
III. When r = -1, there is perfect negative correlation.
IV. When r = 0, there is no correlation.
V. When r lies between 0.7 to 0.699, there is high degree of positive (or negative) correlation.
VI. When r lies between 0.5 to 0.699, there is a moderate degree of correlation.
VII. Where r is less then 0.5, there is low degree of correlation.

Probable Error (P.E.) of Correlation Coefficient

The probable error is the measure of ascertaining the reliability of the value of Pearson and coefficient of correlation P.E. is worked out as under for Karl Pearson's coefficient of correlation:

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

Where,

PE = Probable error of coefficient of correlation

r = Correlation co-efficient

n = Number of Pair of observations.

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not. A few rules for the interpretation of the significance of the correlation coefficient are as follows:

I. If r < P.E. (r), then the value of r is not significant (i.e. insignificant)

II. If r > 6 × P.E. (r), then r is definitely significant.

III. In other situation, nothing can be calculated with certainty.

3.6 Definition of Key Terms

To avoid confusion and misunderstanding, the key terms used in this study have been defined as follows:

I. **Current Assets:** Current assets include cash and those assets which can be converted into cash within a year such as marketable securities, debtors and stock, prepaid expenses.

II. **Current Liabilities:** Current liabilities include those liabilities which are with short-term maturating obligation to be met within a year. It includes account payable, loan and advance, provision of taxation and miscellaneous current liabilities and provision.

III. **Gross Working Capital:** Total investment in the current assets of the firm is called gross working capital.

IV. **Net Working Capital:** The different between current assets and current liabilities is called net working capital.

V. **Fixed Assets:** It consists of the assets of the company like land and building, plant and machinery, furniture & fixture, long term investments, vehicles and miscellaneous assets related to administration and construction works in progress.

VI. **Total Assets:** It is the total of assets side of Balance Sheet i.e. sum of CA and fixed assets.

VII. **Cash and Bank Balance:** It includes the cash-in-hand and cash-at-bank.

VIII. **Receivable:** A receivable is that amount of tied up money in sales which is not yet recovered. It includes trade and trade and other debtors.

IX. **Inventory:** It includes the stock of raw materials, work-in-progress, finished goods as well as other operating goods and spares.

X. **Payable:** It includes the amount of sundry creditors, which the companies have to pay with in a year.

CHAPTER -FOUR

DATA PRESENTATION AND ANALYSIS

This Chapter consists of analysis of data and presentation which has been collected through questionnaire. First of all presentation of descriptive data and turnover analysis are presented and in second section correlation analysis will be use to find out relationship between current assets and sales, sales and cash reserve of firm and Net Working Capital with sales has been tested to find out relationship between Working Capital and Sales of the firm in Furniture Industry in Pokhara.

4.1 Working Capital Policy used in Furniture Industry in Pokhara

Working capital policy refers to the firm's basic policies regarding the target level for each category of current assets and liabilities. Working Capital policy can be categories into three categories like: aggerssive, moderate and conservative policy. Every firm can adopt different working capital managers' attitude towards the risk return trade-off. One of the most important decisions of financial managers is how much current liabilities should be used to finance CA. Hence, it is tried to analyze on the basis of various variables and ratios of the furniture industry in pokhara valley's taking five years data to indicate working capital policy followed by industry. The analysis process in organized and described systematic manner as follows.

4.1.1 Analysis based on variables of Working Capital

First the variables of working capital have been examined to analyze the working capital policy which is followed by the furniture industry. For this the variabes of working capital have been examined and described.

4.1.1.1 Level of Current Assets and Current Liabilities

Every firm has to maintain the appropriate level of current assets to run the business smoothly because the success/failure of any firm depends upon the proper management of current assets. A company or firm finances its current assets and current liabilities conservatively or aggressively. An aggerssive management policy leads to lower level of

current assets and higher level of current liabilities and the conservative policy has just the opposite effects.

Current liabilities are the integral part of the working capital policy, current liabilities are defined as all the payment that has to be paid by the firm within in an accounting period generally within on fiscal year. Firms should maintain the optimum level of liquidity in order to enable the organization to meet the current liabilities. The position of current assets and current liabilities of furniture industry in pokhara valley is given in following table:

Table 4.1

Level of Total Current Assets

Year	Current Assets
2063/064	1890000
2064/065	1977893
2065/066	2290215
2066/067	2358215
2067/068	2343857

Source : appendix 1

Table 4.2

Level of Total Current Liabilities

Year	Current Liabilities
2063/064	567143
2064/065	557643
2065/066	659436
2066/067	675000
2067/068	631000

Source : appendix 4

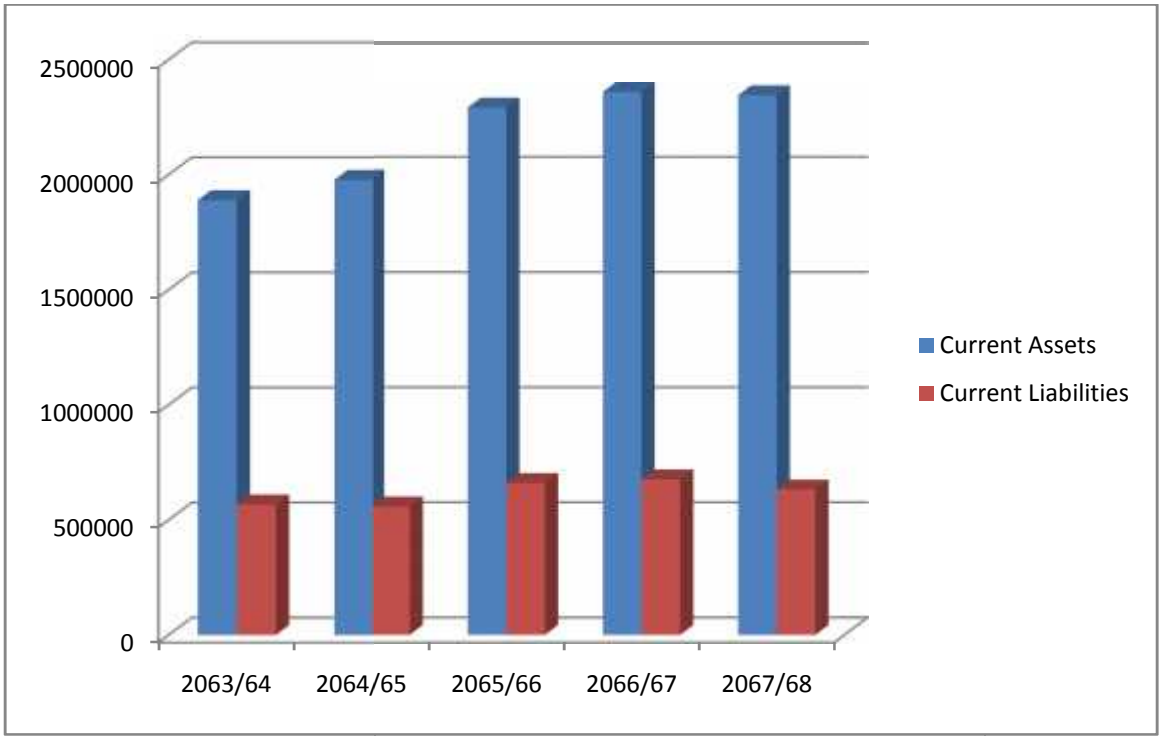
Table no. 4.1 shows higher level of current assets than overall average, so furniture industry has followed conservative assets management approach. The table shows that current asset varies from Rs.189oooo to Rs.15975oo for furniture industry. It shows that industry is not able to maintain consistency in holding of current assets.

Table no. 4.2 shows that the furniture industry has adopted conservative approach of current liabilities because it has lower average current liabilities level.

Graphic presentation of Level of Current Assets and Current Liabilities.

Figure 4.6

Level of CAs and CLs



The above figure 4.6 shows the yearly average level of current assets and current liabilities of furniture industry is in increasing or decreasing order .

4.1.1.2 Computation of Working Capital

The success and failure of any firm depends upon the proper management of current assets. These assets must be maintained at level that can adequately cope with the volume of business activities. The policy of any firm regarding the total amount of current assets required to support the given level of sales is referred to current assets policy of that industries. The current asset policy of furniture industries in Pokhara valley has been analyzed here in terms of the size of current assets in total assets and its relationship with fixed assets. The size of working capital of any industry should neither be high nor low. That means the working capital must be adequate in the country. Here the level of current

assets is measured by different three ratios. In order to study the size of working capital in furniture industries in Pokhara, these four types of ratios are calculated as under

i. Current Assets/Sales

ii. Current Assets/Total Assets

iii. Current Assets/Fixed Assets

iv. Net Working Capital/Current Assets

i. Current Assets as Percentage of Sales

The survival and growth of every business organization depends on the proportion of sale of the products or services they produce. The company's sales policy depend upon the availabe resources, market demand and production policy of the firm. In ordier to support the given level of sales, a company has to invest some amount in current assets which depend upon the current assets investment policy and attitude of management. For the purpose of furniture industries in Pokharavaley, current assets to sales ratio are calculated and prented in table 4.3.

Table 4.3

Current Assets as Percentage of Sales

Year	Current Assets	Sales	Percentage
2063/064	1890000	3534652	53.47
2064/065	1977893	346941	57.01
2065/066	2290215	4321752	53.00
2066/067	2358215	3847231	61.23
2067/068	2343857	3918985	59.81

Source: Appendix 1&8

The table 4.3 shows that the sales volume is decreasing in year 2064/065 then it is continuously increasing trend over 3 years. The proportion of current assets is also in increasing trend. It shows that CA have more consistency then the sales. It denotes that increase in sales leads to increase in CA.

ii. Percentage of Current Assets on Total Assets

The requirement of current assets depends upon the nature of business. Current assets are generally required to meet the working capital, which are used to fulfill the need of daily business requirements. The table given below represents the percentage of current assets on total assets.

Table 4.4

Percentage of Current Assets on Total Assets

Year	Current Assets	Total Assets	Percentage
2063/064	1890000	2515000	75.15
2064/065	1977893	2603536	75.97
2065/066	2290215	2975000	76.98
2066/067	2358215	3080500	76.55
2067/068	2343857	2979643	78.66

Source: Appendix 1&3

From the table 4.4, the percentage of current assets in total assets of the firm has been fluctuation from 78 to 75 percent and this shows consistency in holding of current asset in the furniture industry. The year 2063/064, current asset shared 75.15 percent of total assets where as this ratio was increased to 75.97 in 2064/065, to 76.98 percent in 2064/065 to 76.55 percent in 2066/067 and to 78.66 percent in 2067/068.

iii.Relationship between Current Assets and Fixed Asset

Every business organization should invest in current assets as well as fix to support a particular level of business activities. So, the furniture firms should determine the proper proportion of current assets with fixed and total assets. The level of current assets can be measured by relationship between to fixed assets, which can help to know the current asset financing policy of the firm. Assuming a constant level of fixed assets higher current assets to fixed assets ratio indicates and aggressive current assets policy, conversely lower ratio indicates a conservative current assets policy.

Table 4.5

Relationship between Current Assets and Fixed Assets

Year	Current Assets	Fixed Assets	Percentage
2063/064	1890000	625000	3.02
2064/065	1977893	625643	3.16
2065/066	2290215	684786	3.34
2066/067	2358215	722286	3.26
2067/068	2343857	635786	3.69

Source: Appendix 1&2

Table 4.5 shows the relationship between current assets on fixed assets. Investment in current assets on fixed assets. Investment in current assets is greater than fixed assets during the five year period. Percentage of CA is in increasing or decreasing order then FA throughout the furniture industry. Depreciation has reduced value of FA where as in furniture industry of Pokhara there is no recording of obsolence of CA.

iv. Net Working Capital to Current Asset Ratio

Net working capital represents the excess of current assets over current liabilities. If the current liabilities are in excess than the current assets, the difference is called working capital deficit. It is the rule of finance that the working capital in a business should be sufficient when compared to current liabilities. The NWC indicates the margin of safety provided to the creditors. The net working capital position is given below.

Table 4.6

Net Working Capital to Current Asset

Year	Net Working Capital	Current Asset	Percentage
2063/064	1322857	1890000	70.00
2064/065	1420250	1977893	71.81
2065/066	1630779	2290215	71.21
2066/067	1683215	2358215	71.38
2067/068	1712857	2343857	73.08

Source: Appendix 1&9

The table 4.6 presents the relationship between the networking capital and current assets of furniture industry during the five year study period. The percentage of NWC is increasing from 70.00 to 73.08 in year 2063/064 to 2067/068. That means the contribution of CA is slowly decreasing in NWC.

4.1.2 Structure/Investment of Working Capital

It is said that there is no such thing as model working capital structure for all business working. Capital structure needs plannig from the historical ratios of the particular firm. Apartform comparable data, the running norms of debt and equity ratio are also important. In respective form of the corporate sector, capital structure is determined on the basis that the same amount can maximize the long run value of per ordinary share. Here the objective is to analyze the structure of working capital in furniture industry. This section deals with the structure of composition of working capital ratio of cash, inventory and receivable to current assets of furniture industry.

I) Proporton of Cash to Current Assets

The proportion states, what percentage of current assets is in the form of cash. higher portion indicates the higher investment in cash which means higher level of idle fund, fund remains in the company that increases the opportunity cost and decreases the

profitability of the company. On the other hand, lower level of cash balance means loosing the oppertunities and unable to meet obligations on time. The following table shows the proportion of cash on current assets.

Table 4.7

Proportion of Cash to Current Assets

Year	Cash	Current Assets	Percentage
2063/064	779322	1890000	41.23
2064/065	838996	1977893	42.42
2065/066	964530	2290215	42.11
2066/067	1019517	2358215	43.23
2067/068	1023987	2343857	43.68

Source: Appendix 1 and 7

Table 4.7 shows the portion of cash on current assets of furniture industry in pokhara valley. The ratio of cash to current assets are 41.23, 42.42, 42.11, 43.23 and 43.68 percent in respective five year. The overall average holding ratio of cash to current assets is 42 percent of furniture industry in pokhara. Here, the higher investment in cash means higher idle fund in the industry. Lowest investment in cash means unable to meet its maturing liabilities on times.

II)Proportion of Receivable to Current Assets

This proportion shows, what percentage of current assets is in the form of receivables. An increase the ratio shows that the management of receivables has an important bearing on the performance of the company. Higher receivable to current assets ratio indicates the liberal credit policy of the company. So, the size of receivable in relation to current assets in analyzed here as follows:

Table 4.8

Proportion of receivables to current assets

Year	Receivables	Current Assets	Percentage
2063/064	338986	1890000	17.93
2064/065	358218	1977893	18.11
2065/066	421186	2290215	18.39
2066/067	423373	2358215	17.95
2067/068	391999	2343857	16.72

Source: Appendix 1 and 6

The above table 4.8 shows average ratio of receivable is 18 percent. The higher ratio is 18.39 percent and lowest ratio is 16.72 percent in furniture industry in Pokhara. The variability of ratio of receivable to current assets indicates that the industry has consistent credit policy of furniture industry in pokhara.

III)Proportion of Inventory to Current Assets

Inventory is the important part of the current assets specially for manufacturing industry. Furniture Industry in Pokhara valley have raw materials and finished stock like other manufacturing firms in the industry. Therefore in this study, inventory is referred to the inventory of raw materials, finished goods and semi-finished goods of furniture industry in pokhara.

Table 4.9

Proportion of inventory to current assets

Year	Inventory	Current Assets	Percentage
2063/064	763600	1890000	40.40
2064/065	845925	1977893	42.76
2065/066	979506	2290215	42.76
2066/067	995159	2358215	42.19
2067/068	954144	2343857	40.70

Source: Appendix 1 and 5

The table 4.9 shows the inventory in current assets of industry. The higher percentage of ratio is 42.76, the overall inventory level is 40 to 43. According to the portion of inventory is higher as compared to cash and receivable in composition of current assets.

4.2 Determinants of Working Capital in Furniture Industry

There are various determinants of working capital in furniture industry. The determinants of working capital and their ranks in priority of importance are summarized in table 4.10

Table 4.10

Determinants of Working Capital

S.N.	Determinants of Working Capital	Weighted of Determinant (Lower the weight higher the priority)	Rank of Determination
1.	Sales and Demand Condition	47	First
2.	Nature of business	50	Second
3.	Technologies and Manufacturing Policy	77	Third
4.	Operating Efficiency	92	Fourth
5.	Price Level Change	94	Fifth
6.	Credit Policy for Customer	100	Sixth
7.	Availability of Credit	101	Seventh

Source: Field Survey

From table 4.10, it is clear that sales and demand condition, nature of business, technologies and manufacturing policy are major determinants of working capital in the industry. Furthermore, operating efficiency, price level change, credit policy for customer and availability of credit also influence the need of working capital

4.3 Analysis Based on Liquidity Ratio

Liquidity position is one of the crucial factor that makes firm's day to day operation easier. It indicates the ability to pay its short term obligations. Liquidity position on the firm depends on its working capital policy. If the firm follows aggressive policy, it has low liquidity position while conservative policy has high liquidity position. One of the main objectives of working capital management is to keep good liquidity position. Ratio analysis is one of the tools to measure the financial performance of any companies. Hence, liquidity position of furniture industries in Pokhara valley is analyzed with the help of following ratio.

i) Current Ratio

Current ratio measures the short-term solvency of the firm. For analyzing the liquidity position, firm's current ratio is taken as major factors. This ratio is calculated by dividing current assets by current liabilities. As a conventional rule, a current ratio of 2:1 is considered satisfactory. Higher the current ratio, better the liquidity position.Higher the liquidity position, the lesser the need for additional working capital, since it will be better for them to have the best use of existing liquidity position. On the other hand, furniture industries have lower liquidity position must raise the amount of working capital to save themselves from serious future liquidity crises. the current ratio of furniture industry is shown under the table:

Table 4.11

Current Ratio

Year	Current Assets	Current Liabilities	Percentage
2063/064	1890000	567143	3.33
2064/065	1977893	557643	3.54
2065/066	2290215	659436	3.47
2066/067	2358215	675000	3.49
2067/068	2343857	631000	3.71

Source: Appendix 1 and 4

The above table 4.11 shows the current ratio of furniture industry in Pokhara valley of the study period. Current ratio throughout the industry of the last five year starting from 2063/064 to 2067/068 is 3.5:1 in average. This shows liquidity position is good and they are holding much amount of CA in the form of finished product to increase the sales.

4.4 Analysis of Turnover Position

Turnover or activity ratios are used to evaluate the efficiency and speed with which assets are being converted into cash.The behavior of working capital utilization and improvement can be analyzed with the help of turnover ratio. The relationship between sales and assets are indicated by turnover ratios. This ratio reflects how effectively the firm is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. With the help of these ratios current assets turnover, receivable turnover, inventory turnover and net working capital turnover are analyzed below:

4.4.1 Current Assets Turnover Ratio (CATR)

The current assets turnover ratio indicates the adequacy of sales in relation to the investment in current assets. Generally a high current assets turnover ratio indicates the maximum utilization of current assets during the year. For finding out the utilization of current assets of furniture industry, the current assets turnover ratio has been calculated and presented as below:

Table 4.12

Current Assets Turnover Ratio

Year	Net Sales	Current Assets	Ratio in Times
2063/064	3534652	1890000	1.87
2064/065	3469411	1977893	1.75
2065/066	4321752	2290215	1.87
2066/067	3847231	2358215	1.63
2067/068	3918985	2343857	1.67

Source: Appendix 1and 8

The above table 4.12 shows the relationship between net sales and investment in current assets in furniture industry. Current asset turnover is almost constant from fiscal year 2063/064 to 2067/068. Therefore operating efficiency of the industry has not improved from last five year.

4.4.2 Receivable Turnover Ratio (RTR)

Receivable is one of the major components of current assets. So, its degree of liquidity plays a vital role in the liquidity position of the firm. Thus, the measure of actual liquidity position of the firm remains incomplete without the analysis of the liquidity of receivables. So, receivable turnover has been used to measure the liquidity position of receivable. It indicates the number of times the receivable is turned out during the year. Higher turnover shows the higher degree of liquidity of receivable and alternative true.

Table 4.13

Receivable Turnover Ratio

Year	Net Sales	Receivable	Ratio in Times
2063/064	3534652	338986	10.42
2064/065	3469411	358218	9.68
2065/066	4321752	421186	10.26
2066/067	3847231	423373	9.08
2067/068	3918985	391999	9.99

Source: Appendix 6 and 8

The table 4.13 shows the receivable turnover of industry during 5 years study period. Receivable turnover ratio has been decreasing in 2064/065,increasing in 2065/066 and decreasing then ,that means sales on credit in the furniture industry is reducing. Hence, the higher ratio is good for industry.

4.4.3 Inventory Turnover Ratio (ITR)

Inventories are the stock of the product, a firm manufactures for the sales and component that make up a product. The shortage of required inventory results irregular production and hamper to the production process. On the other hand excess inventory causes unnecessary holding of capital and results into increasing in the carrying costs. Inventory turnover ratio measures the liquidity of inventory.

Table 4.14

Inventory Turnover Ratio

Year	Net Sales	Inventory	Ratio in Times	Days in years	I C P (Days)
2063/064	3534652	763600	4.63	365	79
2064/065	3469411	845925	4.41	365	89
2065/066	4321752	979506	4.41	365	83
2066/067	3847231	995159	3.87	365	94
2067/068	3918985	954144	4.11	365	89

Source: Appendix 5 and 8

The table 4.14 shows the inventory turnover ratio of the industry. The higher turnover ratio is 4.63 times in year 2063/064. The higher turnover shows the higher degree of liquidity of inventory and alternative true. Inventory turnover also reduce from 4.11 times to 3.87 times that means firms are increasing inventory level slightly throughout the industry.

Inventory Conversion Period (ICP) is also shown in above table. Table 4.13 shows the ICP of Furniture Industry in Pokhara has increasing during first years; 79 days in 2064/065 and has increased to 89 days and in2065/066 is decreasing and has increasing to 94 days in 2066/067 and decreasing then the previous year ICP by processing and selling goods more quickly.

4.4.4 Net Working Capital Turnover Ratio (NWCTR)

The net working capital turnover, ratio indicates the number of times the average net working capital is turned over during the year. The working capital needs for manufacturing industry also depends upon the turnover rate i.e. the time taken to convert current assets into cash. Any organization with higher turnover of working capital (CAs) needs lesser working capital compared to this firm having lower turnover. So, we can say

that if the firm uses lower level of working capital, the turnover is high and this firm has to follow aggressive working capital approach.

Table 4.15

Net Working Capital Turnover (NWCT)

Year	Net Sales	Net Working Capital	Ratio in Times
2063/064	3534652	1322857	2.67
2064/065	3469411	1420250	2.44
2065/066	4321752	1630779	2.65
2066/067	3847231	1683215	2.29
2067/068	3918985	1712857	2.29

Source: Appendix 8 and 9

The above table 4.15 shows that furniture industry's positive average net working capital turnover ratio. So, these industries enjoy positive net WC. But working capital turnover ratio is almost consistent throughout last five years. It shows, there is no possibility of reducing NWC by maintaining the sales in current trend.

4.4.5 Cash Turnover Ratio (CTR)

Net sales to cash ratios are calculated and presented in the table below. The relationship between net sales and cash balance reflects the efficiency of management in utilization of absolute liquid assets.

Table 4.16

Cash Turnover Ratio

Year	Net Sales	Cash	Ratio in Times
2063/064	3534652	779322	4.54
2064/065	3469411	838996	4.14
2065/066	4321752	964530	4.48
2066/067	3847231	1019517	3.77
2067/068	3918985	1023987	3.83

Source: Appendix 7 and 8

The table 4.16, shows that the ratio of Net sales to cash was 4.54, 4.14, 4.48, 3.77 and 3.83 for the study period. It is clearly shows that cash turnover ratio has been reduce from 4.54 times to 3.83 times in last five year. It means, financial efficiency and monitory control throughout the industry is detouring.

Summarize the Turnover calculation in table no.4.17

Table no. 4.17

Turnover Calculation

years Turnover	2063/064	2064/065	2065/066	2066/067	2065/068
C.A. Turnover = $\frac{Av.Sales}{Av.CA}$	1.87	1.75	1.89	1.63	1.67
WC Turnover = $\frac{Av.Sales}{Av.WC}$	2.67	2.44	2.57	2.29	2.29
Inv. Turnover = $\frac{Av.Sales}{Av.Inv.}$	4.63	4.10	4.41	3.86	4.11
Rec. Turnover = $\frac{Av.Sales}{Av.Rec.}$	10.43	9.69	10.26	9.09	10.00
Cash. Turnover = $\frac{Av.Sales}{Av.Cash}$	4.54	4.12	4.48	3.77	3.83

4.5 Trend Analysis

The financial statements may be analyzed computing trends and series of information. This method determines the action upwards to downwards and involves the computation of the percentage relationship the each statement has been extracted form the same item in base year. The information for a number of year is taken up and one year, generally the first year is taken as a base year. The trend percentage analysis interprets that either increase or decrease in trend percentage may give misleading results. This section expresses the trend of some related items, which have effect in working capital. The following tables express some significant trend ratios.

T able 4.18

Growth trend of CA, CL, Cash, Receivable & Inventory

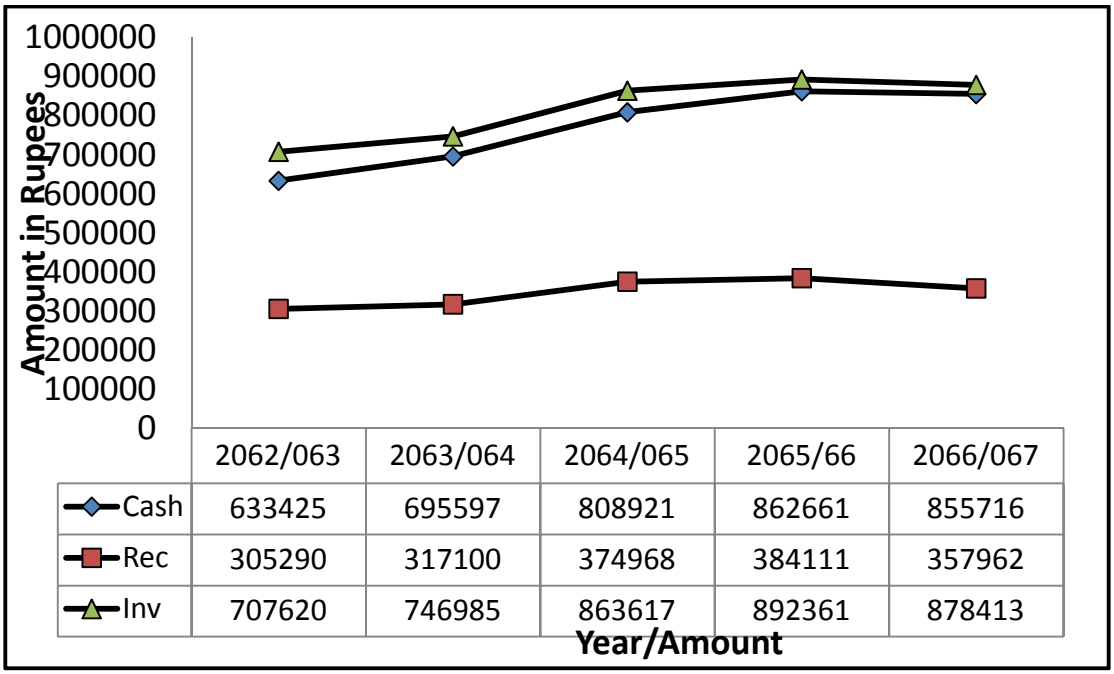
Year	CA	Ind	CL	Ind	Cash	Ind	Rec	Ind	Inv	Ind
2063/064	1890000	100	567143	100	779322	100	338986	100	763600	100
2064/065	1977893	105	557643	98	838996	108	358218	107	845925	111
2065/066	2290215	116	659436	118	964530	115	421186	118	979506	116
2066/067	2358215	103	675000	102	1019517	106	423373	101	995159	102
2067/068	2343857	99	631000	94	1023987	100	391999	93	954144	96

In above table 4.18 the trend ratios in fraction have been converted into integer and trend is plotted on line graphs as shown is the figure and these graphs have been analyzed.

Above figure 4.7, shows the trend of current asset and current liabilities over the five year study period of the company. The growth trend current assets is increasing rapidly then the current liabilities in the furniture industry of Pokhara. In this industry larger portion of current assets is in the form of finished product. Business man has holding finished product. Business man has holding increasing current assets to increase sales by providing verity of furniture to the customer.

Figure 4.8

Growth Trend of Cash, Receivables and Inventory



	2062/063	2063/064	2064/065	2065/66	2066/067
Cash	633425	695597	808921	862661	855716
Rec	305290	317100	374968	384111	357962
Inv	707620	746985	863617	892361	878413

The figure 4.8, shows the indices of cash, receivable and inventory over the observed period. Cash and inventory are moving similarly with increasing trend in year 2063/064 to 2064/065 where as receivable is increasing slowly in year 2063/064 to 2064/065. That means business man are not interested to sell the furniture on credit.

4.6 Correlation Test between Component of Working Capital and Sales

To analyzed the relationship between working capital management and it's influence on sales researcher has employed correlation test. While applying correlation test a simple assumption of business *maximizing the sales through good management of working capital* has been used.

4.6.1 Element of Working Capital (WC)

Concept of Working Capital

a) Gross Concept: This concept makes the implied meaning of working capital to current asset only.

Gross Working Capital=Total Current Assets

b) Net Working Capital Concept: This concept refers to the difference between current assets and current liabilities

Net Working Capital=Current Asst-Current Liabilities

Where,

i. Current Asset: Cash +Inventory +Receivable+short term investment in furniture industry in Pokhara. There is no use of short-term investment tools like T-bill, commercial paper by the furniture firm. Regarding affect of cash, inventory and receivable has been calculated in turnover ratio 'Table no. 4.18' in this same chapter.

ii. Current Liabilities= Payables + Outstanding Expenses

Furniture industry facing following situation in current liabilities side of Net Working Capital:

- Now a days there is no credit facility available to the furniture firm to buy (timber, steel/metal, plastic) their raw material.
- None of the worker or carpenter are ready to work on credit throughout the month.

4.6.2 Relationship between Current Asset and Sales

By using statistical package for Social Science (SPSS) version 18 correlations between current asset and sales is calculated. The correlation on coefficient is 0.5490. That means when sales is increases the current assets also requires to increase by almost 55 percent by the firm to maintain sales in increasing order.

And its Probable Error Calculation is

Correlation Coefficient (r) = 0.5490

No. of Pair of Observation (n) = 100

Probable Error (P.E.) $= 0.6745 \times \frac{1-r^2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-0.5490^2}{\sqrt{100}}$

$= 0.047$

The probable error (P.E.) is very small, therefore correlation coefficient is valid.

4.6.3 Relationship between Cash and Sales

By using statistical Package for Social Science (SPSS) version 18 correlation between cash and sales is calculated. The correlation coefficient is 0.840. that means, when sales is increase there should be increment cash balance in the firm to support that sales in increasing order while making future plan for working capital.

And its Probable Error Calculation is

Correlation Coefficient (r) = 0.840

No .of Pair of Observation (n) = 100

Probable Error (P.E.) $= 0.6745 \times \frac{1-r^2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-0.840^2}{\sqrt{100}}$

$= 0.029$

The probable error is very small, therefore correlation coefficient is valid.

4.7 Thegeneral information about furniture industry in Pokhara.

4.7.1 Types of Products to Sell

On the basis of raw furniture has been divided in to three groups: wood, metal and plastic, which has been summarized in table 4.19

Table 4.19

Types of the Product to Sell

Raw Material	No. of Firms	Percentage
Wood	10.5	75.00
Metal	3.35	23.93
Plastic	0.15	1.07
Total	14	100

Source: Field Survey

From the table 4.19 in the industry 75 percent of the firm are using wood, 23.93 percent are using metal and 1.07 percent are using plastic as a product to sell.

4.7.2 Location of Raw Material

Furniture industry in Pokhara has been using local raw material, raw material coming from other part of country and imported from other outside the country; which has been summarized in table 4.20.

Table 4.20

Location of Raw Material Supply

Location of Raw Material	No. of Firm	Percentage
Local	4	28.57
Inside Nepal	8	57.14
Imports	2	14.29
Total	14	100

Source: Field Survey

From the table 4.20, the portion of raw material that has been used is 28.57 percent is local, 57.14 percent is inside the Nepal and 14.29 percent from outside the Nepal.

4.7.3 Market Situation of Furniture Industry

Regarding current market situation the manager of various furniture firm have express various opening, which has been summarized in table 4.21.

Table 4.21

Current Market Situation of Furniture Industry

S.N.	Descriptive about Market Situation	No. of Firm	Percentage
1.	Highly Decling	1	7.14
2.	Slowly Decling	5	35.72
3.	Constant Level of Sales	3	21.43
4.	Growing Market	4	28.57
5.	Rapid Growth	1	7.14

Source: Field Survey

From the table 4.21 current market situation of the industry lies in between constant and slow declining stage and competition is in increasing trend.

4.7.4 Respondent's view on Current Problem of Furniture Industry

Furniture industry in Pokhara is facing following burning problems in their daily furniture business.

- Not availability of skillful and educated carpenter.
- Shortage of raw material
- Adverse government policy regarding timber
- Electricity supply disruption.

Source: Field Survey

4.8 Major Findings of the Study

From data collection and its analysis presented in this chapter, the major findings have been summarized as follows:

1. Furniture Industry in pokhara sub-metropolitan city has followed conservative working capital policy. It is concluded that industry has high level of CAs.

2. The important part of the analysis with the size of working capital. The size of working capital largely affect the trade off risk and profitability of the industry. The percentage of CA to Sales is increasing trend. It means the study clearly shows that CA have more consistency then the sales. The percentage of current assets on total assets of the firm has been fluctuation from 75 to 78 percent and this shows consistency in holding of CA in the industry. Likewise percentage of CA is in increasing order then FA throughout the furniture industry. Depreciation has reduced value of FA where as in furniture industry of Pokhara there is no recording of obsolence of CA. The sizes of net working capital have slowly increasing trend. That means the contribution of CA is slowly decreasing in NWC.

3. The ratio of cash to current assets is increasing order in last five year. Maximum holding ratio of cash to current assets is 43.68 percent andminimum holding ratio is 41.23 percent. The overall average ratio of cash to current assets is 42 percent of industry. The receivable is another important element that held overall industry average of receivable to current assets ratio is 18 percent. The variability of receivable to current assets indicates that the industry has consistent credit policy of furniture industry in Pokhara. Similarly, the overall industry average of inventory is 42 percent. According to the portion of inventory is higher as compared to cash and receivable in composition of current assets.

4. Sales and demand condition, nature of business, technologies and manufacturing policy are major determinants of working capital in the

industry. Furthermore, operating efficiency, price level change credit policy for customer and availability of credit also influence the need of working capital.

5. Liquidity position helps to analyze the ability of furniture industry in Pokhara. The overall average current ratio is 3.5:1. This shows liquidity position is good and they are holding much amount of CA in the form of finished product to increase the sales.

6. Efficiency of management of assets can be assessed with the help of volume of sales. The volume of sales in any business firms not only affects the size of WC but also clearly reflects the efficiency, with which assets are managed. Above analysis shows the current asset turnover is almost constant from fiscal year 2063/064 to 2067/068. Therefore, operating efficiency of the industry has not improved from last five year. Likewise receivable turnover has been increasing in 20667/068 then 2065/066 that means sales on credit in the furniture industry is reducing. Inventory turnover reduce from 4.63 times to 4.11 times that means firms are increasing inventory level slightly throughout the industry. The overall average Inventory Conversion Period (ICP) of furniture industry in Pokhara valley is 87 days. Likewise NWC turnover is almost consistent throughout last five years. It shows, there is no possibility of reducing NWC by maintaining the sales in current trend. Likewise, cash turnover has been reduce from 4.54 times to 3.83 times in last five year. It clearly shows that financial efficiency and monetary control throughout the industry is deteriorate.

7. All the variables that affect the working capital are in increasing trend during the study period in comparison with increasing trend of total assets. Trend indicates of C.A. in increasing rapidly then the CL in the industry. Cash and inventory are moving similarly with increasing trend where as receivable in increasing slowly that means business man are not interested to sell the furniture on credit.

8. The correlation coefficient between current assets and sales is 0.5490. That means, when sales is increases the current assets also required to increase by almost

55 percent by the firm to maintain sales in increasing order. And probable error is 0.047, which is very small. Therefore correlation coefficient is valid.

9. The correlation coefficient of cash and sales is 0.840. That means, when sales is increases there should be increment in cash balance in the firm to support that sales in increasing order. And its probable error is 0.029, which is very small. Therefore correlation coefficient is valid.

10. In the Furniture Industry 87.5 percent of the firms used wood, 11.75 percent firms used metal/steel and 0.75 percent used plastic as a raw materials to produce furniture.

11. Furniture industry of Pokhara is using local, national and imported raw materials to produce furniture. The portion of raw material that has been used: 38 percent is local, 60 percent is inside Nepal and 2 percent from outside the Nepal.

12. Current market situation of the furniture industry lies in between constant and slowly declining stage and competition is in increasing trend.

13. Furniture Industry in Pokhara is facing following burning problems in their daily furniture business:

    * Not availability of skillful and educated carpenter.
    * Shortage of raw material.

Adverse government policy regarding timber.

Electricity supply disruption

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter summarized the whole study, draws the major conclusions and forwards the recommendation for efficient working capital management of Furniture Industry in Pokhara.

5.1 Summary

The study of Working Capital Management of Furniture Industries in Pokhara sub-metropolitan city is exciting and challenging. The working capital policy and practices are different among the companies. The study is concentrated on the various aspects of the working capital management with special reference to the Furniture Industry in Pokhara. It includes the data of twenty firms listed in GhareluUdhuogKaralayaPokhara, kaski, and covers the period of five fiscal years from 2063/064 to 2067/068. For the shake of simplicity, the overall study is divided into different chapter.

The first chapter focuses on brief introduction of the study and the overall view of furniture industry in pokhara. It has also attempted to set the objective, statement of problems, limitations and significance of the study. Finally, it presents the organizational of the study. Likewise the second chapter deals with the review of literature and the overall view of different studies and related thesis.

The third chapter deals with the research methodology to analyze the data. This chapter includes research design, nature and sources of data, data collection and processing techniques using financial and statistical tools. The necessary data and other various information are collected from the financial statements of the individual firms by using questionnaire. Financial ratios like current ratio, current assets to total assets, cash, inventory and receivable to current assets as well as different of correlation and probable error have been used to analyze the relationship between working capital variables.

Presentation and analysis of data are studied in the fourth chapter. In this chapter, the generated data were presented in tabular form and analyzed systematical as per requirement. This study has focused on the working capital policy followed, liquidity position and analysis of success/failure of Industry. Besides this statistical techniques have been used to analyze the collected facts in order to examine their relationships to each other.

The overall average of working capital policy used by Furniture Industry in Pokhara is conservative policy. The size and structure of working capital was analyzed by comparing current assets and its components with different related variables.The structure of Working Capital of Furniture Industry in Pokhara is 41 percent, 18 percent, 42 percent to cash, receivable and inventory respectively. At current situation, market demand of furniture industry slowly decline so, the industry should think about further. Sales and demand condition, nature of business, technologies and manufacturing policy are major determinants of working capital in the industry. The study that emphasis should given to increase the average current assets, current liabilities and inventory turnover position as well as to reduce the receivable amount. The industry average of turnover ratio is consistent throughout last five years. In the analysis of relation between working capital variables, the correlation is in increasing order.

The Furniture Industry, in the present context, are facing certain policy issues like inefficient financial planning, negligence of WC management, deviation between liquidity turnovers etc. These policy issues can be overcome if furniture industry undertake measures like identification of needed funds, regular supervision and monitoring, development of management information system, positive attitude towards risk and profit determinations, right combination of short-term and long-term sources of funds to finance working capital needs, appropriate combination of investment in current assets, minimizing operating cost, preparing effective sales plan, specific working capital policy, improving liquidity position by improving financial performance.

5.2 Conclusion

After analyzing in detail the present practice of Working Capital Management of Furniture Industries in PokharaValley, this study concludes the following:

I. Most of the selected Furniture Industries in PokharaValley has followed conservative working capital policy. It is concluded that industry has high level of CAs.
II. The size of net working capital of Furniture Industries in PokharaValley has slowly increasing trend. That means the contribution of CA is slowly decreasing in NWC.
III. Overall industry average of cash to current assets ratio is 41 percent, receivable to current assets ratio is 18 percent and inventory to current assets ratio is 42 percent. According to the portion of inventory is higher as composition of current assets.
IV. The major determinants of working capital in the Furniture Industry in PokharaValley are sales and demand condition, nature of business and technologies and manufacturing policy.
V. The overall average current ratio is 3.5:1. This shows liquidity position of Furniture Industry in PokharaValley has good and they are holding much amount of CA in the form of finished product to increase the sales.
VI. According to turnover analysis the current assets turnover is almost constant from fiscal year 2063/064 to 2067/068. Therefore operating efficiency of the industry has not improved from last five years. Likewise receivable turnover has been increasing in 2067/068 then 2066/067 that means sales on credit in the furniture industry is reducing. Inventory turnover reduce from 4.63 times to 3.87 times that means firms are increasing inventory level slightly throughout the industry. Likewise the overall average ICP of furniture industry in pokhara valley is 90 days. NWC turnover is almost consistent throughout last five years. It shows, there is no possible of reducing NWC by maintaining the sales in current trend. Finally cash turnover has been reducing from 4.54 times to 3.83 times in last five years. It

clearly shows that financial efficiency and monetary control throughout the industry is deteriorated.

VII. Under the statistical analysis, the correlation coefficient between *current assets and sales* is 0.5490. That means, when sales is increase the current assets also required to increase by almost 55 percent by the firm to maintain sales in increasing order. Likewise the correlation coefficient between *cash and sales* is 0.840. That means, when sales is increase there should be increment in cash balance in firm to support that sales in increasing order.

VIII. Current market situation of the Furniture Industry in PokharaValley lies in between constant and decline stage and competition is in increasing.

IX. Furniture Industry in PokharaValley is facing some burning problems like:electricity, skilled and educated carpenter, shortage of raw material, adverse government policy regarding timber.

5.3 Recommendation

The following recommendations are suggested by the researchers for management of the furniture manufacturers:

To adopt Optimal Current Assets Policy

The level of WC is increasing trend in the furniture industry in pokhara. Which shows the furniture industry has positive WC management. So, it should be properly managed to achieve high return on investment with customer satisfaction. It is necessary to formulation of appropriate WC policy because lack of target WC level holding in long run and absence of source of finance the financial condition of industry is going to downfall. The industry should adopt such kind of CAs policy that the holding of CAs neither be excessive nor inadequate. So, the components of CAs (cash, receivable and inventory) should be managed effectively.

To maintain Effective Inventory Management

The management of working capital is highly depended upon the effective inventory management. The investment in inventory made by furniture industry in Pokhara is in increasing level. The higher turnover shows the higher degree of liquidity of inventory and alternative true. So, the industry should make effective sales plan which help the immediate marketability which certainly decrease the problem of inventories and the total cost of holding inventory will decrease. The management must give attention towards capacity utilization, carrying cost, ordering cost and lead time for effective inventory management. So, the attention must be paid to the factors determining the size of inventory.

To prefer the determinant of Working Capital

There are various determinants of working capital in furniture industry. In this study clearly shows that sales and demand condition, nature of business and technology & manufacturing policy are major determinants of WC in the industry. So, sales directly affectes to the need of CAs or WC. The level of WC will increase if sales level increases. Therefore, to forecast the level of CAs, the level of sales should be forecasted. To survive in competitive market condition, effective sales management needs to be assess and for it, market and production situation should also be analyzed.

To maintain Effective Liquidity Position

The liquidity position of the furniture industry in Pokhara is considered satisfactory. Furniture Industry in Pokhara has better the liquidity position; there is no need to additional working capital. Which indicates keep it up regularly. Also well managed co-ordination between schedule of raw material requirement and production with consumer demand and short term or long term debt or equity is to be issued to maintain appropriate liquidity position.

To maintain the Turnover Position

The current asset turnover of furniture industry is good as well as net working capital is positive which indicates that, the utilization of current assets and net working capital during the study period is high. It is also better for this; training, participation in the management conferences, foreign Furniture Industry visit program etc. are to be managed for managerial level member to develop the managerial ability. So, the plans meeting on going turnover problems should be prepared as a part of working capital policy.

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Annex: 1

Current Assets

Years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1.	1200000	1500000	1700000	2000000	2000000
2.	1000000	1150000	1200000	1375000	1500000
3.	12000000	11000000	13500000	12500000	1449000
4.	310000	380500	405000	440000	500000
5.	1500000	1545000	1590000	1630000	1700000
6.	650000	700000	680000	690000	900000
7.	2000000	2100000	2400000	2500000	3200000
8.	1200000	1440000	1728000	2070000	1900000
9.	300000	300000	350000	350000	500000
10.	2500000	2750000	3000000	3300000	5000000
11.	1000000	1500000	1600000	1800000	4000000
12.	1500000	1800000	2160000	2500000	3850000
13.	300000	325000	350000	360000	405000
14.	1000000	1200000	1400000	1500000	1650000
Total	26460000	27690500	32063000	13301500	32814000
Average	189000	1977893	2290215	2358215	2343857

Annex: 2

Fixed Assets

Years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	700000	700000	900000	900000	1000000
2	375000	420000	450000	480000	525000
3	1000000	800000	1200000	1500000	1500000
4	450000	525000	655000	670000	700000
5	300000	300000	315000	320000	320000
6	90000	125000	150000	200000	210000
7	1000000	1000000	1000000	1050000	1050000
8	600000	600000	600000	600000	600000
9	500000	500000	500000	500000	500000
10	1000000	1000000	1000000	1000000	1000000
11	1500000	1550000	1550000	1565000	159000
12	500000	500000	525000	540000	540000
13	35000	39000	42000	47000	57000
14	700000	700000	700000	740000	740000
Total	8750000	8759000	9587000	10112000	8961000
Average	625000	625643	684786	722286	635786

Source: Field Survey

Annex: 3

Total Assets

Years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	1900000	2200000	2600000	2900000	3000000
2	1375000	1570000	1650000	1855000	1925000
3	13000000	11800000	14700000	14000000	11500000
4	760000	905500	1060000	1110000	1200000
5	1800000	1845000	1905000	1950000	2020000
6	740000	825000	830000	890000	960000
7	3000000	3100000	3400000	3550000	3550000
8	1800000	2040000	2328000	2670000	2500000
9	800000	800000	850000	850000	850000
10	3500000	3750000	4000000	4300000	4500000
11	2500000	3050000	3150000	3365000	3590000
12	2000000	2300000	2685000	3040000	3290000
13	335000	364000	392000	407000	440000
14	1700000	1900000	2100000	2240000	2390000
Total	35210000	36449500	41650000	43127000	41715000
Average	2515000	1977893	2290214	2358214	2979643

Source: Field Survey

Annex: 4

Current Liabilities

years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	300000	300000	400000	500000	500000
2	55000	75000	60000	80000	40000
3	2400000	2200000	2700000	2500000	2000000
4	295000	362000	402100	450000	344000
5	400000	400000	500000	600000	600000
6	60000	100000	150000	125000	200000
7	1000000	1200000	1450000	1700000	1700000
8	800000	900000	1000000	950000	900000
9	200000	200000	200000	200000	200000
10	200000	210000	230000	250000	250000
11	1200000	1000000	900000	800000	850000
12	700000	750000	800000	800000	750000
13	30000	35000	40000	45000	50000
14	300000	375000	400000	450000	4500000
Total	7940000	7807000	9232100	9450000	8834000
Average	567143	557643	659436	675000	631000

Source: Field Survey

Annex: 5

Inventory

years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	240000	300000	340000	400000	400000
2	280000	320000	305000	425000	346000
3	6000000	5500000	6750000	6250000	5000000
4	380400	402700	410980	435215	870255
5	450000	463500	47000	489000	510000
6	195000	210000	204000	207000	225000
7	100000	1050000	1200000	1250000	1250000
8	240000	288000	345600	414000	380000
9	120000	120000	140000	140000	140000
10	1375000	1512500	1650000	1815000	1925000
11	400000	600000	640000	720000	800000
12	375000	450000	540000	625000	687500
13	135000	146250	157500	162000	164250
14	400000	480000	560000	600000	660000
Total	10690400	11842950	13713080	13932215	13358005
Average	763600	845925	979506	995159	954144

Source: Field Survey

Annex: 6

Receivable

years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	360000	450000	510000	600000	600000
2	40000	35000	45000	25000	29000
3	2400000	2200000	2700000	2500000	2000000
4	105800	215300	2757000	204210	195735
5	300000	309000	318000	326000	340000
6	130000	140000	136000	138000	150000
7	400000	420000	4800000	500000	500000
8	360000	432000	518400	621000	570000
9	60000	60000	700000	70000	70000
10	125000	137500	150000	165000	175000
11	200000	300000	320000	360000	400000
12	150000	18000	216000	250000	275000
13	15000	16250	17500	18000	18250
14	100000	120000	140000	150000	165000
Total	474580	5015050	5896600	5927210	5487985
Average	338986	358218	421186	423373	391999

Source: Field Survey

Annex: 7

Cash

years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	600000	750000	850000	1000000	1000000
2	680000	795000	850000	925000	1025000
3	3600000	3300000	4050000	3750000	3000000
4	110500	125940	150410	168225	250810
5	750000	772500	795000	815000	850000
6	325000	350000	340000	345000	375000
7	600000	630000	720000	750000	750000
8	600000	720000	864000	1035000	950000
9	120000	120000	140000	140000	140000
10	1000000	1100000	1200000	1320000	1400000
11	400000	600000	640000	720000	800000
12	975000	1170000	1404000	1625000	1787500
13	150000	162500	175000	180000	182500
14	500000	600000	700000	750000	825000
Total	10910500	11745940	13503410	14273225	14335810
Average	779322	838996	964530	1019517	1023987

Source: Field Survey

Annex: 8

Net Sales

years / Firms	2063/64	2063/65	2065/66	2066/67	2067/68
1	3000000	3500000	4000000	4000000	5000000
2	7200001	830000	8950000	950000	1054000
3	24000000	22500000	25000000	25000000	27000000
4	1625120	1701256	1712525	1820230	1850790
5	1400000	1500000	1550000	1600000	1166000
6	1050000	1125000	1100000	1250000	1500000
7	6000000	5000000	5500000	58000000	5600000
8	1500000	1550000	1600000	1650000	1300000
9	1000000	1100000	1200000	1000000	900000
10	1125000	1237500	1350000	1485000	1575000
11	4500000	4800000	5100000	5500000	5000000
12	1800000	1850000	1600000	1900000	1200000
13	165000	178000	192000	216000	220000
14	1600000	1700000	1650000	1690000	1500000
Total	49185120	48571756	60504525	53861230	54865790
Average	3534652	3469411	4321752	3847231	3918985

Source: Field Survey

Annex: 9

Net Working Capital

Year	CA	CL	NWC
2063/064	1890000	567143	1322857
2064/065	1977893	557643	1420250
2065/066	2290215	659436	1630779
2066/067	2358215	675000	1683215
2067/068	2343857	631000	1712857

Source: Field Survey

Annex: 10

Market Leader

1. Bindhyeswari Furniture Industries
2. Ashok kasthakaryalaya
3. Nava DurgaKasthaUdhyog
4. Purna Furniture Udhyog

Source: Field Observation

Dear Sir/Madam.

I am conducting a study titled. "WORKING CAPITAL MANAGEMENT OF FURNITURE INDUSTRIES IN POKHARA SUB-METROPOLITAN CITY", as a partial fulfillment of the requirement for the master degree in business studies. So, I want to some valuable information's about this organization. I hope you would kindly help me filling up this questionnaire. I assure you that information's given by you will be use only for academic purpose and kept confidential.

Thanking you.

Sincerely Yours.

Ganesh Bhandari
MBS Student
Department of Management
T.U, Kirtipur

Questionnaire

Name of the Firm :

Address :

Date of Established :

Type of the Firm :

Name of the Respondent :

Position :

1. What types of the products do you sell?

Sales Percentage

- ☐ Wooden Furniture _____
- ☐ Steel Furniture _____
- ☐ Plastics Furniture _____

2. Where do you being the raw materials from?

- ☐ Local (from within valley)
- ☐ Inside Nepal (from within country)
- ☐ Imports (from foreign country)

3. What is the market situation of the furniture industry in Pokhara?

- ☐ Highly declining
- ☐ Slowly declining market
- ☐ Constant level of sales
- ☐ Growing Market
- ☐ Rapid Growth

4. What are the factors what determine the amount of working capital? Prioritize them from 1 to 7 (1 for highest importance, and 7 for lowest).

- ☐ Nature of Business
- ☐ Sales and Demand Condition
- ☐ Technologies and Manufacturing Policy
- ☐ Credit Policy for Customer

- ☐ Availability of Credit
- ☐ Operating Efficiency
- ☐ Price Level Change

5. Please mention the current Assets (in Rupees) of your firm on the fiscal year 2063/064 to 2067/068.

Fiscal Year	Current Assets
2063/064	
2064/065	
2065/066	
2066/067	
2067/068	

6. Please mention the current liabilities (in Rupees) of your firm on the fiscal year 2063/064 to 2067/068.

Fiscal Year	Current Liabilities
2063/064	
2064/065	
2065/066	
2066/067	
2067/068	

7. Please mention the fixed assets (in Rupees) of your firm on the fiscal year 2063/064 to 2067/068.

Fiscal Year	Fixed Assets
2063/064	
2064/065	
2065/066	
2066/067	
2067/068	

8. Please mention the structure of composition of working capital (in Rupees) of your firm on the fiscal year 2063/064 to 2067/068.

Fiscal Year	Inventory	Receivables	Cash
2063/064			
2064/065			
2065/066			
2066/067			
2067/068			

9. Please mention the sales amount of your firm on the fiscal year 2063/064 to 2067/068.

Fiscal Year	Net Sales
2063/064	
2064/065	
2065/066	
2066/067	
2067/068	

10. Please specify, what are the current problems in working capital financing and suggestion for development of the furniture industries in Pokhara valley?

_____

_____

_____

_____

_____

Thank you, for kind cooperation.