CHAPTER — I

INTRODUCTION

1.1 Background

Nepal a Himalayan Kingdom is located between the Latitude 26^0 22' N to 30^0 27' North and longitude 80^0 4' E to 88^0 12' east with elevation ranges form 90 to 8848m. The country is surrounded by the two most popular countries of World, China in the North and India in the east, west and south; Nepal is a land Locked country and home place of natural beauty with traces of artifacts.

Nepal is one of the least developed countries in the World. More than 80% of the total people are still in the rural areas and most of them are deprived form the minimum requirement of human Livelihood. In Nepal still 31% of people are under the line of poverty and average life expectancy of Nepalese people is 62.2 years.

Geographically, the country is divided in there regions like Mountain, Hill and Terai with an accommodation of 7.3, 44.3 and 48.4 percent of the population respectively. Based on area of districts these regions shares 35, 43 and 23 percent of the total land area. There are 5 development regions and 75 administrative districts. Districts are further divided into smaller units, called Village, Development Committee (VDC) or Municipality.

Currently there are 3,915 VDCs and 58 Municipalities in the country. Each VDC is composed of 9 wards but Municipality wards ranges from 9 to 35. Kathmandu is the capital city.

There are numbers of peaks, rivers and lakes in the country. Major peaks are Mt. Everest (8848m), Mt. Kanchanjangha is the third highest peak in world and the second highest peak in the country (8586m), Mt.Lhotse (8516m), Mt. Makalu (8463m), Mt. Chooyu (8201m), Mt. Gaurishankar (7134m), Mt.Machhapuchhre (7059m), and many other gracious peaks are in Nepal. (See: Appendix-1)

Main River System:

Name of System	Course Location Region
1. Koshi	Eastern Region
2. Gandaki	Western Region
3. Kamali	Mid-Western Region
4. Mahakali	Far-Western Region

(Source: Statistical Pocket Book 2006)

Principal Lakes:

Name of the lake	Location District
a. Raradaja (Mahendra Tal)	Mugu
b. Phewa Tal	Kaski
c. Gosain Kund (main)	Rasuwa
d. Phoksundo Tal	Dolpa
e. Satyawati Tal	Palpa

(Source: Statistical Pocket Book 2006)

Economic growth of the country has not improved substantially over time. As the population growth is 2.25% per annum, growing population has overshadowed the gain achieved by development activities. (Statistical Pocket Book: 2006)

1.2 Evolution of industry in Nepal

Handicrafts and cottage industries in Nepal are in existence from the very old days, but development of modem industries is of recent origin. In 1935 A.D. an Industrial Board, named 'Udhyog parishad'was formed with a vice to producing goods under medium and large industry. The first Company Act was promulgated in 1936 A.D. and in the same year Biratnagar Jute Mill, Nepal's first joint stock company, came into being. A few years later the same group of industrialists started the Morang Cotton Mills at Biratnagar Nepal Bank Ltd. Was established in 1937 A.D. in order to provide financial assistance to industry and trade.

The years that followed witnessed further acceleration in industrial growth. New ventures like the Morang Sugar mills (1964), the Raghupati Jute Mills (1946). The juddha Match Factory (1946) and a few others at Biratnagar were initiated. Surprisingly enough, within a short period of 10 years as many as 63 industrial units were opened with a total capital investment of Rs.72 million. However, most of them went into liquidation after the World war. A company Act was enacted in 2007B.S.

The five year plan period (1956-61), in this plan, sugr, metals, handicrafts, hotels, match, textile, bixcuit and confectoncery industries including janakpur Cigarette factory, Birgung sugar Factory and Bansbari Leather and Shoe Factory were established in the public sector.

Second Plan (1963-65), in this period, Industrial Policy (2014), private firm Registration Act (2014), and Factory and Factory's worker's Act (2016) were published. NepalIndustrial Development Corporation was established in 2016.

Third plan (1965-70) in this plan, Vegetable ghee, flour mill, soap, cold storage, bakery, etc. Industries were established in the private sector, while

Hetauda and Balaju Textile Industries were established in the public sector under the assistance of Chinese government. At the same period, new industrial policy and industrial Enterprises Act (2030) were enacted and industrial Services Center (2031) was set up.

Fourth plan (1970-75), in this period, some same nature industry was established like third plan.

Fifth plan (1975-80), in this period, only 3 industry were established in the sector, while a few small industries, such as, flour mill, cotton, soap, polythene pipe, etc were established in the private sector. Security Exchange Centre (2033) came into existence.

Sixth plan (1980-85) in this period, biscuit and confectionery, shoes and sandal, rice mills, bricks factories were established in the private sector. Hetauda Cement Industry, Bhrikuti Paper Factory, Nepal Orient Magnetite and Nepal Metal Industry were under construction phase; However, Industrial Policy (2037), industrial Enterprises act (2038), foreign investment and Technology Act (2038) were formulated.

Seventh Plan (1985-90)in this period, Industries established in the private sector were woolen carpets, ready made garments, beer, distillery, cement, cigatree, etc. Lumbini Sugar Factory, Udayapur Cement Factory, Industrial District Management Ltd and Economic Services Center Ltd. were set up in public sector.

Eighth Plan (1992-97), in this period, HMG has adopted open and liberal economic policies. As a result, Industrial policy (2049), Industrial Enterprises Act (2049), Foreign Investment and Technology Transfer act (2050) were reviewed. During the plan period, Medicines, soap and detergent powder industries were set up under foreign collaboration. HMG has already privatized 16 public enterprises.

Ninth Plan (1997-2002) has also been accomplished which continued the liberal economic policy. The plan had targeted to privatize 30 more public enterprises during the plan period but which could not be done as per target.

Tenth plan (2002-07), at present the Tenth Plan Period, 2003-08 is in operation. The main objective of tenth plan is to make economic sector of country effective healthy, dynamic and compensative by maximum utilization of available resources. The plan conceives to expand the role of private sectors for higher economic growth and effective operation of poverty alleviation programmed sector is as follows: (Tenth plan, 2002-07, National planning commission, HMG Nepal; 108)

1. Emphasis on investor friendly environment for forward economic improvement by policy wise guarantee.
2. Provision of entry and draw back of private investment in the every sector of economy by defining the role of private sector.
3. Increase in competitive capacity by providing facilities and benefits to the investment sector.
4. Acceleration of privatization programmed effectively.

Three-year Interim Plan (2007/08-2009/10), The Government of Nepal (GON) related the three-year interim plan (TYIP) for 2007/08-2009/10 in December 2007. The main objective of the interim plan isto laid the foundation of economic and social transformation for developing a prosperous, modern and judicious Nepal. The plans aims at reducing unemployment, poverty and inquality to support enduring peace and to make people experience change directly in their life-style. (Source: Three-Year Imterim Plan 2007/08-2009/10)

1.3 Foriegn Investment Policy of Nepal

The government formulated foreign investment and one window policy, 1992 to encourage foreign direct investment. Technology transfer benefits, can be expected because generally foreign investment is linked with technology transfer. The legal provisions relating to foreign policy are contained in Foreign Investment and Technology Transfer Act, 1992 (amended 1997).

Salient features:-

Foreign Investment:-

It refers to the following investments made by foreign investors in any industry:-

1. Investment in Share (Equity)
2. Re-Investment of earning derived from the investment.
3. Investment made inn the form of loan or loan facilities.

Technology Transfers:-

It means transfer of any technology made under an agreement between an industry and a foreign investment on the following matters:-
1. Use any technical right, specialization, formula, process, patent or technical know-how of foreign origin.
2. Use any trademark of foreign ownership.
3. Acquiring any foreign technical consultancy, management and marketing services.

Foreign Investor:-

Any foreign individual, firm, company or corporate body including foreign government or international agency involved in foreign investment or technology transfer is called foreign investor.

Permission should be obtained:-

Though foreign investment and technology are required to promote and develop industries, the government of Nepal is not bound to accept foreign investment and technology for all sorts of industries in the country. The Act has mentioned a list of industries for which no permission for foreign investment shall be granted. Before acquiring investment and technology transfer form the foreign Investors one should get permission from the Department of Industry-sec.3 (1).

Facilities and Concessions provided to foreign investors:-

A) Income tax facility

i. No income tax shall be imposed to a foreign investor on the interest earned from foreign loan.
ii. Whatever income the foreign investor earns from foreign technical as well as management service fees and royalty income tax at a rate of 15% only will be levied

B) Facility to take away the foreign currencies from Nepal:

A foreign investor making investment I foreign currency may repatriate the following sums outside Nepal:-

i. The amount received by sale of shares of foreign investment as a whole or any part thereof.
ii. The amount received as profit or dividend on account of foreign investment.
iii. The amount received as a payment of principal and interest on any foreign loan.
iv. The amount received under an agreement for the transfer of technology.

C) Provisions relating visa:-

Act has made the following 3 types of visa provisions for the foreign investors:

i. Non - tourist Visa

ii. Business visa
iii. Residential visa. (Agrawal; 445)

1.4 Introduction of Unilever Nepal Limited

Nepal Lever Limited was established in 1992 in collaboration with Hindustan Lever Limited. From fiscal year 04/05 the name of the company Nepal Lever Limited has been changed. Now the company is known as Unilever Limited. As result by the Eleventh Annual General meeting of the company dated 13th December 2004 the office of the register of company has, vide their letter dated 10th February 2005, approved the changes in name of the company from Nepal Lever into Unilever Limited.

Unilever Limited was formed as a subsidiary company of Hindustan Lever Ltd. a multinational company of India. It is also recognized as one of the most profit earning and greater tax paying company of Nepal. The factory is located at Basamadi VDC of Makwanpur district. The corporate office of the company is situated at Kamaladi (Heritage Plaza II), Kathmandu. It was registered in NIDC capital markets Ltd. Kamalpokhari, Kathmandu, Nepal. Its Bankers or Unilever Limited obtains loan from reputed eight banks. They are as follows:-

1. Standard Chartered Bank Nepal Limited
2. Nepal SBI Bank Limited
3. Nabil Bank Limited
4. Nepal Bank Limited
5. Himalayan Bank Limited
6. Rastriya Banijya Bank
7. Everest Bank Limited
8. Bank of Kathmandu Limited

(See: Appendix-5)

Unilever Limited was formed as a Public Ltd. Company in 1993 A.D. and production was started from December 1994 A.D. it was registered under Company Act 2053 with authorized capital of Rs. 30,00,00,000 (Thirty crores), paid up capital of Rs. 12,00,00,000 (Twelve crores) and working capital of Rs. 9,98,00,000 (Nine crores & ninety eight lakhs). It is a subsidiary company of foreign investment and technology transformation. The company is listed in Nepal Stock Exchange. It has been involving itself in different types of social works since its establishment. The company has launched a number of products in the market out of them main products are as follows:

- ► Washing Powder (Wheel & Surf Excel)
- ► Shampoo (sun silk, Clinic Plus & Dove)

- Laundry Soap (Wheel 72%)
- Toilet Soap (Life Buoy)
- Fair &Lovely Cream
- Oral care (Pepsodent & Close-up)
- Vim bar (Dish washing soap)
- Tea & Vanaspati Ghee
- Scourers
- Food & beverages

Not withstanding a healthy economic growth of around 5% trading conditions were difficult during the 57/58 with market especially in the rural areas affected by the frequent disturbances across the country. With a series of initiatives and strong brand focus the domestic business grew by 21% export business, however, saw a decline due to certain fiscal changes, which reduced the competitiveness of Nepalese manufactured products in the Indians Market.

The company continued its strong focus on serving the domestic market and this is reflected in the domestic business growth of 27%. The company nurtured last year innovations as well as launched and re-launched a number of new products in the course of the year. Domestic manufacture of surf Excel helped to expand the premium detergent powder category in Nepal. Locally produced Surf Excel has been launched in a convenient single are pack for Rs. 3.00. high quality laundry soap 72% was launched at an affordable price of Rs. 8.00 in one endeavor to make good quality products available to all sections of the population at affordable prices. A number of variants of fair & lovely oil control, anti marks have been launched to offer additional benefits and choices to the customers. Lifebuoy gold was successfUNLy launched. Close up, Clinic plus and wheel were re-launched with enhanced consumer relevant propositions and improved formulations.

A part from investing heavily in media the company also organized a number of exciting events like 'Lux Beauty Star 2004', 'Close up Sassy zone', 'Close up nepali tare' and also conducted a very popular workshop and for the first time ever in Nepal a Hair & style shows in association with Javed Habib a popular hair designer from India. Same as this year Sunsilk Fashion week has held and gave Nepal's fashion designers an opportunity to show cash their collection and art. It also provided an opportunity to several news upcoming models to be noticed on the ramp. The close up sassy zone theme parties and website continued to provide a fun way for young people to interact with each other and get to know each other. The website has become very popular amongst the urban youth of Nepal. A new website pepsodent care.com was launched. The interactive website allows consumers to direct their dental problems to a qualified dentist who responds to them. In association with VOW magazine the company organized the Top 10 college woman Award. The winners were presented with cash awarded and gained recognition amongst the key persons of Nepal, thereby helping them to launch their careers. Fair and Lovely also sponsored World Miss University Nepal, where the best student from Nepal's colleges was went to Korea representing the country in the grand finale.

The company continued to invest heavily in improving outdoor and in shop visibility of its brands. It is continued its distribution expansion appointing distributors in the interiors of Nepal. Carrying our products to within arm's reach of consumers even in far flung remote areas of the country as well as the company continuing its innovation in sales and distribution practices to strengthen the distribution system, additional distributors were appointed in the main town. The company made significant inputs in the training and development of our distributor's salesman to enhance market working and improve merchandising. It continued its unrelenting focus on unearthing an eliminating all non-value adding cost, supply chain costs were reduced through a process re-design, local vendor development, identification of global low cost sources and procurement from them. It is also continued to invest in manufacturing capabilities by up gradation of machinery for manufacture of low unit price packs.

The factory at Hetauda has completed 4.0 millions man hours without any 'Low time Accidents' during the entire previous year. The company is proved to report that it was awarded the Unilever 'Bronze Excellence Trophy' for safety. Unilever has also received a merit mentioned in the National occupational safety & Healthy Award for year 2000. Company has been awarded FNCCI National Excellence for its significant achievement in operational information dissemination & utilization in large sclale category in 2006. The company has been awarded "Best presented Accounts award for 2003/04" category "Industrial Sector" by the institute of Chartered accountants of Nepal, and now best presented Accounts Award-2006: Runner up in the category of manufacturing sector by the institute of Chartered Accounts of Nepal. This achievement was 3 years in a row, the first year being adjusted as the best. The Company also continues to adhere to high standard of pollution control and follow global Unilever Norms for treatment of effluent and emission. And the company succeeds to 15% reduction in furnance oil consumption per ton of soaps and 9% drop in water consumption. Focused efforts in energy conservation have yielded a further 4% reduction in specific energy consumption. This has been achieved through rigorous implement action of a number of wastage control measures as well as optimization of process.

Unilever strives to be a trusted corporate citizen maintaining high standards of corporate governance and fulfilling it's responsibilities to the societies and communicates in which it operates. It provides direct employment to over

133 Nepalese citizens and generates indirect employment for over 20 times that no through our network at suppliers, distributor and ancillaries.

It evolved in various social projects to enrich the lives of the communities. It has embarked on an ambitious program. A mobile medical unit is being operated in Hetauda by Company's employees Trust to provide emergency medical service to residents of Makawanpur district. The 'Miles of Healthy Smile' program runs in conjunction with United mission to Nepal have provide dental hygiene awareness workshop and dental checkup to 102680 students over 207 school children across Nepal. Several dental campuses were also supported. It has assisted ASMAN in its endeavor to provide education available to the poor focused on the girl child. During the year the coextended help to four medical camps held in and around Hetauda and donated oral care products.

Unilever has accorded a very high priority to improving the skills and capabilities of its employees and considers employee training and development as a key corner stone for superior performance. Employees at all levels received training through classroom instruction, coaching and functional visits to other companies to benchmark and learn from their best practices and personnel. The company maintained cordial relationship with the workmen and a two year settlement was signed.

Despite a daunting business climate the company remains committed to actively participating in the development of Nepal and to delighting it's consumers through high quality products at affordable prices. The company has come a long way since 2055 when the domestic operations had a turnover of Rs. 35 crores which has increased to Rs. 181 crores in 2064. The company continues to identify new products and categories in which it can delight the consumers' through relevant innovations and supply of high quality products. This will indeed sustain if not better the pace of growth of the company over the next few years. The company seeks the support of Government and its trade partners in this endeavor.

1.4.1 Ownership

Unilever Ltd. is the first subsidiary company of Hindustan Lever Limited outside of India with holding 80% ownership and invested Rs. 73.3 millions in equity. The authorized capital of the company is Rs. 30,00,00,000 and issued and paid up capital of Rs. 97,070,000.

Percentage of share holding is as follows:

Group	Name of Share holders	No. of Shares	% of shares
A	Hindustan Lever Ltd, India	7,36,560	80%
B	Sibkrim Land and Ind. Co (Pvt.) Ltd	46, 035	5%
C	Public Share holder	1,38,105	15%

(Source: fourteenth Annual Report and Account of UNL, 2006/07)

1.4.2 Management & Directors

Unilever Nepal Limited has a board of directior comprising of seven members. They are as follows: -

1. M.K. Sharma -Chairman
2. Ravi Bhakta Shrestha -Director
3. Shambhu Prasad Poudyal -Director
4. Daval Buch -Director
5. Umesh Shah -Director
6. Sanjaya Dube -Director
7. Kamran Bakr -Managing Director
8. Ambar Bahadur Thapa -Company Secretary
9. R.Bajracharya & Company -Chartered Accountant

(Source: fourteenth Annual Report and Account of UNL, 2006/07)

Post conclusion of 14th annual general meeting, Mr. M.K. Sharma will step down as Director and Chairman of the company. The Board places on record its appreciation of the contribution of Mr. M.K. Sharma during his tenure as chairman of the company. Mr. Douglas Baillie, CEO & Managing Director of Hindustan Unilever Ltd. will be appointed as chairman of unilever Nepal Ltd.

Mr. Kamran Bakr, Director – Supply chain of Unilever Bangladesh Ltd. was appointed as managing director of the company with effect from 1st feb 2007 to fill up the vacancy caused by the resignation of Mr. Rakesh Mohan consequent to his move to unilever Bangaladesh.

Mr. Sanjay Dube, Director, nominee of Hindustan Unilever Ltd, resigned from the board consequent to his move to Unilever Poland. Mr. Reazul Haque Chowdhury, Customer Development Director, Unilever Bangladesh Limited has been nominated by Hindustan Unilever Limited as Director to fill up the vacancy caused by Mr. Sanjay Dube's move.

Mr. Umesh Shah, Director, nominee of HUL, has resigned from the Board upon his relocation to Singapore.

1.5 Focus of the Study

The focus of the situation of the Nepalese enterprises, as a mater of fact, is in very poor shape. Apart from other measures required to improve their performance, private and public enterprises may be expected to have better prospects with effective cash management.

The focus of the study will be critical examination of cash management technique followed by Unilever Limited. The period covered by the study is 6 years. The present study of cash management in Unilever Limited is the first of its kind.

1.6 Statement of the problem

Unilever Nepal Limited is one of the largest Company with foreign investment. The major invester is Hindustan Lever Ltd. Despite of utmost monopoly, it is not making good profit or desired profit. To check the reason, answer for following question will be looded for in the research paper: -

1. What is the present practice of cash management in Unilever Nepal Ltd?
2. Whether the cash management is matching with the management syste or not
3. Is there any other alternative cash management policy which can be adopted to maximize profit?

1.7 objectives of the Study

The present study has been conducted to examine cash management of Unilever Limited. It focuses on the investment decision of the company and in particular the main objective of the study is to analyse existing cash management tactice in short run business operation of the company.

Following are the objectives of the study:

i. To study the existing cash management and system adopted by UNL.
ii. To assess the impact of cash management and performance.
iii. To examine and critically analyze the cash management practices in Unilever Limited.
iv. To recommend viable suggestion to cope up with cash management shortcoming in Unilever Limited.

1.8 Significance of the Study

This study is concerned to the theoretical explanation and practical application of cash management of Unilever Limited. Business transaction without the investment of cash are mythical in this monetary world, today the importance of cash management is recognized. Every research is done for some specific reasons that is to say every research work has a rationale behind it and every study that has rationale behind it has some significance. The main significance of this study is:

- It describes the current financial status of Unilever Limited.
- It explores the difficulties faced by the management while managing cash.
- It provides information and suggestions on how to manage cash effectively.
- Since many people are unaware of benefits of effective cash management, it will also be helpful for them to have an insight of modern management technique.
- Last but not the least, it provides the literature to the researcher who wants to carry on further research in this field.

1.9 Limitation f the study

The scope of the study is subject to various limitations which are as follows:

i. The study assumes that the impact of political factors of the country such as change in government, any sort of political involvement (direct or indirect) in the firm, if prevalent, has no significant effect on the financial decisions.
ii. This study is limited to cash management of Unilever Limited,
iii. Being a student, financial resources is another factor which has limited the scope of the study.
iv. This study is based on data provided from companies and other available resources. Hence, this study is bassed on primary and secondary data.
v. The study covers the period of six years beginning from (2001/02 to 2006/07)

1.10 Research Methodology

Research is a systematic and organized effort to investigate specific problem that needs a solution. This process of investigation involves a series of well thought-out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Research methodology consists of research design, data collection procedure, data processing procedure and techniques.

1.11 Organization of the study

This study has been organized into five chapters, which are given below: -

I. Introduction

The first chapter is the introductory, which deals with the background of the study of Unilever Nepal Limited, focus of the study, statement of the problem, research methodology, and limitation of the study.

II. Review of Literature

The second chapter deals with the review of literature and review of related studies.

III. Research Methodology

In the third chapter, the research methodology employed for the study has been described. It includes research design, data collection and sources, data gathering, data processing procedure, financial tools and techniques, research question etc.

IV. Presentation and Analysis of Data

In the fourth chapter, the acquired data's are presentation of data and analysis of data, interpretation of data and presents finding of the study through the way given in research methodology.

V. Summary, Conclusion and Recommendation

In the fifth chapter the summary of the finding issue and constraints and some recommendations is described. At last, bibliography and appendix have also been included in the last part of the study.

Bibliography and Appendix have also been included in the last part of the study.

CHAPTER — II

REVIEW OF LITRATURE

Introduction

Review of literature refers to the receiving of the past studies in the concerned field. Such studies could be thesis/dissertations that are written earlier, books, articles, journals, and or any sort of other publications concerning the subject matter, which were written prior by a person or an organization. The purpose of this literature review is to get acquainted with has been accomplished in the concerned subject matter and what is yet to be accomplished. In other word, it helps to find what actually is to be studied and foretells worthiness of the study being undertaken.

2.1 Conceptual Framework

The basic concept of Cash management has been searched into this section of literature review. Textbooks that have been prescribed under academic studies are the primary sources on the basic concept of cash management.

2.1.1 Meaning of Cash

Cash is the important current assets for the operation of any business. Cash is the basic input needed to keep the business running on a continuous basis; it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. Every firm should keep sufficient cash, neither more or less. Cash shortage will disrupt the firm's manufacturing operation while excessive cash will simply remain idle without contributing anything towards the firm's profitability. Thus every firm should maintain a sound cash position.

Cash management is concerned with the managing of

i. Cash flows into and out of the firm,
ii. Cash flows within the firm and
iii. Cash balances held by the firm at a point of time by financing deficit or investing surplus cash.

Cash management assumes more importance than other current assets because cash is the most significant because it is used to pay the firm's obligations. However, cash is unproductive, unlike fixed assets or inventories; it does not produce goods for sale. Therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm liquid and to use the excess cash in profitable way.

Cash management predicts cash flow accurately, particularly the inflows and there is no perfect coincidence between the inflows and outflows of cash. During some periods, cash outflows will exceed cash inflows, because of payments for taxes, dividends, or seasonal inventory build up.

At other times cash inflows will be more than cash payments because there may be large cash sales and debts may be realized in large sums promptly. It also constitutes the smallest portion of the total current assets, yet management's considerable time is devoted in managing it. Thus, an obvious aim of the management nowadays is to manage its cash affairs in such a way that is keeps cash balance at minimum level and invests the surplus cash in profitable opportunities.

In order to resolve the uncertainty about the cash flow prediction and lack of synchronization between cash receipts and payments, the firm should develop appropriate strategies for cash management.

2.1.2 Meaning of Cash Management

Literally the term *'Cash Management'* is concerned with the management of cash. "Cash Management is concerned with the decision regarding the short-term funds influencing overall profitability and risk involving in the firm. The management of cash has been regarded as one of the conditioning factors in the decision-making issues."(Saksena, 1974; 31) It is no doubt, very difficult to point out as to how much cash is needed by a particular company, but it is very essential to analyze and find out the solution to make an efficient use of funds for maximizing the risk of loss to attain profit objectives. The main objective of cash management is to ensure that sufficient cash is available at all times to meet the level of operation that are outlined in the various department within the organization. Cash management is subject to in certainty. Cash management can help a firm to avoid each balance that are surplus to its requirement by enabling management to take steps in advance to invest the surplus cash in short term investments. Alternatively, each deficiency can be identified in advance and steps can be taken to ensure that bank loans will be available to meet any temporary cash deficiencies. The overall aim of any organization should be to manage the cash of the firm to attain maximum cash availability and maximum interest income on any idle funds.

Cash the most liquid assets, is of vital importance to the daily operations of business firm. "Cash is both the beginning and end of the working capital cycle-cash, inventories, receivable and cash. Its effective management is the key determinant of effective working capital management. The steady and healthy circulation of cash through out the entire business operation is the business solvency. "(Kent & Irwin, 1964; 365) It is cash, which keeps a business going. Hence, every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or an outflow of cash. Efficient and optimal cash flow management is important to all firms. Financial managers working with banks have developed cash gathering and disbursing technique, which speed up the availability of funds and thus enable the firms to put its cash to work sooner.

"Cash is 'non earning' assets in the sense that, although it is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes to service debts, to pay dividend and so on, cash it self earn no interest. Thus the goal of cash management is to conduct business." (Weston & Brigham, 1981; 428) In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. Its shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. However, idle cash is sterile; its retention is not without cost. Holding of cash balance has an implicit cost in the form of its opportunity cost. Thus to minimize the loss in the form of opportunity cost effective cash management should be applied. Therefore financial manager have developed new techniques for optimizing cash balance and determining the appropriate relation between holding cash and holding investment in marketable securities.

2.1.3 Efficiency of Cash Management

Cash is used for a number of functions as it makes payment possible. It serves to meet emergencies. However, if cash is kept idle it contributes directly to the loss of the corporation. As such, corporation must adopt such policy that makes optimum cash management possible. The financial manager of the corporation should try to minimize the corporations holding of cash wide still maintaining enough to insure payment of obligation. "For improving the efficiency of cash management effective method of collection and disbursement should be adopted. Some methods for efficiency of cash management are briefly described below."(Shrestha, 1980; 183)

i. Speedy Cash Collections

The primary objective in controlling each collection is to reduce the delay between the time when customer made the payment and when it becomes a collected balance. Collection can be accelerated try decentralized collection centre and concentration banks. Lockboxes, wire transfers, depositing cheques, special handling of large remittances, and the use of pre-authorized checks. The amounts of cheques sent by customers but not yet collected are called deposit float. The greater the deposit floats, the longer the time taken in converting cheques into usable funds. There are mainly two techniques, which can be used to save mailing and processing time concentration banking, lock box system.

ii. Concentration Banking

Concentration banking is a system of operating through number of collection centers, instead of a single collection center centralized at the firm head office. In this system the firm will have a large number of bank accounts operated in the area where the firm its branches. Not all branches may have the collection centers. The collection centers will be required to collect cheques from customers and deposit them in their local bank accounts. The collection center will transfer funds above some predetermined minimum to a control generally at the firm's head office, each day. A concentration bank is one is where the firm has a major bank account usually the disbursement.

iii. Slowing Disbursement

A part from speedy collection of account receivable the operation cash requirement can be reduced by slow disbursement of account payable. It may be recalled that a basic strategy of cash management is account payable. It may be recalled that a basic strategy of cash management is to delay payment as long as possible without impairing the credit rating of the firm. Infect, slow disbursement represent a source of funds requiring no interest payments. There are some techniques to delay payments: avoidance of early payment centralized disbursement, floats and accruable. "Quick collection and slow disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursement cash results in a faster turnover of cash." (Shrestha, 1960; 203) "Whereas the underlying objectives of collection are maximum acceleration, the objectives in disbursements are to slow them down as much as possible."(Horne, 1974; 426)

iv. Cash Velocity

Efficiency in the use of cash depends upon the cash velocity i.e. level of cash over a period of time:

$$\text{Cash velocity} = \frac{Annual.sales}{Average.cash.balance}$$

v. Synchronized Cash Flows

Situation in which inflows coincides with out flows, there by permitting a firm to hold transaction balance to a minimum.

vi. Using floats

Cheques written by firm are not deducted from bank records until they are actually received by the bank, possibly a matter of several days. The lab between the times the cheques is written until the time the bank receives it is known as float.

vii. Transferring Funds

There are two principal method-wire transfers and electronic depository transfer cheques. With a wire transfer, funds are immediately transferred from one bank to another. With an electronic depository transfer cheques (DTC) arrangement in the movement of funds, an electronic cheques image is processed through an automatic clearinghouse. The funds become available on business day later. From small transfers, a wire transfer may be too costly.

viii. Minimum Cash Balance

Corporations are required to keep a minimum cash balance requirement of a bank either for the service it render or in consideration of a lending arrangement.

ix. Overdraft System

A system where by depositors may write cheques in excess of their balances with their banks automatically extend loan to cover the shortage. Most of the foreign countries see over draft system.

x. Transferring fund

A transferring fund is a system for moving funds among accounts at different banks. The main transfer mechanisms are depository transfer cheques (DTC), electronic depository transfer cheques (EDTC) and wire transfers.

2.1.4 Different Techniques of Cash Management

i. Cash Planning

Cash planning can help anticipate future cash flows and needs of the firm and reduces the possibility of idle cash balance and cash deficits. “Cash planning is a technique to plan for and control the use of cash.”(Pandey, 1999; 843) The forecasts may be based on the present operation or anticipated future operation. Cash plan are very crucial in developing the overall operation plans of the firm. Cash planning may be done on daily, weekly or monthly basis. It depends upon the size of the firm and philosophy of management.

ii. Cash Budget:

Cash budget is the most significant device to plan for and control cash receipt and payment, “Cash budget generally indicates the cash outflow and inflow. The key point in investment analysis is to focuse. Exclusively on difference in expected future cash flows are treated the same whether they arise from operations, purchase or sale of equipment or investment in or recovery of working capital. The opportunity cost and the time value of money are tied to cash flowing in or out of the organization not to the source of the cash” (Khan and Jain, 1993; 175).” This information helps the financing of these needs and exercise control over the cash and liquidity of the firm.

This time horizon of cash budget may differ from firm. A firm whose business is affected by seasonal variations may prepare monthly cash budget. Daily of weekly cash budget should be prepared from determining cash requirements it cash flows show extreme fluctuation cash budget for longer interval may be prepared of cash flows are relatively stable.

iii. Short Term Cash forecasting:

There are most two common used methods of short term cash forecasting are as follows:

a. Receipt and Disbursement Method:

The prime aim of receipt and disbursement forecasts is to summarize these flows during a predetermined period. In cash of those companies where cash items of income and expenses involves flow of cash, this method is favored to keep a close control over cash.

b. Adjusted Net Income Method:

This method of cash forecasting involves the tracing of working capital flows. Someone it is also called the sources and uses approach. Two objectives if the adjusted net income approaches are to project the company’s need for cash at some future date and to show whether the company can generate this money internally or not, how much will gave to either borrow or rise in the capital market. In preparing the adjusted net income forecasts items such as net income, depreciation, taxes, dividend etc, can easily be determined from the company’s annual operating budget.

iv. Long Term Cash forecasting:

Long term cash forecasting are prepares to give an idle of the company's financial requirement of distant future. Once a company has developed long-term cash forecast, it can be used to evaluate the impact of say new product development on the firm financials condition three, five or more years in future. The major uses of the long term cash forecasts are company's future financial needs, especially for it working capital requirement, to evaluate proposed capital projects and it help to improve corporate planning long term cash forecasting not only reflects more accurately the impact of any recent acquisitions but also foreshadow financing problems these new additional may post for the company.

2.1.5 Determining the Optimum Cash Balance

Financial manager responsibilities are to maintain a sound liquidity position of the firm. Therefore, those dues may be settled in time. The firms need cash to not only purchase raw materials and pay wages but also for payment of dividend, interest, taxes and count less other purposes. The test of liquidity is really the availability of cash to meet the appropriate amounts of cash balance. A trade off between risk and return influences such a decision. If the firm maintains a small cash balance, its liquidity position become weak and suffers from a capacity of cash to make payment. But investing released funds in some profitable opportunities can attain a higher profitability. If the firm maintains a high level of cash balance it will have a sound liquidity position but forego the opportunity to earn interests. Thus the firm should maintain an optimum cash balance to find out the optimum cash balance the transaction costs and risk of too large a balance. The figure shows this trade-off graphically

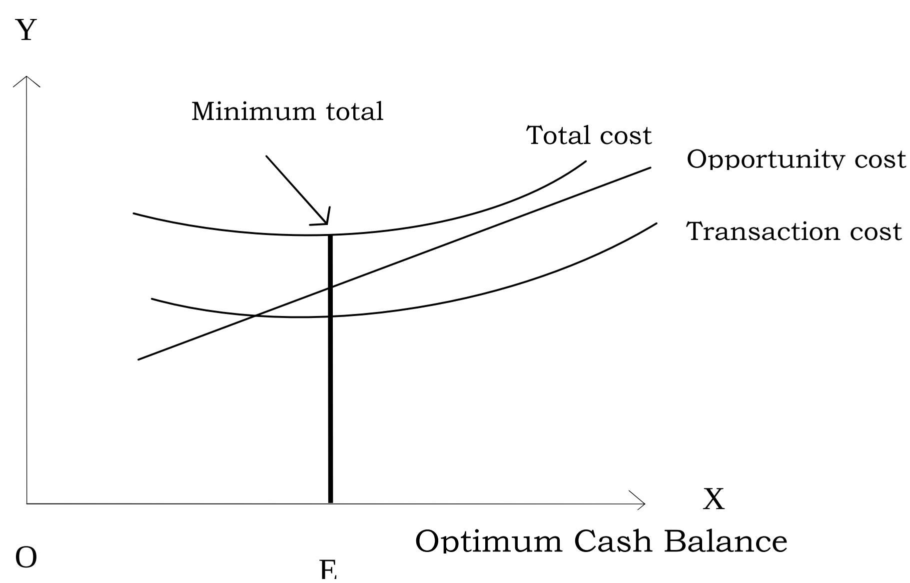

Figure no: 2-1 Determination of optimum cash balance

If the firm maintains larger cash balances its transaction costs would decline, but the opportunity costs would increase at point E the sum of the two costs is minimum. This is the point of optimum cash balance, which a firm should sack to achieve.

2.1.6 Cash Management Models

There are different types of analytical model for cash management.

i. Baumol Model
ii. Miller-Orr Model
iii. Orgler's Model

I. Baumol Model: (Khan & Jain, 1952; 545-556)

In view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required firm immediate use be invested in the marketable securities.

Baumol model is one of the methods that can be used for this purpose. Baumol identifies the cash maintenance as analogues to inventory maintenance and demonstrates that the model if economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. Baumol model is based on the assumptions that (i) the cash is used at a constant rate (ii) the periodic cash requirements is more or less and (iii) there are some costs such as opportunity costs that increase and other costs such as transaction costs that decrease as cash balance increase. Because of the assumption (i) and (ii) the graphical representation of cash position looks like as follows:

Cash Balance

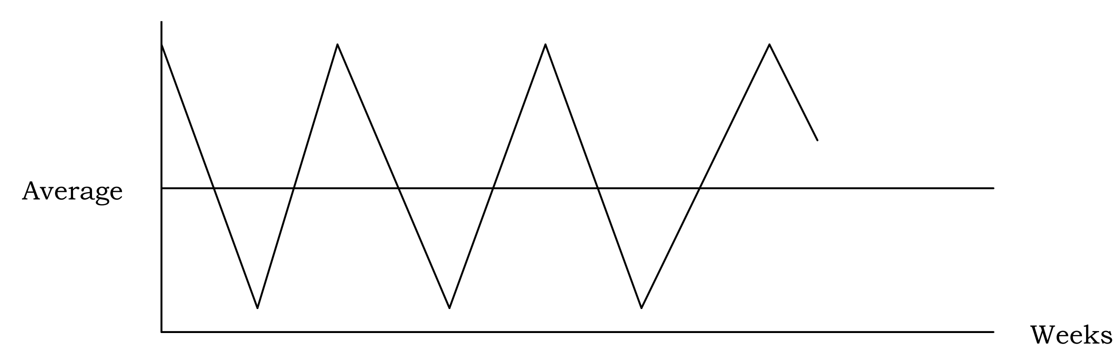

Figure 2.2 EOQ Model of cash balancing

Unlike the case of inventory purchase, the cash transfer does not take time. There fore, it is normally not required to maintain safety stock of cash.

Given its assumption, the model prescribes an optimal size of cash balance and the optimal size of cash transfer from marketable securities to cash account or borrowing. What matter for a firm if the total of opportunity cost and the transaction cost? There fore, the objective of this model is to minimize the total cost.

The figure bellow shows the relationship between the average size of cash balance and various costs associated with cash maintenance.

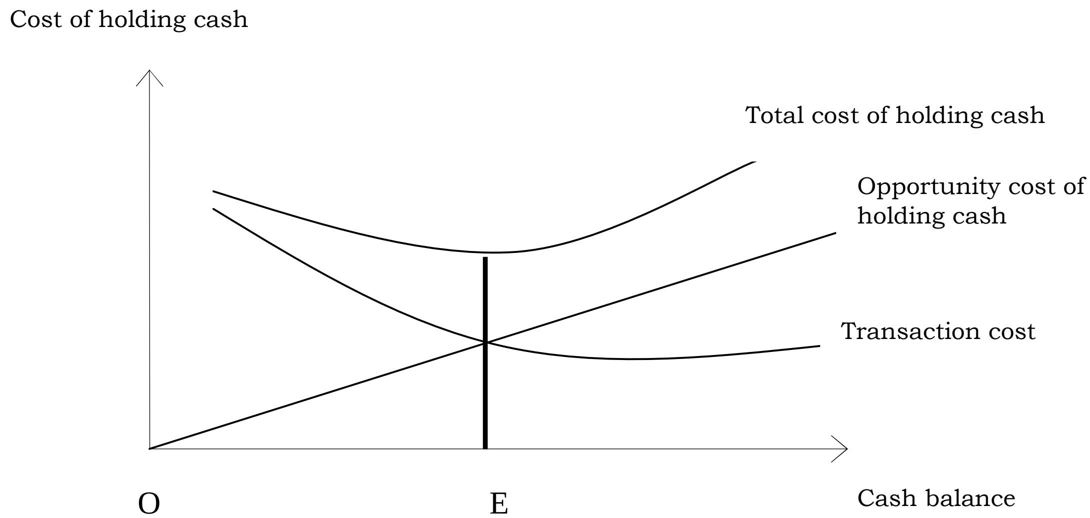

Figure 2.3 Relation between average cash balance and cost of maintains

Mathematically, the optimal size of cash transfer from investment accounts or line of credit, E is determined as follows:

$$E = \sqrt{\frac{2FR}{K}}$$

Where,

F = Fixed transaction cost per transaction
R = Requirement of cash per period
K = Opportunity cost of holding cash or interest rate on borrowing

The Baumol model can be appropriately applied in case of predictable uniform net cash flows, but not in the situation characterized by irregular and uncertain cash flows.

The average cash balance (c) is calculated as follows:

$$C = \frac{E}{2} + M$$

Where, M = Minimum balance or cash for precautionary purpose

II. Millier-ORR Model: (Miller & Orr, 1996; 413-435)

The size of cash need depends on the pattern and degree of irregularity of inflow and outflows. The Baumol model does not consider the possible inflow and outflows as well as irregularity and uncertainty of receipt and payments. Merton Miller Daniel ORR have developed a model known as Miller-ORR model, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa.

The model is based on the assumption that the daily net cash flows are random in size as well as in the negative or positive flows and are normally distributed in the long run. The model sets a range of high and low limits with in when the cash balance is allowed to fluctuate and sets the target cash balance (z) in between these two limits. The model suggests bringing the cash balance to target balance whenever its drifts away to the limit sin either direction. The rule is to transfer the amount of cash that is necessary to bring the cash position to its target balance from the investment account whenever the balance slides down to the investment account whenever it reaches to the upper limit (U). The lower limit in the model is set by either managerial decision to meet emergency need or as required by bank to mountain compensating balance in the account. The graphical representation of this model is as follows:

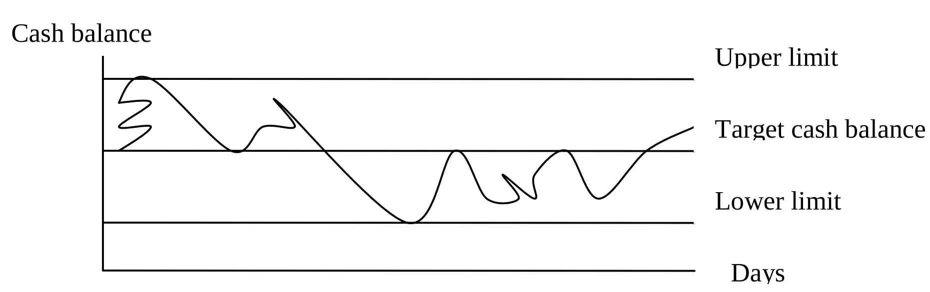

Figure 2.4: Graphical presentation of Millier Orr Model of cash balance

Mathematically, the model is set as follows:

Z = $\left(\frac{3F\pm^{2}}{4i}\right)^{\frac{1}{3}} + L$

The Lower limit L is given, the model calculate the Z and u.

$$\left(\frac{3F\pm^{2}}{4i}\right)^{\frac{1}{3}} + L$$

U = 3

3Z-2L

The average cash balance (c) is obtained as follows:

C = $\frac{4Z - L}{3}$

Where,

Z = target cash balance
F = Fixed transaction cost transacts
I = daily interest/opportunity cost
σ^2 = variance of net daily cash flows
L = Lower limit

iii. Orgler's Model: (Orgler, 1970; 238-253)

According to this model, an optimal cash management strategy can be determined through the use of a multiple linear programming model comprise three society (i) selection of the appropriate planning horizon (ii) selection of the appropriate decision variables. (iii) Formulation of the cash management strategy with the other operations of the firm such as production and with less restriction in working capital balance.

The model basically uses one year planning horizon with twelve monthly periods because of its simplicity. It has four basic sets of decisions variables which influence cash management of a firm and which must be incorporated into the linear programming model of the firm. These area (i) payment schedule (ii) short-term financing (iii) purchase and sales of marketable securities and (iv) cash balance it self.

The formulation of the model requires that the financial manager first specify an objective function and then specify a set of constraints. Orgler's objective function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period using the assumption that all revenue generated is immediately re-invested and that any cost is immediately financed. The objective function recognizes each operation of the firm that generates cash inflow or cash outflows as adding or subtracting profit opportunities for the firm is cash management operations. In the objective function decision variables which cause inflow such as payment on receivables have positive co-efficient, while decision variables which generate cash outflows, such as interest on short term borrowings have negative co-efficient. The purchases of marketable securities would for example produce revenue and their have a positive co-efficient while the sale of those securities would incurred conversion costs and have a negative co-efficient. The constraints of the model could be i) Institutional ii) policy constraints. The institutional constraints are those imposed by external factors, for instance, the financial manager may be prohibited from selling securities before maturity. Either constraint can occur in the model during on monthly period or over several or all the months in the one year planning horizon.

An example of linear programming model is as follows:

Objective function: max profit = $a_1x_1 + a_2x_2$
Subject to: b_1x_2 production
b_2x_2 Constraints
$c_1x_1 + c_2x_2 \leq$ cash available constraints
$b_1x_1 + b_1x_2 >$ current assets requirement constraints.

Very important feature of the model is that is it allows the financial manages to generate cash management with production and other aspects of the firm.

2.1.7 Cash Cycle (Solman & Pringle, 1978; 178-180)

The cycle refers to their process by which cash is usual to purchase materials from which are produced goods, than which are sold to customers, who later pay bills. The firm receives cash from customers and the cycle repeats itself. The cash cycle involves several steps along the way as cash flow from the firm accounts as shown as below:

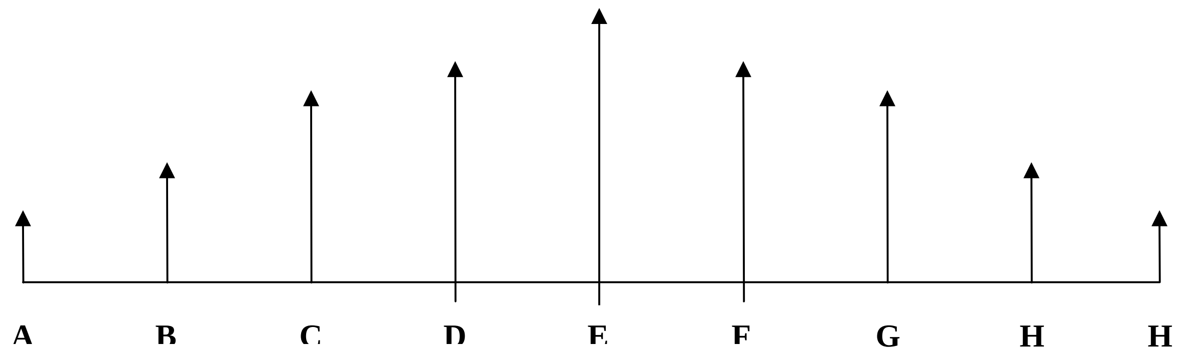

Figure No: 2-5 Cash cycle

Details of cash cycle

Where,

A = Materials ordered
B = Materials received
C = Payment
D = Cheque clearance
E = Goods sold
F = Customer mail payment
G = Payment received
H = Cheques deposited
I = Funds collected

In addressing ourselves to the cash management strategies, we concerned with the time periods involved in stages B, C, D, and F, G, H, I. it may be mentioned that a firm has no control over the time involved between stages A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. This hypothetical example explains that the corporation needs 60 days or two months to collect funds from the beginning of materials ordered to have ultimate cash. It takes 14 days to receive ultimate cash. It takes 214 days to receive materials from suppliers and adding 20 days for payment and still two days assumed for clearing the cheque. Sales of inventory take 48 days to have complete clearing off stocks and customers might pay only after 28 days by mailing cheques. Moreover, six additional days are taken for payment receipt cheque deposit and ultimate collection. This is applicable only for direct selling of customer's goods but in a manufacturing concern the time lag may be still greater.

2.1.8 Definitions of Key Terms

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

a. Sales:

Sales include only trading sales and ignore the miscellaneous sales:

b. Average collection period:

This indicates the number of days entertained by sundry debtor or credit period allowed to sundry debtor.

Average collection period = $\frac{Time.(receivable.turnover)}{No.of\ .days.in.a.year}$

c. Account Receivable to Cash Balance:

It is an indicator f liquidity of cash. It measures the relationship between cash and volume of account receivable a period of time.

Account receivable to cash balance = $\frac{Cash.and\ .Bank.balance}{Account.receivable}$

d. Cash Budget:

Cash budget is the most important tools of cash management. It is a plan of future cash receipt and payment.

2.2 Introduction and Purpose of Cash Management

One of the major responsibilities of management is to plan, control and safe guard the resource of the enterprises. Two kinds of resources flow through many business-cash and non-cash assets. This chapter focuses on the cash planning and control of the cash inflows (i.e. cash received) and cash outflows (i.e. payment of cash). The planning and controlling of the cash inflows, cash outflows and the related financing is important in all enterprises. Cash management involves managing the cash of the firm to maximize cash availability and interest income on any idle funds. The cash budgeting is an effective way to plan and control of the cash flows, assess cash made and effectively use of excess cash. "A primary objective is to plan the liquidity position of the company as a basis for determining future borrowings and future investments. For example excess cash if not invested incurs an opportunity cost that is loss of the interest that could be earned in the excess cash. The timing of cash flows can be controlled in many ways by management. Such as increasing the effectiveness of credit and collection activities. Making payment by time draft rather than by cheque, making payments and the last day of discount periods batching payment, and giving discount on cash sales. Cash management is important in enterprises, whether large or small. Many lending agencies require cash flows projections before granting large loan. "(Welch, Hilton & Gorden 1997; 433)

The focus of cash planning, time horizons in cash planning and control approach used to develop a cash budget, financial accounting approach to compute cash flows, control of the cash position, technique for improving cash flows, planning and controlling cash in a non manufacturing company.

2.2.1 Review of Text Books:

Various scholars as well as authors have given different views about cash management. Some of them have to be taken as review of books for cash management.

They have described about cash management. He said that cash is crucial component of working capital of a concern. Cash like blood stream of human body, gives strength to human body, gives strength to business unit. He explained that cash is ultimate resource for a business, so management of each business unit should endeavors to secure larger cash at the end of each working capital cycle than what it had at the beginning of working capital cycle. Further, the important objective in managing cash should be trade off liquidity and profitability in order to maximize profits. By keeping larger amount of cash, the firm is able more to meet its obligation when they fall due and the risk of technical insolvency is reduced. However, cash is none earning assets, so necessary cash should not be kept as hand than the optimum required to continue the operation of the business efficiency. Liquidity and profitability must be balanced in such a way that the organization retains its liquidity and at the same time maximizes its profitability. They also stressed that business transaction, without involvement of cash is mythical in this monetary world. Today the important of cash management in recognized by all segments of organization activities. If some of departments are handled independently without considering their implications of cash management the conflicting interest of these departments are bound to create serious problem. The study of cash management is therefore considered as an integrated approach to management science. (Jain, & Narang 1993; 333)

Cash management is link aged with working capital management. He expressed that cash management is one part of the key areas of working capital management. A part from the fact that is the most liquid current assets, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, that is, receivables and inventories get eventually converted into cash. This underlines the significance of management. He presented a detail account of the problem involved in managing cash, i. e. motive for holding cash, objective of cash management, factors determining cash needs, cash management models, cash budget, basic strategies for efficient management of cash, and specific techniques to manage cash subsequently. (Khan & Jain, 2003; 265-266)

They have suggested that the firm should keep sufficient cash neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle, without contributing anything toward. The firm's profitability according to him, the major function of financial manager is to maintain sound cash position. Some theoretical insights about cash management has presented by him. He said that cash management is concerned with the managing of, (i) cash flows into and out of the firm, (ii) cash flows within the firms, and (iii) cash balance hold by the firm at point of time by financing deficit or investing surplus cash. It can be represented by a cash management cycle. Sales generate cash which has to be disbursing out. The surplus cash has to be invested while deficit has to be borrowed cash management seeks to accomplish this cycle at a minimum cost. At the same time, it also seeks to achieve liquidity and control. Cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm holds. It is significant because it is used to pay the firm's obligation. However, cash is unproductive. Unlike, fixed assets or inventories, it does not produce goods for sale, therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. The cash management cycle is shown as follows:

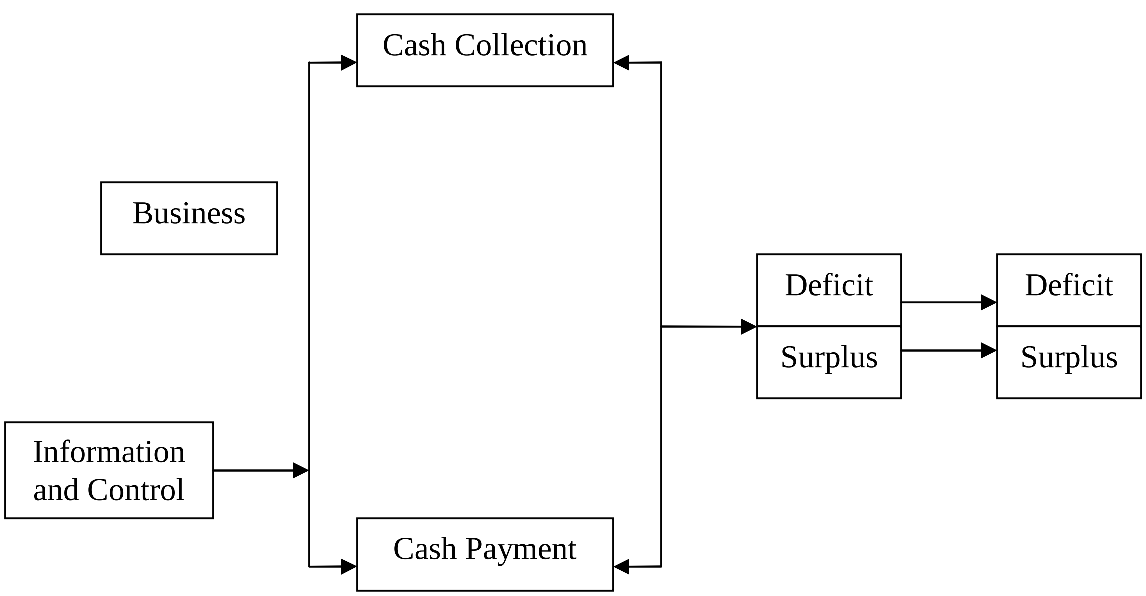

Figure No. 2.6: Cash Management Cycle
(Pandey, 1999; 846-847)

The management of cash is also important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between inflows and outflows of cash. During some period cash out flows will exceed cash inflows because payments of taxes, dividend or seasonal inventory built update other times, cash inflows will be more than cash payment because there may be large cash sales and debtors may be realized in large sums promptly? Cash management is also important because cash constitutes the smallest portion of total current assets. Yet management's considerable time is devoted in managing it. In recent past. A number of innovations have been done in cash management techniques. An obvious aim of the firm new a day is to manage its cash affairs in such a way as to keep cash balance at minimum level and to invest in surplus cash in profitable invest opportunities.

James & Horne have prescribed the knowledge about cash management. He said that the cash management involves managing the monies of the firm to maximize the cash availability and interest income to any idle funds. At one end the function starts when a customer writes a check to pay the firm on its amount receivable. The function ends when a supplier, an employee or government realizes collected fund from he firm as an amount payable or accruals. All activities between these two points fall with in the realm of management. The firm's effort tom get customers to pay their bills at ascertain time fall with in account receivable management on other hand, the firm's decision about when to pay its bills involves account payable and accrual management. He again described an idea of effective collection and disbursement so that maximum cash is available Collection can be accelerated by means of concentration banking, a lock-box system and certain other procedures. Disbursements should be handled to give maximum transfer flexibility and the optimum timing of payment, being mind-fUNL, however, of supplier relations. Method of controlling disbursement i.e. electronic fund is becoming increasingly important, and most corporation use such transfer in one way or other. (James & Horne 2002; 665-667)

The cash management of corporation is significant enough to have the best use of idle cash balances, and to take advantage from the opportunity interest in cash velocity determined by sales volume and turn over of assets. Corporate Manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement." The various motives for holding cash and determination of safety level based on normal periods must be adequately considered. The cash flow balance of corporations can be sufficiently improved by increasing volume of sales and turn over of total assets. But on the whole measure should be taken to have efficient collection combined with disbursements." (Shrestha, 1980; 437)

2.2.2 A Review of Previous Related Research Works

In this section, an attempt has been made to review some thesis/dissertation and other related publications related to cash management.

Bijaya Pradhan (2002) entitled *"A study of cash management of Salt Trading Corporation ltd."* as partial fulfillment of the requirement for the degree of masters of business administration. The thesis was based on the secondary data of the company for the past 6 years. Form his case study of cash management In STCL, had found that,

- STCL could not make the best are of available cash balance prudently.
- The cash collection efficiency in this corporation is very low.
- The collection of trade credit in the corporation is low during three years of study period.
- Management has taken liberal policy to sales of goods. Hence the cash and bank balance of study period is minimum AR.
- No, optimum cash balance is maintained. The cash and bank balance with respect to the total assets.

To improve such problem, major critical findings were:

- Efficient management of cash.
- Design effective account receivable management
- Prepare monthly trail Balance, fund statement and financial report.
- Adopt efficient credit policy.
- Invest surplus cash in profitable opportunities.
- Prepare cash balance.
- Invest in marketable securities.

Tika Ram Ghimire (2004) has also submitted his thesis on *"A study of cash management" (*A case study of Gorakhali Rubber Udhyog Limited). The main objectives of the study are:

- To produce qualitative tyres and tubes for costumer.
- To help the transport professional by providing tyres, tubes and flaps at reasonable price.
- To provide the production the production according to demand.
- To provide the balance of payment position of the country by using foreign exchange through import substitution.
- To increase employment opportunity.
- To contribute the national economy.

And his major findings were:

- ► The industry it self has the responsibility of its management.
- ► The industry has been facing the problem of skilled man power, lack of quick availability of raw material and fluctuating price of raw material.
- ► There is no systematic appointment of personnel and there is lack of system of right man in right man in right place and other related activities.
- ► The main sources of cash of GRUL are sales of products and loan. The industry of cash at huge amount for purchase of raw materials, payment of interest and tax, wage payment, selling and distribution etc.
- ► The industry sales its production in cash and credit basic and there is no strike policy of quick collection of account receivable.
- ► Cash to current liabilities ratio found highly fluctuating that means the industry has been facing problem of cash management.

Sabin Prakash Sainju (2004) has conducted on research on "*cash management in public manufacturing enterprises of Nepal*". The main objective of this study is to analyze the present cash management of Royal Drugs Limited. Other major objectives are: -

- ► To manage yearly cash inflow and outflow in RDL.
- ► To examine the liquidity position of RDL.
- ► To identify whether there are sound cash position or not.
- ► To improve overall cash budget.
- ► To forecast future production and sales of RDL and to recommend and suggest for improving the profit.

Overall, he concluded the poor cash management practices of Royal Drugs Limited. His major findings were:

- ► Overall cash management practices have been found disappointing.
- ► Overall liquidity position of the firm has been found moderately dissatisfactory.
- ► Overall, yearly cash inflow and outflow in RDL is not properly managed. Surplus cash hasn't been properly employed to earn return by investing in short term investment opportunities.
- ► Profitability has been found in very weak position.
- ► Over all cash budgeting practice of RDL is very poor.

Resham Acharya(2006) has conducted a research on the topic *"Cash management"* (A case of Herbs production and processing company limited) has the following objectives:

- To examine and critically analysis cash management practice of HIPPCL.
- To examine the liquidity position of HPPCL.
- To examine the cash mobilization and budgeting system of HPPCL.To provide suggestions and recommendations for the betterment of cash.

According to his study, the major findings of the company are:

- Overall cash management practice of HPPCL is very poor not only is this overall operation of the company also poor.
- The company could not able to earn a bit profit during the study period.
- Government is also responsible towards this type of failure situation of the PEs.

Ram Chandra Lamichhane (2007) *"Cash Management"* (a comparative study of Nepalese Manufacturing Companies) had the following objectives:

- To analyze the cash position of companies.
- To identify whether there are sound cash position or not.
- To determine receivable and inventory conversion and payable deferral periods to net cash conversion period cycle.
- To compare profit and cash position.
- To measure the better cash balance and other financial variables.
- To identify the relationship between cash balance and sources of finance.

And his findings are:

- There are no uniform policies manufacturing follow to manage cash position. It leads to conclude that there is no sound cash position in the organizations.
- While observing the relationship between cash balance and sources of finance, there is positive relationship is observed. However it is statistically insignificant in most of the organization.
- Cash management practice in Nepalese manufacturing companies is not directed toward determining stock price.
- All the companies bear higher average receivable relative to cash balance.

Research Gap

This is the first deeply study of cash management in manufacturing company particularly if Unilever Ltd. Before this research, there is only comparative study of Unilever. So that the researcher has chosen this topic and the study shows the very latest data and information. *"A study on cash management of Unilever Ltd"*. The Previous researchers have not focused the impact of cash management in performance. But present researcher has focused this aspect. So this study will be fruitful to those interested persons parties, scholars, businessman, teacher and Government for academically as well as policy perspective.This research paper has also applied Correlation 'r' between Actual Sales and Cash Balance and analysis of Correlation Coefficient between Sales and Account Receivable with the other tools of analysis. This study is very new in the field of researches related with cash management of manufacturing Industry. This study so would be of different value as its focuses on specific area of overall cash management and its impact on profitability with special reference to UNL manufacturing enterprises.

CHAPTER – III

INTRODUCTION

Research methodology may be defined as a systematic process that is adopted by researcher in studying problem with certain objective. Research can be defined, as "The search of knowledge through objective and systematic method of finding solution to a problem is research." (Kothari, 1989; 2)

In the preceding chapter, we have overviewed briefly on cash management concept, the basic purpose of the chapter is to enlighten the research designing, nature and sources of data ,collection procedures and methods of analysis of data in brief.

3.1 Research Design

A well settled research design is necessary to fulfill the objective of this study. It means definite procedures and techniques that guide to study and propounds way for research viability. This study aims to evaluate managerial efficiency and performance regarding cash management of Unilever Nepal Ltd. This study tries to make comparison on to establish relationship between two or more variables. So it could be termed as analytical and descriptive study. So as to facilitate the assessment, I collected six years data of Unilever limited and have tabulated and different financial accounting tools are used analyze and to find out needed result.

3.2 Nature and Source of Data

Every study needs a systematic methodology to shoe the better result of the research. Information is blood of every research, both primary & secondary information have been used in this study. Primary information is based on questionnaire, information interview as well as unstructured dialogues and discussions with the officials Unilever Limited corporate office Herritez Plaza-II Block C & D Forth Floor Kamaladi.

Secondary data have been collected from the following source:

- Financial Statement of UNL
- Previous studies made in the field
- Published and unpublished articles
- Annual magazine & reports
- Personal approach & interview, annual reports of UNL
- Other relevant data available in this subject area.

3.3 Population and Sample

There are many manufacturing companies, which are actively operating their business in market. It is not possible to study all of them regarding the research topic. Therefore, among them, one reputed manufacturing company is taken as a sample company from population for this research study.

3.4 Data Gathering Instruments

Data recording system of UNL is scientific and systematic type of record keeping has been found because most of the personnel are trained and effective directions from the general manager.

The published data relating to the cash management position of UNL have been obtained from account department. The balance sheet and profit and loss account and other related documents, which are secondary nature, are directly collected from the company's account department.

3.5 Period Covered

The present study covers the time period of six years for the purpose of trend analysis from the FY 2001/02 to 2006/07.

3.6 Processing Procedure

The collected raw are processed and presented in tabular form in with the help of simple arithmetic rules. The entries raw data are converted into approximate and condensed in the form of summary balance sheet and profit and loss account, most of the data have been complained in one form and processed and interpreted as per the need of the study. The secondary type data are presented for the analytical purpose after the tabulation of the data. These types of data processing represent are clear situation.

3.7 Tools and Techniques Used to Analyze the Data

To find out the true picture of cash management of Unilever Nepal Limited. I have used financial tools, techniques and variables. These are follows:

1. Financial Analysis

i. Ratio Analysis

Ratio Analysis is a widely used tool of the financial analysis .The ratio reveals the relationships in more meaningful ways so as to enable one to draw conclusion from it. As the case of study of cash management involves ratio analysis for judging operational efficiecy ratio would be particularly meaningful for management and investing, although there is no hard and fast rule.

a. Analysis of cash turnover:

This ratio indicates the number of times average cash balance is turned over during the year. It is computed as follows:

Cash Turnover = $\frac{Sales}{Cash.in.Hand / Bank}$

It means the speed with which cash moves through as enterprise's operation.

b. Account Receivable Turnover:

This ratio is computed by dividing sales by account receivable. Thus

Receivable turnover = $\frac{Sales}{Account\,\mathrm{Re}ceivable}$

It indicates the no. of times the receivable are turned over during the year. It gives the general measure of the productivity of the receivable measurement. If the ratio is high the working capital becomes lower.

c. Collection of Account Receivable:

Collection of Account Receivable = $1 - \frac{\mathrm{Re}ceivables}{Sales} \times 100$

d. Account Receivable to Cash/Bank Balance:

Account Receivable to Cash/Bank Balance = $\frac{Cash / Bank.Balance}{A / C\,\mathrm{Re}ceivable}$

e. Analysis of Cash to Current Liabilities:

Analysis of Cash to Current Liabilities = $\frac{Cash / Bank.Balance}{Current.Liabilities}$

ii. Average Collection Period (ACP)

a) Average Collection Period = $\frac{Days.in.a.Year(360)}{\text{Re}ceivable.Turnover}$

b) Average days of five Year = $\frac{Total.of.fiveYear(360)}{FiveYears}$

It indicates the no. of days it takes on an average to collect account receivables. It is computed as to collect account receivable. It is computed as:

2. Statistical Analysis

1. Straight line trend, correlation and Regression:

(a) Straight line Trend (Yc) = a+bx

(b) Correlation (r):

"Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another" (Richard I, and Davids, 1991; 562). It does not tell us anything about causes and effect relationship, correlation analysis helps in determining the degree of relationship between two or more variable. "In business, correlation analysis enables the executive to estimate costs, sales price and other variables. Based on some other series with which their costs, sales or prices may be functionally related. Some of the guesswork can be removed from decisions when the relationship, between variables to be estimated and the one or more other variables on which it depends are closed and reasonably in variant." (Gupta, 2001; 103).

For the purpose of analysis of cash management in UNL the correlation analysis is applied in the same related topics. In these topics it can be seen the correlation between dependent and independent variables of cash management the formula applied on the correlation is as follows:

$$r = \frac{\sum uv}{\sqrt{\sum u^2 \times \sum v^2}}$$

(c) Standard Deviation:

The standard deviation of a series of value is defined as the square root of the mean of the square deviation from the mean of the distribution. It may be found by finding the differences between each individual frequency and the mean of the distribution, squaring these differences individually adding the square deviation and dividing by and then extracting the square of the results. The fundamental formula for the standard deviation is as follow:

$$\text{S.D} = \sqrt{\frac{\sum d^2}{N} - \frac{(\sum d)^2}{N}}$$

"The S.D or the root mean square deviation is the square root of the mean of the square deviation from their mean of a set of values"(Monga, 1972; 147)

"The standard deviation measures the absolute variability of a distribution the greater the amount of dispersion or variability the greater the S.D. for the greater will be magnitude of the deviation of the values from their mean. A small SD means a high degree of uniformity of the observation as well as homogeneity of a series" (lbid, 1999; 275)

In UNL Standard deviation is applied where it is necessary.

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

If 'r' is less than it is PE, it is not all significant, if 'r' is more than PE there is correlation. If 'r' is more than 6 times, its PE and greater than is ± 0.5, than it is considered significant.

e) Regression line of Sales (x) on cash balance (y)

"Regression is the determination of statistics relationship between two or more variables. In simple regression, there are only two variables. One is independent variable that affects the behavior of dependent variable. Regression can only be interpreted on what exists physically i.e. there must be physical way in which independent variable X can affect development variable Y." (Kothari, 1989; 234)

For the analysis of cash management of UNL simple regression analysis is applied to locate the relationship between sales on cash balance. The computation of regression line of sales (X) on cash balance (Y) is as follows:

$$(X - \overline{X}) = r\frac{\pm x}{\pm y}(Y - \overline{Y})$$

The regression line of cash balance (Y) on actual sales (X):

$$\left(Y-\overline{Y}\right)=r\frac{\pm y}{\pm x}\left(X-\overline{X}\right)$$

f) The regression line of cash balance (Y) on actual

Sales (X) $\left(Y-\overline{Y}\right)=r\frac{\pm y}{\pm x}\left(X-\overline{X}\right)$

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

The basis objective of this study as stated in chapter one is to have true insight in to *"A Study of Cash Management of manufacturing Company"* of Unilever Nepal LImited. For accomplishment of these objectives, a definite course of research methodology has been followed which is prescribed in chapter third. Now in this study the effort have been made to assess and analysis the cash management to disclose the actual position of cash management in UNL Ltd.

4.1 Analysis of the Data by Financial Tools

4.1.1 Analysis of Cash Balance

Management of cash plays a significant role in current assets of UNL. The total cash includes cash in hand, Cash at bank and cash in transit. The table below shoes the position of the company during the period under study.

Table No 4.1:
Analysis of Cash Balance

Fiscal Year	Cash Balances(in Rs)	Increase (Decrease)%
2001/02	62330000	
2002/03	317404181	409.23%
2003/04	391531691	23.35%
2004/05	443311218	13.23%
2005/06	242671739	(45.26%)
2006/07	315252475	29.91%

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

Note: Figures within Brackets indicates minus.

The table number 1 reveals that the cash holding of the corporation clearly shows that there is a moderate fluctuation of cash balance of UNL. But in the year 2002/03, cash balance of UNL was highly increased due to issued of public Share. In a year 03/04 the cash balance increased by 23.35% This trend shows the visualizes that the company could not make the best use of these available cash balance prudently. There is again less increased in cash balance in year 04/05 which is less than compared to cash balance of 03/04. But strong changes occurred in 05/06, where the cash balance decreased to 45.25%, because of the increasing potential disturbance in the country. The rest of fiscal year's cash balance is quite satisfactory. But it catches increasing trend with 29.91% in 06/07. A bit of deficit and fluctuation of cash balance may be due to the lack of adequate knowledge about forecasting. The analysis of the table shows that there is no systematic and scientific cash management plan. There is trend neither to increase cash balance nor to decrease. On the whole there figure shows that there is no any definite policy of cash management. While in some years it has maintained excessive of cash balance while in other years it has very low. Moreover the company has not planned cash inflow and outflow forecasts. It is of crucial importance for the company to keep careful watch over the cash movement of determines how cash throwoffs become available and also to investigate the opportunity for the use of the cash.

4.1.2 Analysis of the Cash Turnover

Table No.4.2:
Anailsis of Cash turnover

Fiscal Year	Cash in hand and bank (Rs)	Sales (Rs)	Cash Turnover (time)
2001/02	62330000	1236050000	19.83
2002/03	317404121	1244727395	3.92
2003/04	391531691	1524901045	3.95
2004/05	443311218	1421560044	3.34
2005/06	242671739	1469685740	6.01
2006/07	315252475	1872868591	5.94

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

Note: Cash turnover = Sales/Cash in hand and bank

Cash turnover ration presents how quickly the cash is received from its sales be formulates to find out. Higher turnover is the signal of good liquidity and vice versa. The above table shows that highest cash turnover is 19.83 times in a year 01/02 average being 7.17 times. Except the year01/02 the cash turnover time is less than the time of average. This shows that except the year01/02, the year 02/03, 03/04, 04/05, 05/06 and 06/07 has 3.92 times, 3.95 times, 3.34 times, 6.01 and 5.94 times respectively which are below from the standards i.e. averages. However, in year 02/03 to 04/05 there is a constant turnover where as in the year 05/06 it is increased by 6.01 times because of different reasons. And in the year 06/07 it is increased by 5.94 times. This table shows that there is a fluctuating trend because sometime it takes more time and sometime its constant and some time it takes very less time than of averages. Which indicates that the year 02/03, 03/04, 04/05, 05/06 and 06/07, the company is unable to collect cash from its credit sale timely? From the calculation, it is observed that the cash collection efficiency in UNL is low.

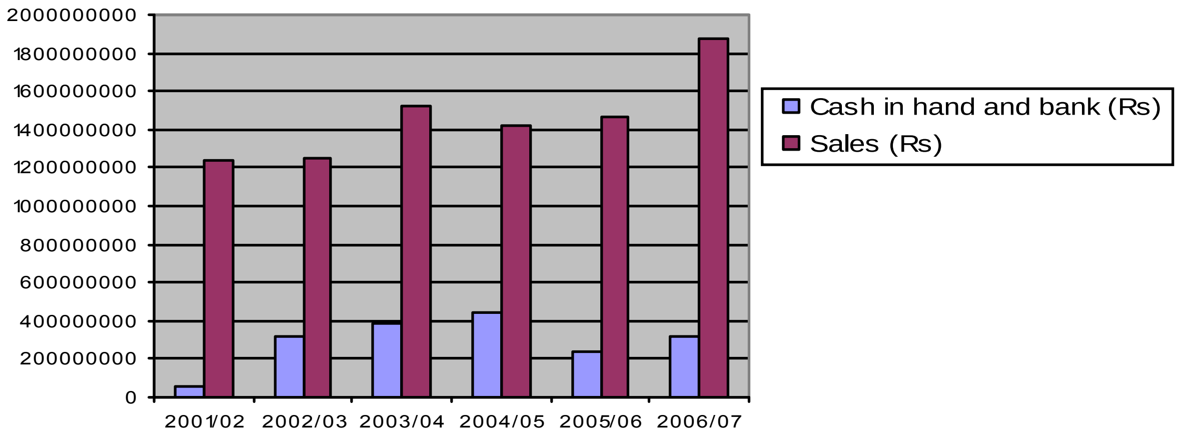

Figure No. 4.1: Graphical presentation between cash and bank balance and sales.

The above bar diagram shows that the graphical presentation of the relation between cash and bank balance and sales. The graph shows that the sales are maximum in the fiscal year 06/07 and minimum in year 01/02. The figure above shows that cash and bank balance is minimum in year 01/02and maximum in the year 04/05.In the figure it is seen that cash and bank balance comparison with sales is very minimum.

4.1.3 Analysis of the cash Conversion Cycle

Liquidity is an important factor in determining firm's working capital policy. Liquidity has two major aspects on going liquidity refers to the in flows and outflows of cash. So it is important to go through the cash flow of the company with the help of analyzing firm's cash conversion cycle.

A cash conversion cycle reflects the net time internal days between actual cash expenditure of the firm on productive resources and recovery of cash. The cash conversion cycle is calculated as follows:

Cash conversion cycle = Inventory conversion period + Receivable conversion period - payable deferral period.

To analyze the cash conversion cycle, first it should be analyzed inventory conversion period and payable deferral period.

I. Inventory Conversion Period:

Inventory conversion period indicates the efficient of the firm in selling its product. The short period indicates fast conversion of inventory to sales and long period indicates slow conversion period of inventory to sale.

Inventory turnover = sales/inventory
ICP = 360/I.T

Table No 4.3:
Analysis of inventory Conversation Period

Fiscal Year	Days in a year	Sales(Rs)	Inventory(Rs)	Inventory turnover(time)	I.C.P days
2001/02	360	1236050000	144450000	8.56	42.1
2002/03	360	1244727395	126107336	9.87	36.47
2003/05	360	1524901045	184215736	8.28	43.48
2004/05	360	1481560044	229764546	6.54	55.81
2005/06	360	1469685740	256167954	5.7	62.72
2006/07	360	1872868591	304326892	6.15	58.50
Average					**49.85**

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

The calculation of inventory conversion period of Unilever Nepal Limited in the above table has shown not constant trend in study period. It varies from maximum of 62.72 days in the fiscal year 05/06, it is because of the increasing potencial disturbance in the Country and the company has made unattainable target set up by the top management. The maximum period refers the slow inventory turn over. The average ICP is found 49.85 day, which is more than that of year 01/02, 02/03 and 03/04, and less than that of year 04/05, 05/06 and 06/07.

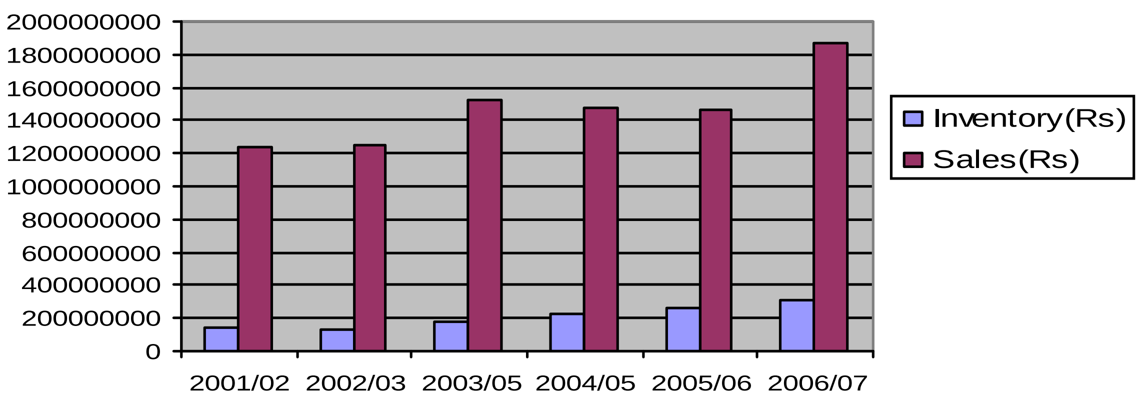

Figure No. 4.2: Graphical presentation between sales and inventory.

The above multiple bar diagram shows that the relation between sales and inventory. In this figure it is seen that the relation of inventory with comparing to sales except in the fiscal year 02/03 is in increasing trend. The sales in maximum in the year 06/07 and inventory in the same year 06/07 and the sales is minimum in the fiscal year 01/02 and inventory in the fiscal year 02/03.

II. Analysis of receivable conversion period.

Receivable conversion period indicates the number of days debtor turn over into cash. It analyzes the determining collectibles of debts. The longer the collection period, more efficient is the management of credit policy or it refers liberal credit policy and short period refers the strict credit policy. The receivable conversion period is calculated as follows:

Receivable turnover: = $\frac{Sales}{\text{Re}ceivable}$

RCP= $\frac{Day\sin ayear}{\text{Re}ceivableturnover}$

Table no. 4.4:
Analysis of receivable conversion period

Fiscal year	Days in a year	Sales(Rs)	Receivables	Receivables turn over(time)	R.C.P. (days)
2001/02	360	1236050000	32160000	38.43	9.37
2002/03	360	1244727395	64775152	19.22	18.73
2003/04	360	1524901045	97062568	15.70	22.92
2004/05	360	1481560044	157721493	9.40	38.30
2005/06	360	1469685740	138318764	10.63	33.67
2006/07	360	1872868591	136449877	13.73	26.22
Average:					**24.87**

(See: Appendix-2)

The calculation of receivable conversion period of Unilever Nepal Ltd. in the above has shown fluctuating trend in the study period. It varies from the maximum 38.30 day in the year 04/05 and minimum in the year 01/02 day is 9.37 days, which is the best receivable conversion period. The average receivable conversion period of UNL is 24.87 days to 25 days. Low collection period indicates fast conversion of receivable and long collection period indicates slow conversion period. Here in the year 01/02, 02/03, 03/04 collection period is less than averages and in the year 03/04 the period is nearly equal to average collection period. It means the above table shows that the Unilever Limited had adopted strict credit policy from debtors.

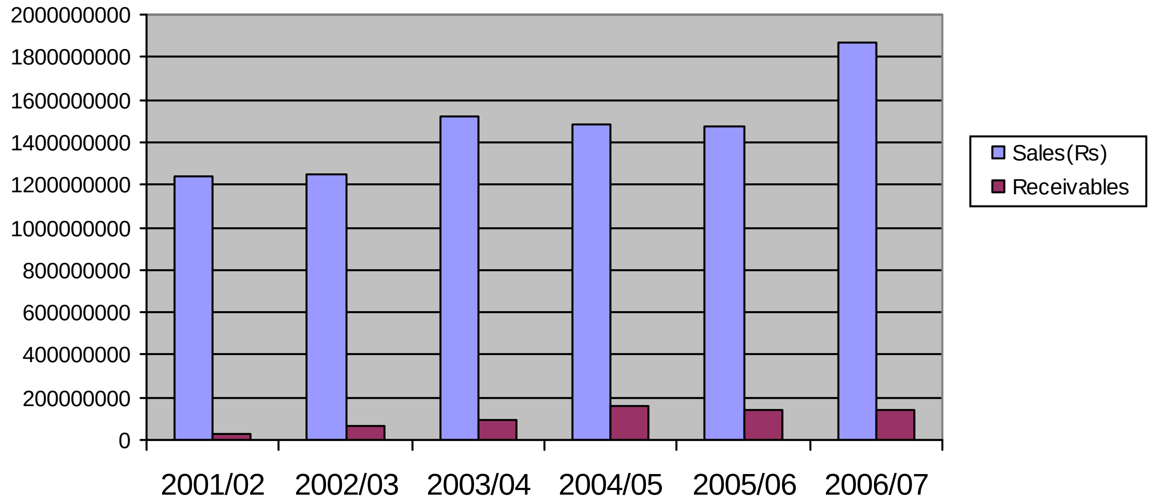

Figure No. 4.3: Graphical presentation between sales and receivable.

In the above fig, it is seen that the receivables are fluctuating trend. Sales are minimum in the year 2001/02 and maximum in 2006/07. Receivable with compare to sales are minimum which is positive signal for company.

III. Analysis of payable conversion period.

Payable conversion period indicates that speed of credit tools payable. A high payable conversion period is favorable for the company. Payable different (conversion) period is calculated as follows:

$$PDP = \frac{Creditors \times days\,in\,a\,year}{Purchases}$$

Table no. 5.5:
Analysis of payable conversion period

Fiscal Year	Creditors(Rs)	Purchases(Rs)	Days in a year	P.D.P
2001/02	85700000	743630000	360	41.49
2002/03	240422119	716599263	360	120.78
2003/04	329345982	849844311	360	139.12
2004/05	364249226	824082958	360	159.12
2005/06	345210191	846120169	360	146.88
2006/07	359008778	1093699410	360	118.17
Average:				**120.93**

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

The calculation of the payable deferral period of UNL in the above table indicates fluctuating trend in the study period. In the study period PDP varies from maximum 159.12 day in the year 2004/05. as long as the payable conversion period increases it is better for the company because the company can utilize the cash for longer period and can earn more profit. The least payable conversion period in the fiscal year 2001/02 was 41.43 days. It means the company could not use the cash so far. The company for the payment of trade creditors has taken the average payable period of 120.93 to 121 day. The above table shows that the company has favorable payable conversion period except 2001/02.

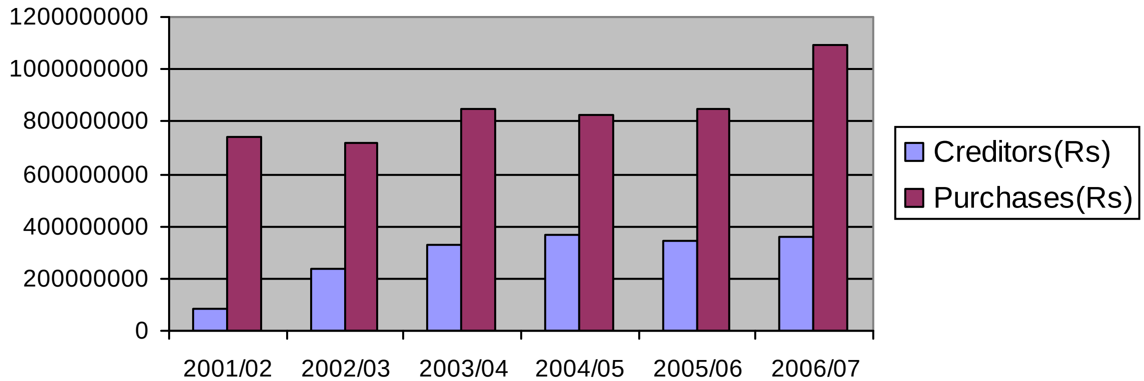

Figure No. 4.4: Graphical presentation between purchase and creditors.

The figure shows that the graphical presentation between purchase and creditors. In the figure it is seen that the purchase is minimum in the year 02/03 and maximum in the year 2006/07.The relation of creditors with comparing to purchase in the year 04/05 is maximum.

IV. Calculation of Cash Conversion Cycle (CCC)

Cash conversion cycle shoes how many times it takes to convert the receivable into cash, inventory turn over into cash and how much time it takes to repay its obligation. Shortly it refers the cash inflow and outflow of the company. The company cycle is calculated as follows:
CCC-ICP+RCP-PDP

Table No. 4.6:
Analysis of cash Conversion Cycle (Days)

Fiscal Year	**ICP**	**RCP**	**PDP**	**CCC**
2001/02	42.1	9.37	41.49	9.98
2002/03	36.47	18.73	120.78	(65.58)
2003/04	43.48	22.92	139.51	(73.11)
2004/05	55.81	38.30	159.12	(65.01)
2005/06	62.72	33.67	146.88	(50.79)
2006/07	58.50	26.22	118.17	(33.45)
Average:				(46.33)

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year.)

The above calculated table shows the Cash Conversion Cycle of Unilever Limited study period of six years from fiscal year 2001/02 to 2006/07. Above table shows fluctuating trend in the company during the study period. Thus the cash conversion cycle of Unilever Limited is not good because the cash conversion cycle is not uniform and some of them are also in negative trend.

4.1.4 Analysis of Account Receivable of UL LTD

The corporation sells its good on credit and cash basis. When the corporations extent credit to its customers, books, debts are credited. Debtors or account receivables are to be converted into cash over a short period and therefore are included in the current assets. The liquidity position of the company depends on the quality of debtors to great extent.

Account receivable turnover in relationship between credit sales and collection period. If turn over is high, there will be little congestion of fund in turn over and vice-versa.

Table No. 4.7:
Analysis of Account Receivable turn over of UL Ltd.

Fiscal Year	Receivable	Sales(Rs)	Ratio in (time)	Total Collection (%)
2001/02	32160000	1236050000	38.43	97.398
2002/03	64775152	1244727395	19.22	94.796
2003/04	97062568	1524901045	32.40	93.635
2004/05	157721493	1481560044	9.40	89.557
2005/06	138318764	1469685740	10.63	90.589
2006/07	136449877	1872868591	13.73	92.714
Average:				**93.115**

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

Note: Account Receivable turn over Ratio = $\frac{Sales}{\mathrm{Re}ceivable}$

Total collection (%) = $1-\frac{\mathrm{Re}ceivable}{sales}X100$

In the above table receivable turn over year times on the year 01/02 is 38.43, which is maximum in the study period. Moreover, in the year 03/04 it is 32.40. Where as the minimum receivable turn over is in the year 04/05 i.e.9.40. The table also shows that the company account receivable is in very positive signal for the company because collection of sales over than 90% in the relevant year is a satisfactory situation for the company.

4.1.5 Analysis of Account Receivable to Cash and bank balance

Cash and bank balance measures the relationship between levels of cash and bank to AR over a period of time.The greater the AR the better the cash turn over would be provided that,cash and bank balance can be maintained at a desirable level.The following table shows the relationship of AR to cash and bank balance.

Table no 4.8:
Analysis of account receivable to cash and bank balance

Fiscal year	receivable	Cash and bank balance(Rs)	Percentage of A/R
2001/02	32160000	62330000	193.81
2002/03	64775152	317404181	49
2003/04	97062568	391531691	403.38
2004/05	97062568	443311218	281.07
2005/06	157721493	242671739	175.44
2006/07	136449877	315252475	231.04
Average:			**222.29**

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

Note: Account Receivable (%) = $\frac{Cash.at.bank.balance}{\mathrm{Re}ceivable} \times 100$

The analysis of above table shows the analysis of account receivable to cash and bank balance in the study period. It clearly shows that in the study period is in fluctuating trend i.e.193.81%, 403.38%, 281.07%, 175.44% and 231.04%. During the study period cash and bank balance is not homogeneity i.e. from 49% to 403.38% the amount of cash and bank balance with respect to amount receivable is minimum, which shows that the management is less concerned to speed of the collection of account of cash balance to meet its current liabilities and shows that management has taken semi liberal credit policy of sales is goods.

Evaluating this situation, cash and bank balance is neither so good nor so bad. Thus, it can be said that, higher the account receivable caused lower cash balance and vice versa. Thus, management should adopt strength credit policy to increase cash balance to maintain at desired level of cash balance.

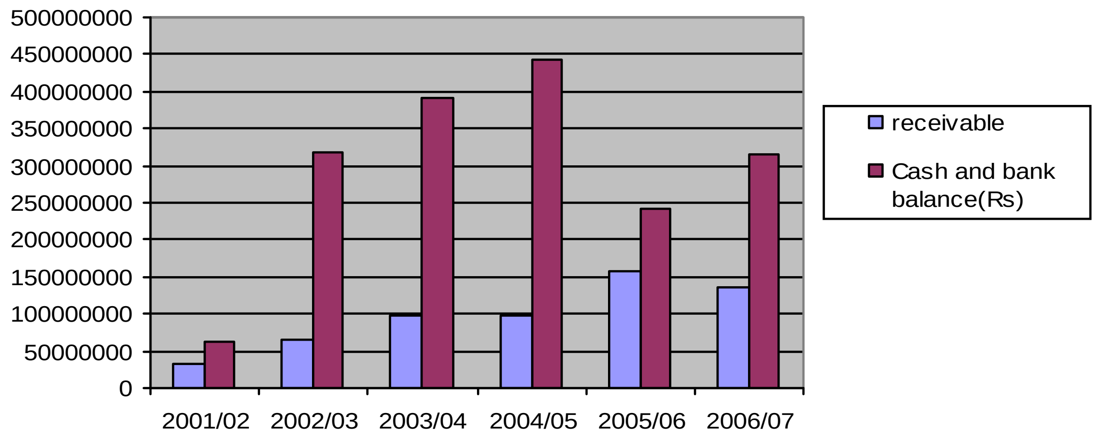

Figure No. 4.5: Graphical presentation between account receivable and cash and bank balance.

The above bar diagram shows that the relation of account receivable with cash and bank balance. In the figure, it is seen that the account receivable in the year 04/05 is increasing in trend (it is a highest in studying period) and same as the cash and bank balance is highest.

4.1.6 Analysis of Cash and Bank Balance to Current Assets

The ratio directly effects the cash management of the company. Lower ratio shows the sound liquidity management of the company. It is calculated as follows:

Cash and Bank balance
Current Assets

Table No. 4.9:
Analysis of cash and bank balance to current assets

Fiscal Year	C&B balance(Rs)	Current Assets (Rs)	% of C&B on CA
2001/02	62330000	399130000	15.62
2002/03	317404181	589884900	53.81
2003/04	391531691	724244807	54.06
2004/05	443311218	891414671	49.73
2005/06	242671739	741606265	32.72
2006/07	315252475	836320323	37.7
Average:			**40.61**

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

Note: % of C & B on CA = $\frac{C\ \&\ B.balance}{Current.Assets} \times 100$

Above table show the percentage of cash and bank balance to assets of the corporation. Above table indicates that the cash & bank balance with Respect to current assets has been fluctuating trend. During the study period it is the lowest 15.625 for the year 01/02 and highest 54.06%in the year 03/04.On the average the projection of cash and bank balance to current assets for the study period is 40.61% while comparing with average it is found the percentage of cash and bank balance to current assets for the year 01/02, 05/06 and 06/07 are lower.Thus, it can be said that the cash position of UNL Ltd is not good.

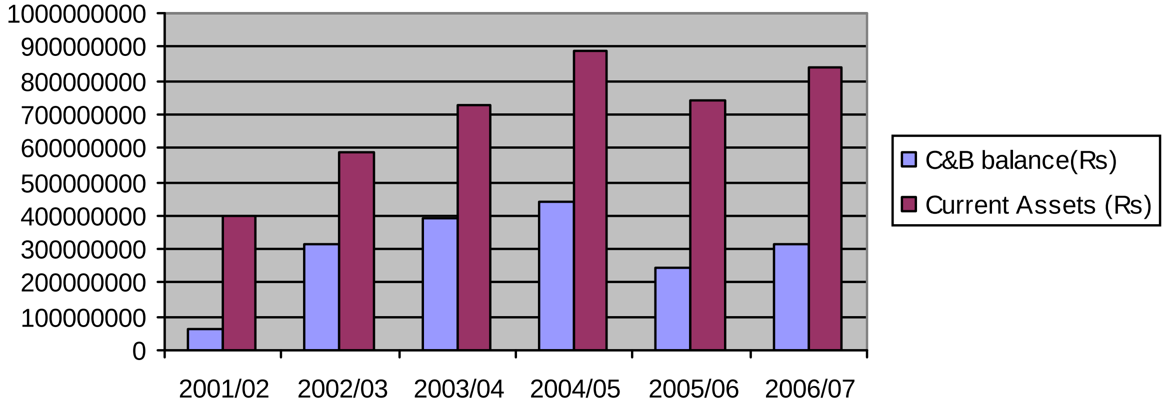

Figure No. 4.6: Graphical presentation between C&B balance and current assets.

The diagram above shows that the graphical relation between Current assets and cash and bank balance. In the figure it is seen that the current assets and cash and bank balance are in fluctuating trend. The figure clearly shows that the portion of cash and bank balance with comparing to its current assets are very minimum.

4.1.7 Analysis of Cash and Bank Balance to Total Assets

The higher ratio indicates the lower risk and lower profitability where as lower ratio indicates higher risk and higher profitability. It is calculated dividing cash and bank balance by total assets which is shown in below.

Table No. 4.10:
Analysis of Cash and Bank Balance to total Assets

Fiscal Year	C&B balance(Rs)	Total Assets(Rs)	% of C&B on TA
2001/02	62330000	571330000	10.99
2002/03	317404181	784879673	40.44
2003/04	391531691	939719586	41.67
2004/05	443311218	1098955828	40.34
2005/06	242671739	967146585	25.10
2006/07	315252475	985254423	32
Average:			**31.76**

(See Appendix-4)

Note: % of C&B on TA = $\frac{C\ \&\ B.balance}{Total.Assets} \times 100$

The above table shows the percentage of cash and bank balance to the total assets of Unilever Ltd. The ratio represents the proportion of cash and bank balance to total assets investments of Unilever Limited of study period. About Unilever Limited, the percentage of cash and bank balance to total assets is in fluctuating trend. The ratio varies from minimum 10.99% to maximum 41.67% in the year 01/02 and 03/04.But in the year 02/03 to 04/05 the trend of cash and bank balance on the total assets are receivable i.e.40 to 41%.The percentage has average 31.76%during the study period which is greater than in the year 01/02 and 05/06 and less than the year 02/03,03/04, 04/05 and 06/07.Among the components of current assets cash and bank balance hold the good portion. As we know, cash is sequined for day to day business operation at that time company can invest for their opportunities. So the company is holding sufficient cash but in the year 01/02 and 05/06 it is less compared to other years.

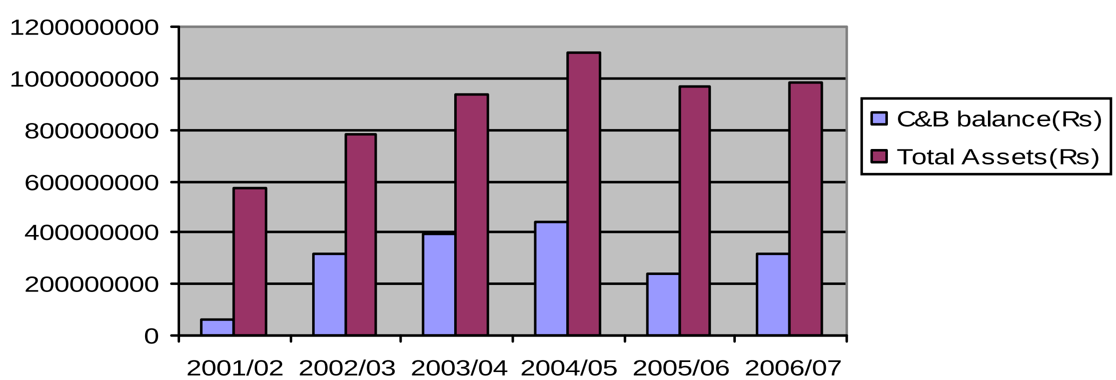

Figure No. 4.7: Graphical presentation between cash and bank balance and total assets.

Above bar diagram shows that the relation between cash and bank balance and total assets. In the figure it is seen that the total assets are in increasing trend over the year 04/05 but in the year 05/06 the total assets is decreased over the study period and again it started to increase in the year 06/07 same as the cash and bank balance it decreased and again started to increase. The figure clearly shows that the portion of cash and bank balance with comparing to its assets are very minimum.

4.1.8 Analysis of cash and bank balance to current liabilities

Among the technique of measuring corporate liquidity, the ratio of cash to current liabilities may also be used as index of cash management. This ratio indicates the amount of cash (in percentage available to pay the current obligation of the firm in general a low percentage of cash to current liabilities may be regarded as a favorable indicator. However, a very low ratio is also not desirable as many lead to company solvency.

The table shows the level of cash in relation to current liabilities of Unilever Limited.

Table no. 4.11:
Analysis of cash and bank balance to current liabilities.

Fiscal Year	**C&B balance(Rs)**	**Current Liabilities(Rs)**	**% of C&B on CL**
2001/02	62330000	172200000	36.20
2002/03	317404181	247008131	128.50
2003/04	391531691	335716055	116.63
2004/05	443311218	370237344	119.74
2005/06	242671739	353309001	68.69
2006/07	315252475	368484050	85.55
Average:			**92.55**

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

Note: % of C&B on CL = $\frac{C\ \&\ B.balance}{Current.Liabilities} \times 100$

From the above table the lowest ratio i.e.36.20 for the fiscal year 01/02 and highest ratio 128.50%for the year 02/03. In the year 03/04, 04/05, 05/06 and 06/07 the levels of cash relation to current liabilities are 116.63%, 119.74%, 68.69% and 85.55% respectively. The ratio is in fluctuating trend during the study period. Thus, it can be said the UNL has face the problem of cash management.

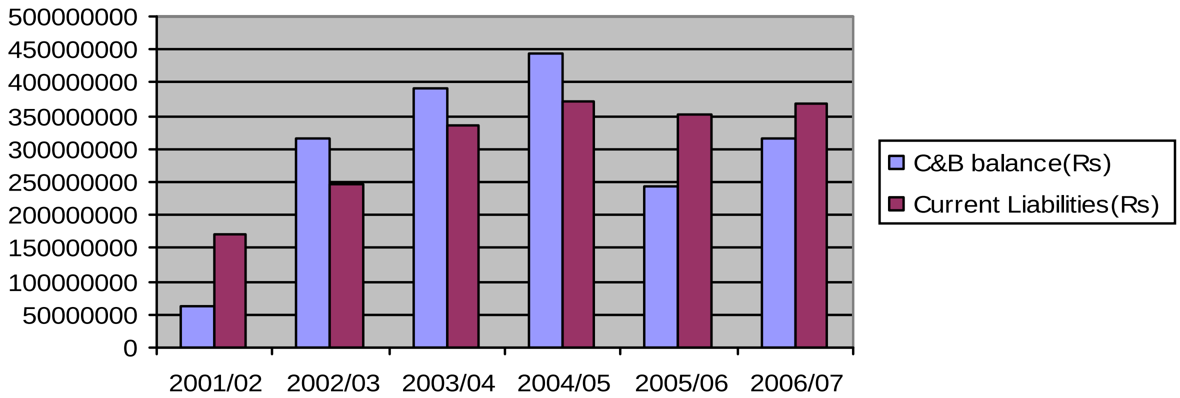

Figure No. 4.8: Graphical presentation between cash and bank balance and current liabilities.

Above bar diagram shows that the graphical presentation between current liabilities and cash and bank balance, In the figure it is seen that the current liabilities are in fluctuating trend it is minimum in the year 01/02 and it is maximum in the year 04/05.The portion of cash and bank balance with comparison to current liabilities are very minimum.

4.2 Analysis of the data by Statistical Tools

4.2.1 Fitting the straight-Line Trend by least Square Spread Sheet for Variation in the Cash Balance

To analyze the data by using least square method let us assume that the fiscal year be x and cash balance be y. If he keeps the fiscal year, ranking from 1to 6 those no. of observation would be six. Similarly, each balance y would be kept in four figures i.e in Rs (0000) to make calculation easier.

So that, straight line trend ye = a + bx

Where,

$\overline{X} = \sum X/N$

a = $\sum Y/N$

b = $\sum XY/\sum X^2$

x = $\left(x - \overline{x}\right)$

Table No. 4.12
Least square spreadsheet between fiscal years and cash and bank balance

Fiscal Year	C&B balance (Rs)	$\left(x-\overline{x}\right)$	X^2	XY
2001/02	6233	-2	4	-12466
2002/03	31740	-1	1	-31740
2003/04	39153	0	0	0
2004/05	44331	1	1	44331
2005/06	24267	2	4	48534
$\overline{X}=\sum X/N$	$\sum Y=145724$	$\sum X=0$	$\sum X^2=10$	$\sum xy=48659$

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

$\overline{X}=\sum X/N$
= 15/5
= 3

a = $\sum Y/N$
= 145724/5
= 29144.8
=29145

b = $\sum XY/\sum X^2$
= 48659/10
= 4865.9
= 4866

yc = 29145 + 4866x

This Trend Line Shows the Positive Figure of Cash Balance for future. The annual rate of increment of cash balance is same to be 4866*10000 = 48660000.

To predict the future cash balance, fitting the above calculated cash trend line in the following table for future fout year, by taking fiscal Year, 01/02 as a base year.

Table No. 4.13:
Future trend line of cash balance Yc=29145+4866*

Fiscal Year	X	Trend Line Yc= 29145+4866x	Cash balance(y)
2006/07	(06/07-01/02)=6	Yc=21945+4866×6	58341
2007/08	(07/08-01/02)=7	Yc=21945+4866×7	63207
2008/09	(08/09-01/02)=8	Yc=21945+4866×8	68073
2009/010	(09/010-01/02)=9	Yc=21945+4866×9	72939

By the help of fit line trend in the fiscal year 06/07 wil be cash balance 58341 thousand similarly 63207, 68073 and 72939 for the year 07/08, 08/09 and 09/10 respectively.

In the conclusion the cash future trend in increasing slop which implies cash will be more than present. It means the company makes strategy to manage the cash balance in future.

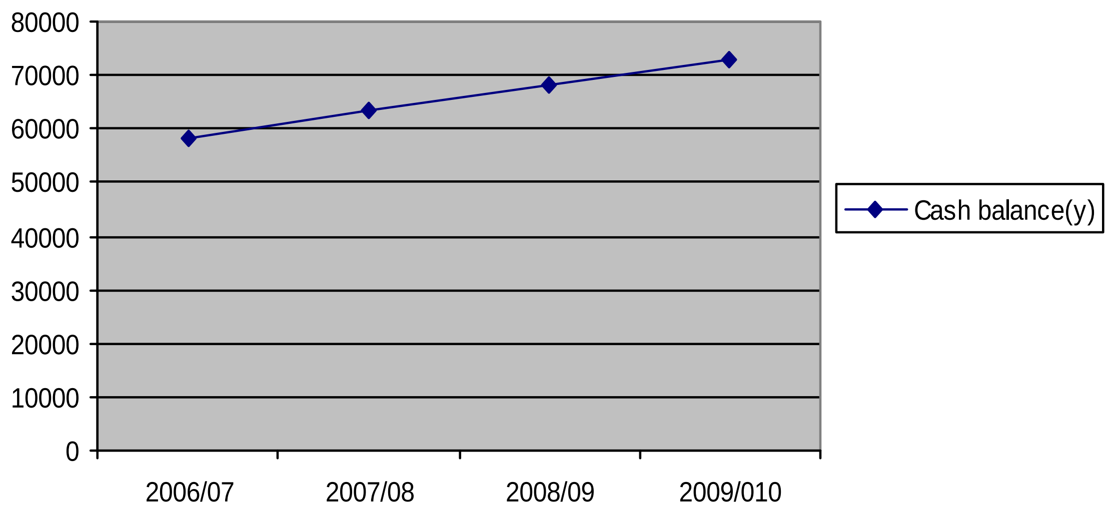

Figure No. 4.9: Future trend of cash balance in figue.

The trend line shows that cash balance will be increasing trend in future.

4.2.2 Correlation Coefficient berween cash, bank balance and actual sales

To find correlation between sales and cash balance Karl Pearson's coefficient of correlation (r) is determined. For this purpose actual sales (x) are assumed to be dependence variable. At first, it is assumed that actual sales will increase as cash balance will increase or vice versa. It means there should be positive correlation between cash balance x actual sales. The significance of correlation 'r' is lasted with probable error or 'r'

Table No. 4.14:
Correlation "r" between actual sales and cash balance in (0000) in Rs.

Fiscal Year	Actual Sales(X)	Cash balance(Y)	$x-\bar{x}(u)$	$y-\bar{y}(v)$	u^2	v^2	uv
2001/02	123605	6233	-15534	-22912	241305156	52495974	355915008
2002/03	124473	31740	-14666	2595	215091556	6734025	38058270
2003/04	152490	39153	13351	10008	17824920	100160064	133616808
2004/05	148156	44331	9017	15186	81306289	23061459	136932162
2005/06	146969	24267	7830	-4878	61308900	23794884	-38194740
	$\sum x =$ 695693	$\sum y =145724$	$\sum u =0$	$\sum v =0$	$\sum u^2 =$ 777261102	$\sum v^2 =$ 886263313	$\sum uv =$ 550210968

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

$\overline{X} = \sum X/N$
= 695693/5
= 139138.6
= 139139

$\overline{Y} = \sum Y/N$
= 145724/5
= 29144.8
= 29145

$$r = \frac{\sum UV}{\sqrt{\sum u^2 \sum v^2}}$$

$$r = \frac{550210968}{\sqrt{777261102 \times 886263313}}$$

$$r = \frac{550210968}{829973641.1}$$

r = 0.663
= 66.3%

We have standard deviation of actual sales x

$$\pm_x = \sqrt{\frac{\sum\left(x-\overline{x}\right)^2}{n}}$$

$$\pm_x = \sqrt{\frac{777261102}{5}}$$

$$\pm_x = \sqrt{155452220.4}$$

$$\pm_x = 12468.05$$

Similarly, standard devation of cash balance y.

$$\pm_y = \sqrt{\frac{\sum\left(y-\overline{y}\right)^2}{n}}$$

$$\pm_y = \sqrt{\frac{886263313}{5}}$$

$$\pm_y = \sqrt{177252662.6}$$

$$\pm_y = 13313.63$$

The value of 'r' 0.663 i.e.66.3% shows the lower positive correlations between cash and sales. However, this positive correlation is not only due to changes. The last either of significant of the valu 'r' shows that there in significant positive relationship or not berween the cash balance and sales.

i.e. P.E. of 'r'

$$r = \frac{0.6745\left(1-(0.663)^2\right.}{\sqrt{5}}$$

$$= \frac{0.6745 \times 0.560431}{2.2361}$$

r = 0.1691

A regression line can also be fitted to show the degree of relationship between actual asles and cash ans bank balance.cash balance can be forecasted by the value of actual sales. For this purpose cash, balance and actual sales have been assumed interrelated economic variables. So the regression line of sales(x) on cash balance (y) is.

$$x - \overline{x} = r\frac{\pm_x}{\pm_y}\left(y-\overline{y}\right)$$

$$\overline{x} = 139139$$

$$\overline{y} = 29145$$

x-139139 = $0.663 \times \frac{12468.05}{13313.63}\left(y-29145\right)$

x-139139 = 0.63y–19323.14

x = 0.63y+119815.86

This evaluation shows that sales will be increased by 0.63 per Rs increase in cash balance.
Nest the regression line of cash balance (y) on actual sales x on y and x is as under.

$$y - \overline{y} = r \frac{\pm_y}{\pm_x}\left(x - \overline{x}\right)$$

y- 29145 = 0.663 $\times \frac{13313.63}{12468.05}(y - 139139)$

y- 29145 = 0.708x-92249.157
y = 0.708x-92249.157+29145
y = 0.708x-69360.47

Thus, an assumption the cash balance is a function as sales achieved.

4.2.3 Fittiong the straight Line trend by least Square for Sales and Receivables

Time clement is also important factor because with the passage of time sales achicvements account receivable changes, which can be expressed by dthe comp;onent of time serice.A straight line by the methid if least square will sho the relationship beweenn yeara(time)and ratio in time of account receivables and saled.

Table No. 4.15:
Fitting thhe straight-line trend by least square for sales and recivables

Fiscal Year	Ratio in time(y)	X = $\left(x - \overline{x}\right)$	X²	% of C&B on CA
2001/02 (1)	38.43	-2	4	-76.86
2002/03 (2)	19.22	-1	1	-19.22
2003/04 (3)	15.71	0	0	0
2004/05 (4)	9.40	1	1	9.40
2005/06 (5)	10.63	2	4	21.26
$\overline{X} = \sum X/N$	$\sum Y = 93.99$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 65.42$

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

$\overline{X} = \sum X/N$
= 15/3
= 3

x = No. of observation
y = time in ratio of AR and sales.

Straight line trend
y = a+bx

$$a = \frac{\sum Y}{n}$$

$$a = \frac{93.39}{5} = 18.68$$

$$b = \frac{\sum XY}{\sum X^2}$$

$$b = \frac{-65.42}{10} = -6.54$$

yc = 18.68-6.54x

This trend line shows that sales are directly affected by the account receivable in future.

To predict the future trend for sales and receivable, fitting the above calculated sales and receivable trend in the following table for future four years, by taking fy 01/02 as a base year.

Table No. 4.16
Future Trend line for sales and receivable

Fiscal Year	X	Trend Line Yc= 29145+4866x	Cash balance(y)
2006/07	(06/07-01/02)=6	Yc=18.68-6.54×6	-20.56
2007/08	(07/08-01/02)=7	Yc=18.68-6.547	-27.1
2008/09	(08/09-01/02)=8	Yc=18.68-6.54×8	-33.64
2009/010	(09/010-01/02)=9	Yc=18.68-6.54×9	-40.18

By the help of above data presentation indicates that sales and receivable both are in decreasing trend for future simultaneously. So it provides that sales will be decrease, the receivable will also decrease.

4.2.4 Analysis of Correlation Coefficient between Sales and Account Receivables

To find out the correlation between sales and receibable, Karl Person's coefficient of correlation 'r' is determined. For this purpose sales and receivables are assumed receivable (X) are dependent variables and sales (Y) are independent variables. Is is assumed that sales will increase as receivables increase or vice versa. It means that there should be ositive relationship between sales and receivables.

Table No. 4.17:
Correlation 'r' between receivables and sales in (0000) Rs.

Fiscal Year	Receivable	Sales	$x-\bar{x}(u)$	$y-\bar{y}(v)$	x^2	y^2	xy
2001/02	3215	123605	-6584	-15533	43349056	241274089	102226926
2002/03	6477	124473	-3323	-14666	11042329	215091556	48735118
2003/04	9706	152490	-94	13352	8836	178275904	1255088
2004/05	15772	148156	5972	9018	35664784	81324324	53855496
2005/06	13831	146969	4031	7830	16248961	61308900	31562730
	$\sum x$ =49001	$\sum y$ =695693	$\sum x$ =0	$\sum y$ =0	$\sum x^2$ = 106313966	$\sum y^2$ = 777274773	$\sum xy$ = 237635358

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

$\overline{X} = \sum X/N$
= 49001/5
= 9800.2
= 9800

$\overline{Y} = \sum Y/N$
= 695693/5
= 139138.6
= 139139

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

$$r = \frac{237635358}{\sqrt{106313966 \times 777274773}}$$

$$r = \frac{237635358}{287463326}$$

r = 0.83

The value of 'r' +0.83 shows that there is highly positive correlation between sales and receivable. But this positive correlation is not due to chances. The test of significance of the value of 'r' shows either there is significant positive relation or not between sales and receivables.

The probable error of 'r'

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

$$r = \frac{\left\{1-(0.83)^2\right\}}{5}$$

r = 0.0988

6xP.E. 'r' = 6x0.0988

= 0.5928

Since, r> 6xP.E. 'r' the value of r is highly significant, so that it is no doubt to say that if sales will increase receivables will also increase or vice-versa. A regression line can also be fitted to show the degree relationship between sales and account receivables. For this purpose receivable have been assumed to be depended on sales.

So that, the regression line of receivable (x) on sales y is as follows:

$$x - \overline{x} = r\left[\frac{\pm_x}{\pm_y}\right]$$

$$\pm_x = \sqrt{\frac{\sum\left(x-\overline{x}\right)^2}{n}}$$

$$\pm_x = \sqrt{\frac{106313966}{5}}$$

$$\pm_x = 4611.16$$

$$\pm_y = \sqrt{\frac{\sum\left(y-\overline{y}\right)^2}{n}}$$

$$\pm_y = \sqrt{\frac{777274773}{5}}$$

$$\pm_y = 12468.16$$

$$x - \overline{x} = r\frac{\pm_x}{\pm_y}\left(y-\overline{y}\right)$$

x-9800 = 8.82 $\times \frac{4611.16}{12468.16}\left(y - 139138.2\right)$

x-9800 = 0.3034y−42195.63

x = 0.030y-32395.63

Again, the regression line of sales y o receivable x is as follows:

$$y-\overline{y}=r\frac{\pm_y}{\pm_x}\left(x-\overline{x}\right)$$

y- 1319138 = 0.82$\times\frac{12468.05}{4611.16}(y-9800)$
y- 1319138 = 2.22x-21728.62
y = 2.22x+117409

4.2.5 Analysis of Correlation Coefficient between Account Receivable and Cash and Bank Balance

To find out the correlation between receivables, cash and bank balance Karl Person's coefficient of correlation 'r' is determined. For this purpose, account receivable, cash and bank balance are assumed interrelated economic variables. Let us assume receivable x is dependent variable and cash and bank balance are independent variables.

Table No. 4.18:
Correlation between account receivable cash and bank balance Rs. In (0000)

Fiscal Year	Receivable	Cash balance(Y)	$x-\bar{x}(u)$	$y-\bar{y}(v)$	u^2	v^2	uv
2001/02	3216	6233	-6584	-22912	43349056	524959744	150852608
2002/03	6477	31740	-3323	2595	11042329	6734025	-8623185
2003/04	9706	39153	-94	10008	8836	108160064	-940752
2004/05	15772	44331	5972	15186	35664784	238614569	90690792
2005/06	13831	24267	4031	-4878	16248961	23794884	19663218
	$\sum x=$ 49002	$\sum y=145724$	$\sum u=0$	$\sum v=0$	$\sum u^2=$ 106313966	$\sum v^2=$ 902263286	$\sum uv=$ 251642681

(Source: Audited balance sheet of Unilever Nepal Limited for the relevant year)

$$\overline{X}=\sum X/N$$

$$\overline{X}=\frac{49002}{5}=9800.2$$

$$\overline{Y}=\frac{145724}{5}=29145$$

$$r=\frac{\sum UV}{\sqrt{\sum u^2\sum v^2}}$$

$$r = \frac{212316245}{\sqrt{106313966 \times 902263286}}$$

$$r = \frac{212316245}{309714693.2}$$

r = 0.686 = 0.69

The value of 'r' is 0.69 shows that there is positive correlation between receivables and cash bank balance. But this positive correlation is not only due to chances. The test of singnificance and the value of 'r' shows either there is significance positive correlation or not between account receivables and cash and bank balance.

The probable error (P.E).(r)=

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

$$= \frac{0.6745(1-0.69)^2}{\sqrt{5}}$$

$$= \frac{0.35337055}{21236067917}$$

$$= 0.15=0.16$$

6(P.E).r

6 x 0.16

=0.96

Since the value of r<6P.E the value of r is not at all significant so that it is doubt to say that whether receivable increase cash balance will increase and vice-versa.So that there is no extra evidence to produce that either receivables will increase,cash and bank balance increases.

4.3 Analysis Cash Flow Statement of Unilever Nepal Limited

Cash flows statement of the company signifies the movements of cash in and out of corporation. Inflow of cash is known as source of cash and out flow is called use of cash. It virtually takes the nature and character of cash receipt and payments through the basis information used in preparation of this statement differs from that which is used in recording cash receipts and cash payments in cash inflow and out flow are explained and shows in cash flow statement before highlighting its nature and utility. The actual cash flow statement is financing activities and cash from investment activities for the fiscal year 2001/02 to 2005/06.

Table No 4.19:
Comparative table of cash flow

(Figures in brackets represent deductions)

	04/05	05/06	06/07
A cash flows from operating activities			
Net profit	189199474	238156507	263064838
Adjustments			
Add:-			
-Depreciation	17430497	19581408	19517262
-Interest	1765167	1789825	1059458
-Provisions(increases)	92166244	81527835	50992951
-Loss in sale/written off of fixed assets	5203181	933478	4940773
Cash flow prior to change capital in working.	**305764563**	**341989053**	**339575282**
Change in working capital			
-Decreases (increases) in current assets	(115390338)	(50831073)	(22133323)
-Increases(decreases)in current liabilities	34521290	16928343	15175048
-Interest payments	(1765167)	(1789825)	(1059458)
-Advance income tax paid	(64580765)	(66285242)	(80950000)
Net change in working capital.	**(147214980)**	**(135834483)**	**(88967732)**
Net cash flow from operation	**158549582**	**206154571**	**250607550**
B cash flow from investment			
Interest/Dividend Receipt			
-Sales (purchase)of fixed asset	(14700057)	(38514049)	(27616000)
-Increase/decrease in short term loan(Bank overdraft)			
Fixed Deposit		181200000	(30000000)
Sale of Govt Securities			79764185
Net cash flow from investment	**(14700057)**	**142685951**	**22148185**
C Cash flow from financial activities			
-Divided distribution	(92070000)	(368280000)	(230175000)
Net cash flow from financial activities	**(92070000)**	**(368280000)**	**(230175000)**
Gross Increase in cash /decrease(A+B+C)	**51779526**	**(19439478)**	**42580735**
Opening cash and bank balance	391531692	78461217	59021739
Closing cash and bank balance.	**443311218**	**59021739**	**101602475**

(See: Appendix-3)

The actual cash flow statement is presented on the heading of cash from operation activities, cash from financing activities and cash from investing activities for the fiscal year 2004/05 to 2006/07. The table shows that the detail calculation of cash from operating activities, and net cash flow statement for the year and closing balance of cash. It is seen that the amount of depreciation of fixed assets is in flactuating trend.The amount of interest is in fluctuating trend.The amount of written off of fixed assets in minimum in the year 05/06 and maximum in the year 06/07.

In the fiscal year 05/06 there is decrease in current asset whereas only in the year 05/06 the current liabilities i.e.cash outflow is in increasing trend and vice-versa. The above table shows the decreasing trend of current assets in the year 2005/06 and increasing trend of current liabilities. Except the fiscal the fiscal year 2005/006 i.e. 15175048.From the table the net cash flow from operation in increasing trend with all is in positive figure. i.e. cash inflow is excess inflow ,which is not good signal for the company.

In investing activities it is seen that the sales of fixed assets is in fluctuating trend and also purchase of fixed assets from minimum amount of Rs in the year 2004/05 Rs.14700057 and maximum of Rs 38514049 in the year 05/06 which is in increasing trend.

After adjustment of all items of investing activities, we can conclude that the cash from investing activities has increasing trend

From the table, after adjusting the financial activities, dividned distribution at of company is in flactuating trend.

After adjusting of Gross Increase in Cash/ (decrease) the gorss is in fluctuating trend.

After adding the opening cash and bank balance the closing cash and bank balance is calculated.the closing cash and bank balance in the fiscal year 04/05 is Rs.78461217, Similarly Rs. 59021739 and Rs. 101902475 in the fiscal year 05/06 and 06/07. It means closing cash and bank balance of UNL is flactuating trend.

The main findings of the study are briefly explained as follows:

It is found that cash management of UNL Nepal Limited is not so effective. The company sells goods in cash and credit. The percentage of credit sales depends upon credit situation of time and nature of goods.Credit period is very short for the customers.The company fiollows telephone call and personal visit method for quick collection of account receivable.There is no systematic forecast of cash in company.

Company produced goods depends up on condition of cash balance, situation of time and nature of goods.During the study period, it seems that the main source of sales of goods and loan from bank.Besides this commission,divided and sales of fixed asstes,company uses cash at huge amount for purchase of commodities paid bonus, interest, incometax, purchase of fixed assets,selling expences etc the company holds cash for transition motives.

The basis objectives of study is to have in sight over cash management of UL Nepal Ltd and recommended some concrete suggestion of package for improvement in view of analysis. Due to lack of good cash management, UNL is not able to provide necessary data, except annual sheet and profit and loss account.

The research design choosen for this study is descriptive and analytical.The data has been derived from annual report taking from fiscal year 01/02 to 06/07. So the nature of data used for the study is secondary in nature.The data derieved from fropm annual report of UNL are presented in required tabular form and presented in graph or bar-diagram.They are analyzed by using various financial techniques such as ratio analysis and average collwection period.In course of preparing this thesis some of the questionnaire based on cash management of UNL .I had asked some of the questions to the employees of different part of that company on the basis of analysis of answers given by them as well as results of financial and stoically analysis.The main finding of this study is highlighted below.

4.4 Major Findings

1. Cash management in the Unilever Nepal Limited is primarily based on the traditional practices lacking in scientific approach. A more serious aspect to cash management has been the absence of any formalized system of cash planning and cash budjeting in Unilever Nepal Limited.
2. The Unilever Nepal Limited could not make the best use of available cash balance prudently.
3. Modern practices with respect to debt collections, monitering the payment behaviour of customer and relevant banking arrangements in connecting with collection of receivables have been virtually ignored in Unilever Limited.
4. The average cash turn over time in the year is found 8 times which is in fluctuating trend over the study period
5. The average inventory conversion period into cash is found a little more than 1 month i.e. 43 days.
6. The average payable conversion period is faster than average receivable period. Which is not good signal; for the purpose of managing cash.
7. Management has taken liberal credit policy to sales of goods. Hence, the cash and bank balance of the study period is minimum of amount receivable.
8. No, optimum cash balance is maintained the cash and bank balance with respect to current assets has been fluctuating trend similar is the cash with respect to the total assets.
9. The company should have clear standard as if how much cash balance should be maintained. Cash balance seems varying widely respective of changes in Company are other financial variables. These demands for effective cash planning. Forecasting and budgeting system to determine cash balance needed to the company.
10. The Unilever Nepal should prepare cash budget to maintain cash management, which helps to estimate closing balance of cash, receipt of cash and payment of cash.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal Lever Limited was formed as a subsidiary company of Hindustan Lever Ltd. A multinational company of India but as the result by the Eleventh Annual General Meeting of the company the office approved the change ion the name of the company from Nepal lever into UnileverNepal Limited. It is the first subsidiary company of Hindustan Lever Ltd outside of India with holding 80% ownership and 5% of Sibkram land Ind.Co.Pvt.Ltd. And 15% of public Shareholders. It is also recognized as one of the most profit earning and greatest paying company in Nepal. It has been involving itself in different types of social works since it's established. However, UNL is found to be the objective of this study is to heave true insight into its cash management. An effort has been made in the study to provide a possible suggestive framework for the better cash management of UNL.

This is the first depth study on cash management in the history of UNL. This study covers the period of six year begin from 01/02 to 06/07.

For the purpose of conducting this study, mainly the secondary data are used. It constitutes mostly the balance sheet and profit and loss account besides; the performance has also been supplemented from interview with the related persons of UNL, i.e. General Manager, Charter Accountant, Account officers and Divisional Manager through the means of questionnaire.

This study use financial tools to accomplish the objective. They are financial ratio. In addition, correlation regression for the relevant year.

5.1.1 Issue and constraints

While analyzing the management of cash on UNL some issue and questionnaire have been noticed which may be described as follows:

1. Absence of forecast and plan of cash it is observed that the cash management is least concerned to forecast of cash for the coming period. The cash forecasting is completely lacking in the corporation. The forecasting is completely lacking in the corporation. The fluctuating trend of cash reveals the fact clearly.
2. The lack of accurate and prefer sales forecast is one of the important constraints that effect the financial performance of the company. If the company forecasts the excepted sales accurately it can manage the

various activities accordingly for example, it can plan capital, investment, requirement of current expenses and inventories etc.

3. Restrictive credit policy is one of the important constraints that affected the sales of the company. It is adopted liberal creditor policy; it can increase the sales venture and the receivable turn over by employing a very restrictive credit policy. But however, this is true up to the certain point only because such strategy tends to decrease the sales.
4. The performance of Unilever Nepal Limited exhibits that the management lacks basic knowledge of financial management.
5. Due to certain constraints in management, UNL derived to provide information except balance sheet and profit and loss account, which are not sufficient for analysis of cash management.

5.2 Conclusion

In conclusion, it can be said that cash management is an important part of financial decision making variable.

Many factors of determinants such as nature and business, level of sales, credit term, quality of customers' economic condition etc have to be considered in cash management. A part from level of purchase, method of creating cash management, establish of credit term, types of different technique to cash management, cash cycle etc. are to be considered company must prepare cash budget to plan for and control cash flow.

Thus, for Unilever Nepal Limited it is necessary to highlight the importance of developing appropriate strategies for cash management in respect of:

1. Managing of cash flow so as to accelerate the inflows and as for as possible to declare out flow.
2. cash planning and cash budgeting in a formal basis as to project cash surplus or cash deficit for a period not exceeding one year and broken up into shorter intervals.
3. Optimizing the level of cash balance by matching the cost of holding excess cash and danger of cash deficiency.
4. Investigating idle cash balance taking into account the cost of administrating investment in marketable securities.
5. While observing the relationship between balance and source of finance, there is positive relationship is observed. However it is satisfying in significant.

5.3 Recommendation

Based on the findings of the analysis and the issues and constraints mentioned above, some practice recommendations have been provided in the following page.

1. Efficient Management of Cash

UnileverNepal Limited should have proper cash planning to estimate the cash receipts and payments. It helps to minimize the problem of excess or deficit cash balance. Company should first identify the various needs for operation. For this company should consider the various expense it has to incur such as, purchase of commodities, payment to be made for wages, salaries, and rent, power, etc. In other words, it should forecast the cash needs for trading expenses, administrative and selling overheads for certain period of time, say one month. After identifying the cash needs them the company should estimate the cash sales and collection of credits. When the cash flow is forecasted, the company should determine the minimum level of cash balance needed. At the time, the seasonal requirement should also be considered.

2. Adoption of Clear Credit Policy

Clear credit policy is to handle the cash management effectively. It should adopt liberal credit policy to increase the sales. Next, it should adopt strength credit policy especially for its staff and workers for effective credit and collection performance as low total receivable. One of the reasons of lower turnover and high collection period arise due to more advances is company employees.

3. Maintain Optimum Cash Balance

The company should maintain cash balance by matching between surplus and deficiency of cash balance. As the size of the cash balance directly varies with peak period, slack period and general economic factors and investment opportunities the Unilever Nepal Limited should take those entire situations, while determining optimum cash balance. During the peak while in the production phase the company should hold more cash to make huge purchase for the fulfillment of domestics as well as international demand. Like this small cash or bank balance should be kept by the company in off sea son because of no any purchase is made in off season. Sometimes Unilever Nepal Limited get a chance to take advantage opportunity to purchase shares, debentures, marketable securities, when interest is expected is decline etc. the company should exploit those profitable opportunities and keep cash reserve to do so.

4. To design the effective account receivable management

Account receivable management is one of the basic components of current assets and management should be given top priority by the top management of the company since the major share of corporation current aspects has turn occupied by account receivables. Account receivables, amazement programmed. This programmed has two main approaches in the first place the company should try to minimize account receivable by selling only in cash term secondly, it should try to maximize collection efforts by different process restricting to various measures. That is to determine appropriate credit policy. Not only that the company should follow suitable credit term, especially providing discount that is attractive to encourage payments earlier and at the same time make a comprehensive study of character, capacity, capita, collateral and conditions of all those customers is institutions that request credit from the company.

5. Preparation of monthly trial balance cash/ funds flow statements and financial reports.

After looking internal audit and central system of the company, it can be suggested that, the company should prepare monthly trial balance. Cash and s flow statement and financial reports in order to appraise its financial position to the board of directors time to time.

6. Invest the surplus in profitable opportunities:

Company should manage its cash affairs in such a way to keep cash balance at a minimum level and to invest the surplus cash funds in profitable opportunities like Government securities, investment in new business, provide loan, deposit, launch new product.

7. Prepare cash Budget

For an estimation of closing balance of cash, receipt of cash and payment of cash a “cash budget” has to prepare. The following steps are considered for construction of a cash budget.

Step I

To identify the source of cash inflows (receipt) is the first step of cash budget. Normally the sources of a business are as follows:

i. Beginning cash in hand and at bank
ii. Cash sale
iii. Cash collection from debtors
iv. Cash sales of fixed assets
v. Interest and dividend received
vi. Issue of share and debenture
vii. Bank loan
viii. Loan from financial institutions

Step II

To determine the cash outflow (payment) is the second step. Following is the list of payment of a firm.

i. Cash purchase
ii. Payment of the credit purchase
iii. Wages and salary payment
iv. Payment of manufacturing administrative and selling expenses.
v. Repayment of borrowed capital
vi. Payment for purchase of fixed assets.
vii. Payment of other expenses.

Step III

To find out the closing balance: the closing balance of cash can get by the following way:

Closing balance of cash = opening balance of cash + receipt of cash - payment of cash.

The specimen of a cash budget is given below:

Cash budget for the month……

Beginning balance of cash			xxxxx
Add. Receipt		xxx	
Cash sale	xxx		
Collection from debtors	xxx		
Sale of fixed assets		xxx	
Interest received	xxx		
Divided received	xxx		
Collection from issuing share	xxxx		
Collection from issuing debenture		xxxx	
Loan received	xxxx		
Total receipt (A)			xxxx
Less: payment			
Cash purchase		xxx	
Wages and salaries		xxx	
Manufacturing overhead	xxx		
Administrative overhead	xxx		
selling overhead	xxx		
Interest		xxx	
Dividend	xxx		
Fixed assets of borrowed capital	xxx		
Repayment of borrowed capital	xxx		
Total payment(Rs.)			xxx
Closing balance of cash(A-B)			xxx

8. Investment and Marketable Securities.

There is close relationship between cash and marketable securities. Excess cash should normally be invested in marketable securities which can be conveniently and promptly converted into cash. The excess cash may build up during slack season but it would be needed when the demands pick up. This excess cash duringsl slack season is temporarily, but has predictable requirement later on. Next excess cash may be hold as a buffer to meet unpredictable financial needs. The financial manager must decide about the portfolio of marketable securities in which the firm's surplus cash should be invested. A firm can invest its excess cash in many types of securities. As the invest its temporary transaction balance or precautionary balance of both, it primary criteria in selecting a security will be its quickest convertibility into cash when the need for cash arises. In choosing, these activities are safely maturity and marketability.

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ANNEXES

Questionnaire

To study of the *"Cash Management of Unilever Nepal Limited"* of the respondent of Unilever Nepal Limited.

Designation

Please answer the following questions putting a tick mark at the appropriate space or as other where required in specific question. I resize that some question may not tend there sales to the short answer. However even practical information no matter now brief it will be great value to my study.

1. Does your organization use "Cash Budget"?

   Yes ☐ No ☐

2. If "Yes" how often do you prepare a cash budget?
   a. Annually ☐
   b. Semi annually ☐
   c. Monthly ☐
   d. Weekly ☐

3. What methods do you follow to forecast your cash requirement?
   a. Cash Budget Method ☐
   b. Adjusted not Income Method ☐
   c. Ratio Analysis ☐
   d. Projected balance sheet Method ☐
   e. Mathematical Models ☐

4. What policy does your organization follow in respect of sales?
   a. Credit Sales ☐
   b. Cash Sales ☐
   c. Cash and Credit Sales ☐

5. Do you have uniform terms of credit allowed to customer?

   Yes ☐ No ☐

6. If "Yes" what is the period of credit allowed to customers?
   a. net/7 days ☐

b. net/15 days ☐

c. net/30 days ☐

d. net/60 days ☐

e. net/90 days ☐

f. any other ☐

7. Do you have a policy of charging interest on delayed payments?

Yes ☐ No ☐

8. If "Yes" then what is the rate of interest charged?

Please specify ☐

9. If "Yes" what is the rate of discount percent?

Please specify ☐

10. What is the cash collection ratio in your organization?

Please specify ☐

11. Is there any over due amount to the collection?

Yes ☐ No ☐

12. If "yes" what is your opinion may be the cause of over-due amounts receivables?

a. Customers attitudes ☐

b. Absence of follow-up attitudes ☐

c. Problem of liquidity of the customers ☐

d. To enjoy float benefit ☐

e. Risk of loosing customers ☐

f. Defective system of credit collection ☐

g. Any other ☐

13. What is your suggestion to improve cash collection system?
    a. Reminder/by Telephone ☐
    b. Initiate compromise ☐
    c. Charging extra interest ☐
    d. Any other ☐
14. In monitoring the payment behavior of your customers which method do you apply?
15. Do you have collection system of advance payment from customers?
    Yes ☐ No ☐
16. Is your organization able to discharge all short term liabilities on due dates?
    Yes ☐ No ☐
17. To what extent does your organization take advantage of cash discount offered by book arrangement?
18. For which reason, your organization is unable to discharge all short term liabilities on due dates?
19. Do you have a practice having a portion of cash fund as optimum cash for bank balance?
    Yes ☐ No ☐

Appendix-1

Principal peaks:

Name of the peak	Location Zone	Altitude(in meter)
Sagarmatha	Sagarmatha	8848
Kanchanjunga	Mechi	8586
Lhotse	Sagarmatha	8516
Yalung Kang	Mechi	8505
Makalu l	Koshi	8463
Chooyu	Sagarmatha	8201
Dhawlgiri l	Dhawlagiri	8167
Manasulu	Gandaki	8163
Annapurna l	Gandaki	8091
Nuptse l	Sagarmatha	7855
Ganesh Himal l	Bagmati	7429
Langtang lirung	Bagmati	7234
Gauri shankar	Janakpur	7134
Api	Mahakali	7132
Machhapuchhare	Gandaki	7059
Kanijiroba	Kamali	6883
Ama Dablam	Sagarmatha	6812
Bhairab Takura	Bagmati	6799