CHAPTER- ONE
INTRODUCTION

1.1 Background of the study

Nepal is a landlocked and underdeveloped agricultural country; more than 80%of the people are depending on agriculture for livelihood. Low productivity for this sector is one of the reasons for the Nepal to remain one of the least developed countries in the world. Prospects for overall economic development will be brighter only if the present structure of the economy with pre-dominant dependence on traditional agricultural can be gradually transformed through the process of industrialization.

Government Corporation can play an important role in social and economic activities. It has become essential to widen the mobilization of resources. Public enterprises can play important role in social services but are not profit oriented.

Nepalese public organization is very poor because there is poor management and lack of proper market. Every organization is not operationalised without cash. Therefore cash is the important factor for the every organization.

Cash is the important current asset for the operations of the business organization and public organization. Cash is the basic input needed to keep the running, it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage is disrupting the firm's manufacturing operations while excessive cash is simply remaining idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manger is to maintain is to maintain a sound cash position.

The proposed thesis is based on information provided by the company. My emphasis on this thesis is found out how and when the firm taught about the management of cash and what dose company to eliminate such types of poor management of cash drawbacks fallows the remedies. Government organizations are not satisfactory complete with private sector organization because of poor management of cash. Therefore to find out the public enterprise drawbacks of cash management and to suggest the companies, the study will be beneficial one.

1.2 Public Enterprises at Glance

"Public Enterprise is an institution operating a service of an economic on social element, on behalf of the government but an independent legal entity, largely autonomous in its management thought responsible to the public, through government equipped on the other hand with independent and separate funds of its own and the legal and commercial attributes of a commercial enterprises." (Industrial Policy; 1998: 7)

Nepal has agriculture based economy. Though more than 80 percent population makes its living from agriculture, the sector still has not been able to cater the needs of increasing population. The per capita income is merely US$ 310.

Nepal had a late start in development. Industrialization started only after it got exposure in the world in 1951, after the democratic movement. For this purpose planned development was started in 1956 with the first five-year plan. Fifty years down the road since the execution of the first five-year plan, about 62 different public enterprises in manufacturing, financial and service, trading and public utility sector have been set up. But now there are only 36 on the scene as some of them closed and others were handed over to the private sector. Among them, there are 10 PEs in manufacturing sector. These public enterprises were set up with various social objectives, like creating employment opportunities, catering the people with quality goods and services, mobilizing resources. Apart from these, there were economic motives. They were supposed to contribute to the state coffers also besides their sustained growth.

Public enterprises in Nepal constitute a vital instrument for the socio-economic development of the country. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals and objectives. Since 1956, Nepal has witnessed growth and development of public enterprises. Nepal Bank Limited, a commercial bank was the first public enterprise to have a separate legal entity in Nepal.

There has been a huge investment and government further eased this by thrashing new conducive policies. But still the process has not gained the desired momentum. Despite various attractive policies, the return on investment is not satisfactory.

Overstaffing, low labor productivity and gross inefficiency in capital utilization plagued the performance of state-owned enterprises. Out of 36 public enterprises, only 19 earned profit in the last fiscal year 2062/63. Besides, inability of state-owned enterprises to adapt to changing business environment has also been identified as another reason for poor performance. The government received just Rs.3.35 billion from the entire PEs which is around 5.62 percent of the equity investment it pumped into them. This shows how the government money goes down the drain. There could be various reasons behind, which need to be investigated so that corrective measures could be taken to improve their condition.

1.2.1 Role of Public Enterprises in Economic Development

A rapid economic development requires huge expenditure on various sectors of the economy. The private sector is either unable to invest huge amounts or unwilling because the return from such investments may be uncertain or long delayed. Hence, economic development has to depend almost entirely on public enterprises. Public enterprises, therefore, play a vital role in economic development of a developing country like Nepal.

"Public enterprises promote economic development in the following ways:

a. **Economic Overheads:** Economic development is handicapped in underdeveloped countries on account of the lack of the necessary infrastructure. Economic overheads like the roads and railways, irrigation and power projects are essential for speeding-up economic development. Money for these things cannot come out of private sources. Public enterprises have to build up the economic overheads.

b. **Balanced Regional Growth:** It is considered desirable to bring about a balanced regional growth. Special attention has to be paid to the development of backward areas and underdeveloped regions. This requires huge amounts for which reliance has to be placed on public expenditure.

c. **Development of Agriculture and Industry:** Economic development is regarded synonymous with industrial development but agricultural development provides the base and has to be given top priority. Government has to incur lot of expenditure in the agricultural sector, e.g., on irrigation and power, seed farms,

fertilizer factories, warehouses, etc., and in the industrial sector by setting up public enterprises like rubber industries, pharmaceutical factories, dairy processing industries, etc. All these enterprises are calculated to promote economic development.

d. **Exploitation and Development of Mineral Resources:** Minerals provide a base for further economic development. The government has to undertake schemes of exploration and development of essential minerals, e.g., coal and limestone. Public enterprise has to play its role here too.

e. **Subsidies and Grants:** The government gives grants to local authorities to induce them to incur some desirable expenditure. Subsidies have also to be given to encourage the production of certain goods especially for export to earn much-needed foreign exchange." (Dewett & Varma; 1998: 475)

f. **Employment:** The PEs are contributing substantially to increase in employment in the country. Currently the number of employees in PEs is 31599. (Economic Survey; 2005 : 202)

g. **Revenue:** The major portion of government revenue is fulfilled by public enterprises. This revenue comes from sales, income, excise and other taxes. They now contribute large amounts of taxation revenue to the government.

Thus, public enterprises play a vital role in economic development of every country. It is required to create and maintain conditions essential for economic growth. It must improve climate for investment and provide incentives for savings. The public enterprises create the necessary environment for the expansion of private enterprise and initiative.

1.3 Salt Trading Corporation Limited

Salt Trading Corporation Limited (STL) was established in 2020 through the joint efforts of Government of Nepal and the private sector to ensure proper supply and distribution of essential consumer items throughout the country. STL can play on trading activities for all over the country and abroad. Its first task was to make edible salt readily available. The salt trade then was disordered and unreliable. The success

in supply management led to the additional of essential commodities such as sugar, food grains and processed eatables into its distribution network.

STL has equity in many pioneering and leading industries in the Kingdom such as Khadya Udyog Limited, Nepal vegetable Ghee Udhyog Limited, Butwal Spinning Mills Limited, Gorakhkali Rubber Udyog Limited, Morang Sugar Mills Limited And Gharelu Hastakala Udyog P. Limited and shoulders management responsibilities of many more industries.

Forty years of dedication and services to the nation and here people has today made STL a major catalyst in bringing about the desired economic changes and growth in Nepal.

Motto and Vision

The god Bhimsen, a symbol of power and integrity, the corporation has established his mace as its logo. Under the mace, the ideal sentence or motto is "**SATYA MEWA PARAM DHANAM"** which means "honesty is the greatest wealth". It was the principle in which corporation was founded with and still rests on and will never move away from it.

Commitment

Maintaining high quality, reasonable price, easily available system in the kingdom throughout the year and preventing the dealings of the goods affecting public health is the characteristics and commitment of STL.

So, releasing the voice of public, Government of Nepal under the guidance of late King His Majesty Mahendra Bir Bikram Shah Dev, included some of the people involved in NTL at that time and it also included some of the people involved in Government of Nepal and the organization under the ownership of Government of Nepal. In this way STL was established on 27th Bhadra, 2020 B.S., August 1963 A.D., under the collaboration of GoN, National Trading Limited and share of common people. The amount invested by GoN, NTL and common people was Rs.200000, Rs100000 and 100000 respectively. STL has been progressing from its date of establishment to till date. So, at present it has Rs. 10 crores authorized capital, Rs 24777700 of paid up capital and Rs.5 crores of issued capital. At present STL have

many branch offices in overall Nepal. Its main office is situated in Kalimati, Kathmandu.

After its establishment, STL has continuously distributed qualitative salt with proper price to the people, customer and to its country as a whole very honestly.

Capital structure

The capital structure of STCL is given below:

Investment area	**Percentage**
Direct investment of government	11.68%
National Trading Limited	9.73%
Public share Holders	75.59%
Total	100%

Objectives:

From its very inception STL's main objective is to fulfill the requirement of common people and to help them by selling its products in a reasonable price..Some core objectives are listed as follows.

- To avail the daily necessary things to the general people in the reasonable price.
- To carry out the expert and import business.
- To act as an agent for domestic as well as foreign companies.
- To make investments in new as well as old industries.
- To import and distribute chemical goods and fertilizers.

It has already passed its 40 years of its young age and its four decade history, it has created a good image. But however, it should not satisfy with what it has achieved already still it have to move forward.

Activities:

I. Trade sector

The organization began its trading activities by dealing in salt and now imports, exports, products, and industrial raw materials are the major components of its trade. With the introduction of the liberal economic policy the organization is committed to boosting exports to bring about a more favorable change in the balance of trade. The organization also conducts triangular trade dedicated to the task of promoting more export for the benefit of exporters and importers alike.

List of Goods:

- Food Ingredients
- Agricultural Ingredients
- Fuel, Coal, Lubricants and Type & Tubes
- Construction Materials
- Machinery & Tools
- Paper Products
- Surgical Equipments
- Real Estate
- Other Goods

II. Manufacturing sector

Industries are infrastructural prerequisites for self-sufficiency as well as the key in deriving value-added benefits to the economy. The Salt Trading Group set foot into this field more than tow decades ago and has ever since played a pivotal role bringing about an industrial revolution in the country. STL operates industries that totally depend on local raw materials as well as industries that import raw materials. With capable service and management, STL has satisfied the investors and consumers alike.

List of Industries:

- Khaya Udhyog Limited
- Nepal Vegetable Ghee Industry Limited
- Butwal Spinning Mills Limited.
- Gharelu Hastakala Udhyog Pvt.Ltd.
- Morang Suger Mills Limited.

- Gorakhakali Rubber Udhyog Limited.
- Swasti Pulses Processing Industry Pvt.Ltd.

III. Financial Service Sector

STL has invested and put the hand in management in Sagarmatha Insurance Company. Sagarmatha Insurance Company Limited has been jointly promoted and leading industrialist of Nepal under the joint venture with Ceylon Insurance Co. Ltd, Sri Lanka.

This Company is providing the Insurance services since July, 1996 duty approved by controller of Insurance, Ministry of Finance and rendering the services by our highly experienced professionals. The main objectives of the company are to provide wide range of security against physical loss and best insurance related services to our Clients.

STL has also investment in Finance Sector too. STL has its investment and direct monitor in National finance Company Limited which is promoted by a group of well-established traders and experienced persons in the field of banking and financial fields. Over the years the company has built up an impressive infrastructure comprising of a well established network. Merchant banking activities have also been incorporated and within a very short span of time it has made a significant progress in its operations. Being a market maker of Nepal Stock Exchange (NEPSE) NFC has been making market of seven actively traded companies since NEPSE has introduced an open floor for buying and selling of securities, thereby providing liquidity in the Nepalese stock market. NFC is also playing an active role in other fields of merchant banking such as issue management, underwriting, providing bridge loan, syndicate financing, corporate counseling etc. Mutual funds, venture capital funds, retirement benefit plan, bill discounting, treasury bills register to the shares are in the offering as well.

1.4 National Trading Limited

Trade is one of the major aspects of the national economy. The efficiency administration of trade is one primary responsibility of the national government. As a trade sector involves imports and exports, both aspects assume importance for the economic development of the country. Import helps meeting the domestic needs for

machinery and consumers. Goods which can't be produced within the country or which are not available adequately within the country are imported. On the other hand exports are the best channel for disposing off surplus domestic production for the purpose of earning the much-needed foreign exchange. Naturally a developing country like Nepal would need the public and private sector to coordinate the above activities and manage its trade efficiency.

National Trading Limited (NTL) was established as a public limited company in March 1962 AD under the Nepal Company Act in public sector completely owned by Government of Nepal, NTL was created in order to channels commodity aids from the people's Republic of China and USSR with a view to meet the local cost of development projects initiated by these countries through the sales of aids goods in the domestic market.

Previously, the development of commerce, GON, handed this function in order to create a better channel to serve the growing need of the national economy and the people at large, through the regular supply of essential goods at reasonable prices. GON set up the NTL as a State Trading Organization. It was entrusted with the functions of engaging on all kinds of trading activities including quote goods to be imported from India for the purpose of establishing domestic prices, regularizes, industrial raw materials, machinery and equipment and consumer goods as NTL began to procure goods from diverse sources and also as it was exporting to diverse market, NTL through its activities definitely support the country's policy of trade diversification as the first leading trading organization at the national level, NTL was made of deal with both the import and export aspects of foreign trade for the purpose of rendering support services to the economic development of the country in order to achieve this end, currently the NTL have had the following broad objectives:

a) To established the price of construction material and industrial raw materials needed for the country both by local purchase and import.
b) To maintain stable price through increase in supply by importing the necessary consumer goods of general public.
c) To supply bonded ware house and duty free goods.
d) To act as an agent of GoN in the matter of import and distribution of the goods, which the GoN has, to import and distribute time to time and to handle the commodity aid goods received for GoN.

e) To engage in agencies business by getting the agent through producer for the products in which NTL is dealing.
f) To earn reasonable profit in return of GoN's investment.

Organization and Management

NTL is under the ministry of commerce of GoN/Nepal. It has a Board of Directors, which consists of five members, is responsible for formulating short and long term policies on NTL's various operational aspects and it is also responsible for making decision on NTL's various periodical plans, programs and policies. The chairman and the general manager are responsible for the appropriate execution of the plans, programs and policies formulated and decided by the board. The chairman and the board members are all appointee of GoN.

The board of NTL has representations in it from the most relevant ministries and departments of Government of Nepal. Since the board members have been drawn from the interrelated ministries of GoN, this has resulted in easy coordination and efficient decision making at the policy level.

NTL's organization structure has undergone continuous expansion as per the increasing volume of trading activities, which are also guided by the growing developmental works under various plan periods as well as because of the ever increasing needs of the people in general for consumer goods. As a result, NTL has a diversified organizational structure consisting of eight different departments at central office; it has five regional offices, ten branches and one foreign branch office in Kathmandu. NTL's present number of staff is about 700.

Functional Areas of NTL

The main functional of NTL is to supply machinery and equipment, industrial raw materials, construction materials, consumer goods and goods of daily necessities regularly and at reasonable price with a view to serve the needs of the people at large on the one hand, and also the needs of the country's economic development of the other. This service motive for promoting and protecting the interest of the country and the people especially of those living in the far-flung areas of the country could only be

expected from a public enterprise like NTL which seldom has profit making as the sole objective.

During the initial years of its operation, NTL was mainly engaged in handing goods received under the commodity aid by GoN from some friendly countries. As time passed on, its functional areas were extended further for the procurement and distribution of construction materials, industrial raw materials and consumer goods from India and form overseas countries as well. Moreover, machinery sales and repair center was set up in order to sell various types of machinery and equipment required by the agricultural and industrial sectors and also to provide repair and maintenance services.

Furthermore, Bonded Warehouse and Duty free shop was set up by NTL with a view to supply duty free goods to diplomatic personal and tourists entitled to such privilege NTL also took up the export of Nepalese products to overseas countries and did also engage in barter trade with the autonomous Tibetan region of the People's Republic of China and with few other socialist countries. At present, NTL is dealing in commodity aid goods and in the import of construction materials, industrial raw materials and consumer goods of daily use NTL's machinery sales and repair center imports various kinds of machinery and equipment for agricultural and industrial sectors, transport equipment like tractors, jeeps and other vehicles and the center also renders repairs and maintenance services to its customers NTL also provides procurement services to GoN and other concerned agencies as and when necessary.

Now, NTL also handles in marketing and distribution of products produced from local industries as cement, writing and printing papers, corrugated sheets, etc.

Financing of Operations

Financial resources play a very crucial role for the successful operation of an organization like NTL. NTL's authorized capital Rs. 150 million and a paid up capital of Rs. 70.95 million. At the start as NTL dealt primarily with commodity aid goods, it was in a position to import goods in large volume without involving its own finance. Over the recent years, NTL has been importing large volume of goods on its own which involves consideration foreign exchange. This certainly has put much pressure

on its own financial resources. As NTL has had to undertake heavy imports it had to take resources to bank borrowing on several occasions.

In the light of the growing need for the development goods in the country, NTL as the leading public sector entity has its regular responsibilities to carry out instructions and directives of GoN regarding import and steady supply of these development goods. However, because of NTL's financial constraints these responsibilities are not easy to carry out smoothly. Management of NTL has adopted different strategy to strength the financial poison and to meet its requirements.

NTL's Role in National Economy

NTL through its trading activities has to fulfill economic and social responsibilities entrusted to it in the country. NTL has its social responsibility to maintain regular supply of daily necessity goods at a reasonable price throughout the country. NTL again has the responsibility to fulfill the needs of the economic sectors like agricultural and industry by making available industrial machinery and raw materials and at a reasonable price.

NTL has rendered support services to the development of tourism by providing duty free goods like whisky, beer, liquors, cigarettes, tobacco cigars, perfumes etc. through its Bonded Warehouse and duty free shop to persons with duty free privilege as well as to out-going and in-coming tourists.

NTL has assisted to various national development projects as roads, buildings, factories etc. directly or indirectly by making available of development goods (cement, iron rods, corrugated sheets, machinery's and so on) as well as to make available local expenses for different development projects from the proceeds of commodities aid.

Through a long accumulated experiences of about quarter century, NTL has experts in handling imports by engaging in imports and other activities related to import performance NTL has taken part in regional and international trade fairs and exhibitions in order to identify potential market for import and export. NTL has established its business contracts with government and private trading entities in the People's Republic of China, USSR, India, Japan, Singapore, Federal Republic of

German, North Korea, South Korea, Thailand, France, Italy and the United State of America.

1.5 Statement of the problem

Cash management refers to the proper management of firms cash position. It is concerned with all decisions and acts that influence the determination of the appropriate level of cash and their efficient use as well as choice of the financing method, keeping in view of liquidity.

The cash and bank balance of an enterprise is that the portion of its total current assets which is put to variable operating and rapidity of turnover which influence the types and terms of Financing. Hence, cash management is in itself a decision-making area within the framework of the overall current assets management.

Cash management has been the most indicated and challenging area of modern corporate finance as much as the management always faces a trade-off between the liquidity and profitability of the firm. Though most of the enterprises in Nepal have been well recognized the importance of proper cash management, they are still facing the problem of cash management.

Cash management in the public enterprises of Nepal is primarily based on the traditional practices, lacking a scientific approach. A more serious aspect of cash management has been the absence of any formalized system of planning and cash budgeting in many of enterprises do have the practice of forecasting cash requirement of a form basis.

By and large most enterprises had periodic accumulation of surplus cash and corresponding cash shortage from time to time. However none of the enterprises considered the implications of holding idle cash balance and few took in the potential benefit of investing surplus in marketable securities. Those that did fail to consider the cost of administrating such investments.

1.6 Objectives of the Study

The major objective of the study is to examine the management of cash in STL and NTL. The specific objective of this study is as follows.

- To study the overall status of the STL and NTL.
- To study the existing cash management in STL and NTL.
- To critically review the cash management techniques practiced by STCL and NTL.
- To suggest appropriate cash management policy on the basis of analysis to improve cash management for the future.

1.7 Limitations of the study

This research study has been conducted for the fulfillment of partial requirement of Master's Degree in Business Studies (M.B.S.).Due to the time constraints, financial constraints and other, the study is bound for limited area.

Being a small research work, the work couldn't cover all the concerned areas. Here, mostly the secondary data will be used. The Nepalese economy is not mature, as the investment environment is irrational, the market statistics may lead to false decision.

Hence, this study is not far from several limitation of its own kind, which weakens the heart of the study. Some of such limitations are as follows.

- This study is limited to cash management of STL and NTL.
- The study covers the period of six years beginning from 2059/2060 to 2063/2064.
- Basically the financial statement and annual reports provided by STL and NTL are based on the data provided by the head office. The sources of data are company's balance sheet, profit and loss account and cash flow statement etc. which are in the company's annual general meeting prospectus, company's brochures and on website which is assumed to be correct and true.

1.8 Organization of the study

The study will be divided into five chapters, they are;

Chapter-I: Introduction

This chapter includes general background of the study, Introduction of the STCL, statement of the research problem, rational of the study, objective of the study, limitation of the study and organization of the study.

Chapter-II: Review of Literature

This chapter covers the introduction need and importance of salt Trading Corporation Limited, meaning and concept of cash management, theoretical review of studies, and review of previous studies and justification of study.

Chapter-III: Research Methodology

This chapter includes the research design, time duration, nature of data, sources of data, data collection methods and procedure and tools used to analysis the collection data.

Chapter-IV: Presentation and Analysis of Data

This chapter is most important and playa vital role in this study. This chapter explains and analyzes the relevant data by using various statistical and accounting tools. Here different tools as well as tables and figures will be presented, interpreted to accomplish the objectives of the study.

Chapter-V: Summary, Conclusion and Recommendations

This final chapter is divided into three sections first section includes the major findings and summary from the study. Second section includes conclusion and at last the recommendation for the STCL about their weakness and problems. It represents all the opinions, findings of the study which will be the very useful and helpful to the salt Trading Corporation Limited.

CHAPTER-TWO

REVIEW OF LITERATURE

2.1 Conceptual Framework

Cash is important current asset for the operation of business. Cash is the basic input needed to keep the business running on a continuous basis ; it is also the ultimate output expected by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor 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, a major function of the financial manager is to maintain a sound cash position.

"Cash management involves forecasting, receiving, controlling, disbursing, and investing funds from your company's operations. Besides helping to improve liquidity and increase profits, effective cash management will increase cash inflow, reduce cash outflow and increase the yield on idle funds." (Hampton; 1989: 143)

"The term cash management is concerned with the management of current assets and current liabilities of the business, which is necessary for day-to-day operation. 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. 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." (Sakesna; 1974: 237)

"Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance is its bank accounts."(Pradhan; 1986: 89)

Cash as the most liquid asset, is of vital importance to the daily operations of business firm. Cash is both the beginning and the end of the working capital cycle-cash, inventories, receivable and cash. Its effective management is the key determinant of efficient working capital management. “Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is the basis of business solvency.” (Solman, et al.; 1978: 427) According to J.M. Keynes “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. In an efficiently 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. Though its idle cash is sterile, its retention is not without cost. “Holding of cash balance has an implicit cost in the form of its opportunity costs. The higher the level of idle cash the greater is the cost of holding it in the matter of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously. If the level of cash balances is more than the desired level with the firm, it shows mismanagement of funds.” (Orgler; 1970: 525) Therefore, for its smooth running and maximum profitability, proper and effective cash management in a business is of paramount importance.

“Cash is something companies love to have. But can they have too much of the stuff? Provided things are going well, debt financing helps a company gear up to boost returns, but investors know the dangers of debt. When things don’t go as planned, debt can spell trouble.

But what about a company’s cash position? If excess debt is a bad thing, does it follow that a lot of cash is a good thing? At first glance, it makes sense for investors to seek out companies with plenty of cash on the balance sheet. After all, cash offers protection against tough times, and it also gives companies more options for future growth.” (Van Horne; 1990: 441)

Unfortunately, nothing is quite that simple. For investors digging into company fundamentals, a big pile of cash signal many things- good and bad. How investors interpret cash reserves depends on how the cash got there, the kind of business the company is and what managers plan to do with the cash.

Corporate finance textbooks say that each firm has its own appropriate cash level, and companies ought to keep just enough cash to cover their interest, expenses and capital expenditures; plus they should hold a little bit more in case of emergencies. The current ratio and the quick ratio help investors determine whether companies have enough coverage to meet near-term cash requirements.

Theory also holds that any extra cash over and above those levels should be redistributed to shareholders either through dividends or share buy backs. If the company then discovers a new investment opportunity, managers should turn to the capital markets to raise the needed funds.

Good Reasons for Extra Cash

"That said, there are often good reasons to find more cash on the balance sheet than financial principles suggest prudent. To start, a persistent and growing reserve often signals strong company performance. Indeed, it shows that cash is accumulating so quickly that management doesn't have time to figure out how to make use of it.

By contrast, companies with a lot of capital expenditure, like steel makers, must invest in equipment and inventory that must be regularly replaced. Capital-intensive firms have a much harder time maintaining cash reserves. Investors should recognize, have to keep cash reserves to ride out cyclical downturns. Boeing or Daimler Chrysler, for instance, face high demand at one point in the business cycle and then face another phase when cash flow dries up. These companies need to stockpile cash well in excess of what they need in the short term." (Baumol; 1952: 387)

"Firm should keep enough cash and near cash assets for several specific reasons in addition to the four reasons just discussed:

1. To take advantage of cash discounts (for early payment of bills)
2. To maintain firms credit rating. (For purchases on favorable terms and maintain an ample line of credit with its bank)

3. To enjoy favorable business opportunities (to acquire another firms to meet special offer from supplier)
4. To meet cash requirements during periods of emergencies as strikes, fires or competitors marketing campaigns and to weather seasonal and cyclical downturns." (Bajracharya; 1990: 47)

Bad Reasons for Extra Cash

All the same, textbook guidelines should not be ignored. "High levels of cash on the balance sheet can frequently signal danger ahead. If cash is more or less a permanent feature of the company's balance sheet, investors need to ask why the money is not being put to use. Cash could be there because management has run out of investment opportunities or is too short sighted and doesn't know what to do with the cash.

Sitting on cash can be an expensive luxury because it has an opportunity cost-the difference between the interest earned on holding cash and price paid for having the cash as measured by the company's cost of capital, or WACC. If a company, say, can get 20% return on equity investing in a new project or by expanding the business, it is a costly mistake to keep the cash in the bank. If the project's return is less than the company's cost of capital, the cash should be returned to shareholders.

Don't be fooled by the popular explanation that extra cash gives managers more flexibility and speed to make acquisitions when they see fit. Companies that hold excess cash carry agency costs whereby they are tempted to pursue "empire building". Top managers can fritter away cash on wasteful acquisitions and bad projects in a bid to boost their personal power and prestige. With this mind, be wary of balance sheet items like strategic reserves and restructuring reserves. They are often just excuses for hoarding cash." (Schabacker; 1960: 123)

"Even worse, a cash-rich company runs the risk of being careless. The company may fall prey to sloppy habits, including inadequate control of spending and an unwillingness continually to prune growing expenses. Large cash holdings remove from managers much of the pressure to perform.

There is much to be said for companies that raise investment funds in the capital markets. Capital markets bring greater discipline and transparency to investment decisions and so reduce agency costs. Cash piles let companies skirt the open process and avoid the scrutiny that goes with it.

To play it safe, investors should look at cash position through the sieve of financial theory and work out an appropriate cash level. By taking into account the firm's future cash flows, business cycles, its capital expenditure plans, emerging liability payments and other cash needs, investors can calculate how much cash a company really needs." (Miller, et al.; 1966: 215)

Facets of Cash Management

"The firm should evolve strategies regarding the following four facets of cash management:

1. Cash planning: cash inflows and outflows should be planned to project cash surplus or deficit.
2. Management the cash flows: The inflows should be accelerated while, as far as possible, the outflows should be decelerated.
3. Optimum cash level: the firm should decide about the appropriate level of cash balance. Neither excess nor shortage.
4. Investing surplus cash: the surplus cash balances should be properly invested to earn profits." (Hamal; 2006: 23)

The ideal cash management system will depends on the firms' products, organization structure, competition, culture and options available.

2.1.1 Different Techniques of Cash Management

"Proper management and control of cash help make operations more efficient. Most cash management activities are performed jointly by the firm and its bank effectiveness of the cash management program depends upon the action taken by financial manager. Effective cash management encompasses proper management of cash inflows and outflows which entails;

a) Cash Flow Synchronization:

Cash flow synchronization is a situation in which cash inflows coincide with cash outflows thereby permitting a firm to hold low transactions balances. If the receipts and payments of cash perfectly coincile or balance each other, there would be no need for cash balances. Business firms by improving their forecasts and by arranging things so that cash receipts coincile with required cash outflows, firms can reduce their transactions balance to a minimum. By arranging to bill customers and to pay their own bills, on regular "billing cycles" through the months, a firm can reduce its cash balances decrease its bank loans, lower interest expenses and boost profits.

b) Speed up the check-clearing process:

The process of converting a cheque that has been written and mailed into cash in the payee's account is known as check-clearing process. When a customer writes and mails a cheque, this does not mean that funds are immediately available to the receiving firm. Quite a bit of time could be required for a firm to process incoming cheques and obtain the use of the money. The length of time required for cheques to clear is a function of the distance between the payers' (cheque writers) bank and the payees' (depositors') banks." (Narayananswamy; 2003: 413)

c) Using Float:

"Float is defined as the difference between the balance shown in a firms cheque book and the balance on the bank's records. The lag between the time the cheque is written and the time the bank receives it is also knows as float.

Disbursement float is the amount of funds associated with cheque written by a firm that are still in process and hence not yet been deducted from the firm's bank account. Collections float is the amount of funds associated with cheque written to a firm that have not been cleared, hence are not yet available for the firm's use.Net float is the difference between disbursement float and collection float, and it also is the equal to difference between the balance in the firm's own cheque book and the balance on the bank's record. The larger the net float, the smaller the cash balance the firm must maintain, so net float is good. Some firms are able to exploit float to create what is effectively and its ability a speed up collection on cheque received and to slow down collections on cheque written.

Disbursement delay = Disbursement float in days

= Mail delay + Processing delay + Clearing delay

Collection delay = Collection float in days

= Processing delay + clearing delay

Net float (Rupee float) = Disbursement float – Collection float

d) Acceleration of Receipts:

Two techniques that can be used to speed up collections are:

I. Lockboxes plans.

II. Preauthorized debits or wire transfers.

Also a "concentration banking system" consolidates cash into a centralized pool that can be managed more efficiently than a large number of individual accounts." (Narayananswamy; 2003: 414)

I. Lock box plan

"A lockbox plan is one of the oldest and most widely used cash management tools. The term lockbox refers to a post office box to which customers payments are sent rather than to the firm's corporate headquarters. The firm arranges for a local bank to collect the cheque from the post office box daily and to deposit them immediately into the company's checking account (current account) at the bank. Processing delay is almost completely eliminated with the use of lockbox system. Also the cheque generally clears faster because the local bank is in the same Federal Reserve district as the customer's banks. Thus lockbox services often can increase the availability of funds by two to five days over the "regular" system. Annual saving from lock box system will be computed as follows.

Annual savings = Credit sales per day X Decrease in collection delays X Opportunity cost.

II. Preauthorized Debits:

Preauthorized debit is a system that allows a customer's bank to periodically transfer funds from its account to a selling firm's bank account for the payment of bills. These transactions also are called checkless or paperless transactions because they are accomplished without using traditional paper checks (cheque). Preauthorized debiting accelerates the transfer of funds because mail and cheque-clearing delays are totally eliminated, and processing delays are almost totally eliminated. A payer who agrees to pre-authorized debit system loess the disbursement float that is interest in the paper-based system." (Narayananswamy; 2003: 415)

III. Concentration Banking:

"Concentration Banking is a cash management used to mobilize funds from decentralized receiving locations. Where they be lockboxes or decentralized receiving locations. Where they be lockboxes or decentralized company locations into one or more central cash pools. The deposits in the regional banks are periodically transferred to the central or concentration bank, where centralized cash management decisions are made. Commonly used transfer fool are: i) Depository transfer cheque (DTC), ii) Electronic depository transfer cheque (EDTCS), iii) Wire transfer system. DTC system use either paper or electronic media just like any other cheque to transfer funds from one bank to another. But the electronic depository transfer cheques (EDRCS) are transported via computers, usually with the aid of electronic communications net works called automated clearing houses (ACH). A wire transfer occurs when bank send messages concerning funds transfer across phone lines. The availability of funds is immediate.

e) Controlling Disbursement:

Efficient cash management requires that both inflows and outflows be managed affectively. Apart from speedy collection of accounts receivable, operating cash requirement can be reduced by slow disbursements of accounts payable. In fact, slow disbursements represent a source of turns requiring no interest payments. Methods commonly used to control the disbursements of a firm are:

I. **Payable Centralization**

Centralized disbursement is the most effective method for slowing down cash disbursement. This permits the financial manager to evaluate the payments coming due for the entire firm and to schedule the availability of funds to meet these needs on a company wide basis. This also helps for efficient monitoring of payables and float balances.

II. **Zero-Balance Accounts (ZBA):**

A zero- balance account is a special disbursement account that has balance equal to zero when there is no disbursement activity. Typically, a form establishes several ZBA in a concentration bank and funds them from a master account. As cheeks are presented to ZBA for payment funds automatically are transferred from the master account. The use of zero-balance accounts is a popular method to simplify the control of disbursements and cash balances, thus reducing the amount of idle (non-interest-bearing) cash." (Narayananswamy; 2003: 416)

III. Controlled disbursement Accounts (CDA):

"Controlled Disbursement Account is a checking account (i.e. current account) in which funds are not deposited until checks are presented for payment. Controlled disbursement accounts (CDA) can be set up at any bank. In fact, controlled disbursement accounts initially were used only in relatively reunite banks, hence this technique originally was called remote disbursement. Banks that maintains the CDA provides information to the firm in the morning before transaction time concerning the total amount of cheques that will be presented for payment that day. This early notification gives financial manager sufficient time to

1. Wire funds to the controlled disbursement account to cover the checks presented for payments or
2. Invest excess cash at midday, when money market trading at a peak.

The basic difference between ZBA and CDA is that zero-balance accounts are established at concentration bank but controlled disbursement accounts are set up any bank. Further, in ZBA funds will be automatically transferred from the master

account, when cheques are presented for payments but in controlled disbursement accounts the fund should be sent to controlled disbursement account through wire transfer to cover the cheeks presented for payments that day.

Other ways for slowing disbursements:

In addition to the above methods, we use some of the way to improve the efficiency of the cash payment process as follows:

1. Make all payment on the latest non-penalty day. Do not pay early.
2. Make all payments by cheque (A\C payee), preferably on Friday to maximize float favor of the company. Do not use "wire transfer" unless it is necessary.
3. Take all cash discounts allowed for early payment.
4. Establish a policy of no cash advances (to both outsides and employee).
5. Make the payments from a distant bank.
6. Establish policies and a payment process, to minimize the possibility of fraudulent payment by company employees." (Narayananswamy; 2003: 420)

Finally, cash management is a daily task in many companies. Cash performance report monthly, weekly, and even daily identify evolving cash flow problems that often need immediate attention.

Compensating banks for services

Banks provide many services like cheque clearance, operation of lockbox plan, lending of money and so on. These services are not provided free of cost. The bank must be comer sated for rendering them.

Compensating balances

"Compensating balance can be defined as a deposit by a firm in a non- interest bearing account use to compensate the bank for services provided, including check clearing ,lock ,box arrangements, and loan servicing. Banks first determine the costs of the services rendered to their larger customers, and then they estimate the average account balances necessary to provide enough income to compensate for these costs.

Overdraft Services

Overdraft Services refer to a system where by deposits can write checks in excess of their balance, with banks automatically extending loans to cover the shortages, Before providing this types of service to the firm, the maximum amount of such loan, of course of the depositor for payments will not be returned even though there is not sufficient balance for payment. It's bank automatically extends a loan to cover the shortage.

The costs Versus the Benefits of Cash Management

Although the financial manager can use various techniques to reduce cash balance requirements, implanting these procedures is not a costless operation.
The use of techniques or mechanism for making firm cash operations more efficient should be judged in such a moth that the marginal returns exceeds the marginal costs. In other words, the implementation of a sophisticated cash management system is costly, so all cash management actions must be evaluated to ensure that benefits exceeds costs. Usual techniques to speed up cash transfer are:-

a. Depository transfer checks,
b. Electronic depository transfer checks,
c. Wire transfer.

Of alternative transfer mechanisms for comparing the costs, the conventional formula given below can be used.

S* = COST/R * T

Where:

S* = the break even size of transfer above which the faster, lighter cost mechanism is preferred.

Cost = the incremental cost of the faster mechanism.

R = the applicable daily interest rate.

T = the difference in transfer time in days." (Westerfield, et al.; 1992: 90)

2.1.2 Cash Management Models

I. Baumol Model

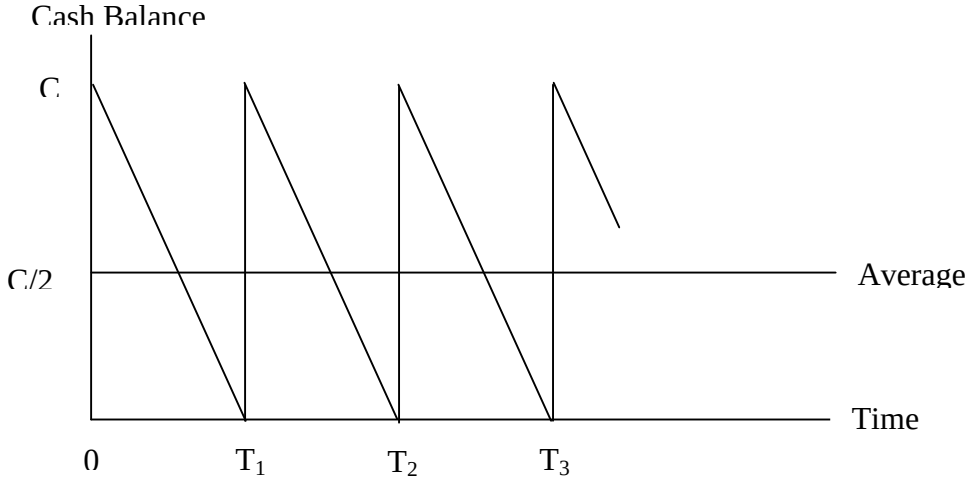
The Baumol cash management model provides a formal approach for determining a firm's optimum cash balance under certainty. It considers cash management similar to an inventory management problem. As such, the firm attempts to minimize the sum of the cost of holding cash and the cost of converting marketable securities to cash.
The Baumol model makes the following assumptions:

- The firm is able to forecast its cash needs with certainty.
- The firm's cash payments occur uniformly over a period of time.
- The opportunity cost of holding cash is known and it does not change over time.
- The firm will incur the same transaction cost whenever it converts securities to cash.

"Let us assume that the firm sells securities and starts with a cash balance of C rupees. As the firm spends cash, its balance decreases steadily and reaches to zero. The firm replenishes its cash balance to C rupees by selling marketable securities. This pattern continues over time. Since the cash balance decreases steadily, the average cash balance will be: C/2. This pattern is shown in figure No. 2.1.

Figure No.2.1

Baumol Model of Relationship Between Time and Cash Balance



The firm incurs a holding cost for keeping the cash balance. It is an opportunity cost; that is the return foregone on the marketable securities. If the opportunity cost is k, then the firm's holding cost for maintaining an average cash balance is as follows:

Holding cost = k(C/2)

The firm incurs a transaction cast whenever it converts its marketable securities to cash. Total number of transactions during the year will be total funds requirement, T, dividend by the cash balance, C, i.e. T/C. Per transaction cost is assumed to be constant. If per transaction cost is c, then the total transaction cost will be:

Transaction cost – c (T/C)

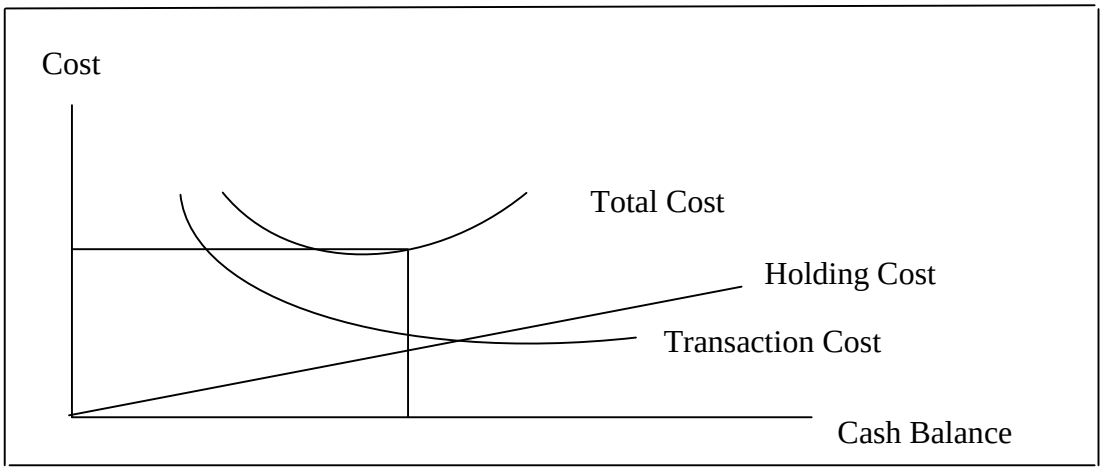
The total annual cost of the demand for cash will be:

Total cost = k (C/2) + c (T/C)

What is the optimum level of cash balance, c*? We know that the holding cost increases as demand for cash, C, increases. However, the transaction cost reduces because with decline. Thus, there is a trade-off between the holding cost and the transaction cost. Figure 2.2 depicts this trade-off.

Figure No. 2.2

Baumol Model of Relationship Between Cost and Cash Balance



This optimum cash balance, c* is obtained when the total cost is minimum. The formula for the optimum cash balance is as follow:

$$C^* = \sqrt{2cT/k}$$

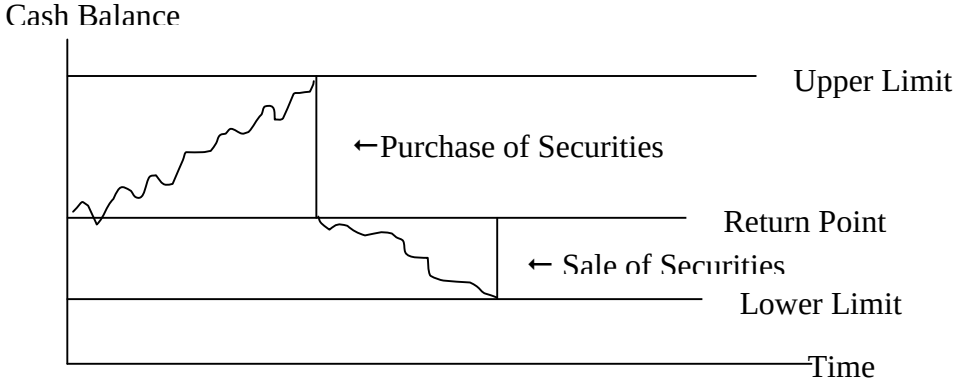
Where c* is the optimum cash balance, c is the cost per transaction, T is the total cash needed during the year and K is the opportunity cost of holding cash balance. The optimum cash balance will increase with increase in per transaction cost and total funds required and decrease with the opportunity cost." (Baumol; 1952: 154)

II. Miller –Orr Model

The limitation of the Baumol model is that it does not allow the cash flows to fluctuate. Firms in practice do not use their cash balance uniformly nor are they able to predict daily cash inflows and outflows. The Miller-Orr model overcomes this shortcoming and allows for daily cash flow variation. It assumes that net cash flows are normally distributed with a zero value of mean and a standard deviation. As shown in figure 2.3, the Miller-Orr model provides for two control limits –the upper control limit and the lower control limit as well as return point. If the firm's cash flows fluctuate randomly and hit the upper limit, then it buys sufficient marketable securities to come back to a normal level of cash balance. Similarly, when the firm's cash flows wander and hit the lower, it sells sufficient marketable securities to bring the cash balance back to normal level.

Figure 2.3

Miller Model of Relationship Between Time and Cash Balance



"The firm sets the lower control limit as per its requirement of maintaining minimum cash balance. At what distance the upper control limit will be set? The difference between the upper limit and the lower limit depends on the following factors:

- The transaction cost (c)
- The Interest rate (i)
- The standard deviation (σ) of net cash flows

The formula for determining the distance between upper and lower control limits (called Z) is as follows:

(Upper limit-lower limit) = (3/4 x Transaction Cost x Cash flow variance/Interest Rate)$^{1/3}$ ……..... (1)

$$Z=\left(\frac{3}{4}xc\sigma^2/i\right)^{\frac{1}{3}}$$ ……..(2)

We can notice from Equation 2 that the upper and lower limits will be far off from each other if transaction cost is higher or cash flows show greater fluctuations. The limits will come closer as the interest increases. Z is inversely related to the interest rate. It is noticeable that the upper control limit is three times above the lower control limit and the return point lies between the upper and the lower limits. Thus,

Upper Limit = Lower Limit + 3Z …..…….(3)

Return Point = Lower Limit + Z ….…….(4)

The net effect is that the firms hold the average cash balance equal to:

Average Cash Balance = Lower Limit + 4/3 Z …….(5)

The Miller-Orr Model is more realistic since it allows variation in cash balance within lower and upper limits. The financial manger can set the lower limit according to the firm's liquidity requirement. The past data of the cash flow behavior can be used to determine the standard deviation of net cash flows. Once the upper and lower limits are set, managerial attention is needed only if the cash balance deviated from the limits. The action under these situations are anticipated and planned in the beginning." (Miller; 1966: 218)

III. Orgler's Model

According to this model, an optimal cash management strategy can be determined through the use of a multiple linear programming model. The construction of the model comprises three sections: (1) selection of the appropriate planning horizon, (2) selection of the appropriate decision variables and (3) formulation of the cash management strategy itself. The advantage of linear programming model is that it enables coordination of the optimal cash management strategy with the other operations of the firm such as production and with fewer restrictions on working capital balances.

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 are: (i) Payment schedule, (ii) short-term financing, (iii) purchase and sale of marketable securities and (iv) Cash balance itself.

The formulation of the model requires that the financial mangers 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 revenues generated are immediately reinvested and that any cost is immediately financed, the objective function represents the value of the net income from the cash budget at the horizon by adding the net returns over the planning period. Thus the objective function recognizes each operation of the firm that generates cash inflows or cash outflows as adding or subtracting profit opportunities for the firm from its cash management operations. In the objective function, decision variables which cause inflows, such as payments on receivables, have positive co-efficient, which decision variables which generate cash outflows, such as interest on short term borrowings have negative co-efficient. The purchase of marketable securities would, for example, produce revenue and thus have a positive co-efficient while the sale of those securities would incur conversion costs and have a negative co-efficient.

The constraints of the model could be i) institutional or ii) policy constraints. The institutional constraints are those imposed by external factors, that is, bank required compensating balance. Policy constraints are imposed on cash management by the firm itself. For instance, the financial manger may be prohibited from selling securities before maturity. Either constraint can occur in the model during one monthly period or over several or all the months in the one year planning horizon.

"An example of the linear programming model is as follows:

Objective function:

Maximize profit = $a_1x_1 + a_2x_2$

Subject to:

$b_1x_1 \leq$ production

$b_1x_2 \leq$ constraints

$c_1x_1 + c_2x_2 \leq$ cash available constraint

$8_1x_1 + 8_2x_2 >$ current assets requirement constraint

$x_i \geq O_i = 1$, n non-negative constraint

A very important feature of the model is that it allows the financial mangers to integrate cash management with production and other aspects of the firm." (Orgler; 1970: 55)

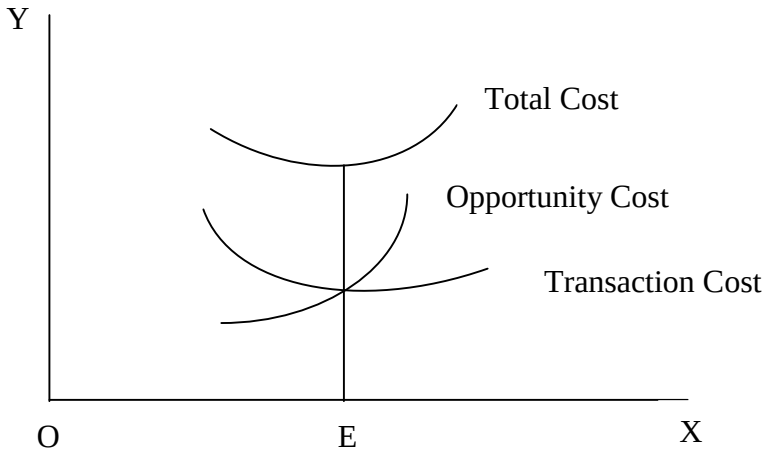
2.1.3 Determining the Optimum Cash Balance

Financial manager's responsibilities are to maintain a sound liquidity position of the firm so that dues may be settled in time. The firm needs cash for many purposes, i.e. purchase raw material, pay wages, dividend interest, etc. Cash balance is maintained as buffer or safety stock. "The financial manager should determine the appropriate amounts of cash balance. If the firm maintains small cash balance, its liquidity position becomes weak and suffer from a capacity of cash to make payments. But investing released funds in some profitable opportunities can attain a higher profitability. If the firm maintains a high lever of cash balance it will have a sound liquidity position but forego the opportunity to earn interest. Thus the firm should maintain an optimum cash balance." (Pradhan, ea al.; 1982: 47) To find out the optimum cash balance the transaction costs and risk of too small a balance should be matched with the opportunity costs of too large a balance.

"If the firm maintains larger cash balances its transaction costs would decline but the opportunity cost 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.

Figure 2.4

Optimum Cash Balance



A firm maintains the operating cash balance for transaction purposes. It may also carry additional cash as a buffer or safety stock. The amount of cash balance will depend on the risk-return trade-off. If the firm maintains small cash balance, its liquidity position weakens, but its profitability improves as the released funds can be invested in profitable opportunities. When the firm needs cash, it can sell its marketable securities or borrow. On the other hand, if the firm keeps high cash balance, it will have as strong liquidity position but its profitability will be low. The potential profit foregone on holding large cash balance is an opportunity cost to the firm. The firm should maintain optimum just enough, neither too much nor too little cash balance." (Gautam; 1999: 87) How to determine the optimum cash balance if cash flows are predictable and if they are not predictable?

2.1.4 Cash Forecasting

A useful tool to deal with the forecasting aspect of cash budget is the cash forecast. Cash forecasting may be done on short or long term basis.

Short Term Cash Forecasting

"Two most common used methods of short term cash forecasting are described as below:

a) Receipt and Disbursement Forecast

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

b) Adjusted Net Income Method

This method is also called the sources and approach. In this approach, there are two objectives, i.e. to protect the company's need for cast at some future date and next to show if the company can generate this money internally and if not how much will have to borrow or raise from the capital market. It is based on Performa financial statement. Sources of cash, use of cash and the adjusted cash balances are three different sections of this method which are used in preparing the adjusted net income forecasts items such as net income, depreciation, taxes, dividend etc." (Pandey; 1992: 17)

Long Term Cash Forecasts

"These types of forecasts are prepared to give an idea of the company's financial requirement of distant future. These forecasts are not detailed as the short term forecast. The long term cash forecast can be used to indicate a company's future financial needs especially for its working capital requirement.

To evaluate proposed capital projects: IT pinpoints cash required to finance these projects as well as the cash to be generated by company to support them. It helps to improve corporate planning long term cash forecasts may be made for two, three or five years. As the short term forecasts, company's practices may differ on the duration of long term forecasts to suit their particular needs." (Pandey; 1992: 20)

2.1.5 Cash Budget

Cash Budget is the estimation of the cash inflows and outflows for a business. A cash budget is extremely important for businesses because it allows a company to determine how much credit can be extended to customers before they begin to have liquidity problems.

"Cash budget basically is a budget plan for business owners and business managers, which is made in relation of certain targets in regard to cost of production, sales and profit to achieve their goals with in a specific time period. However, it is very important to know certain aspects before preparing a cash budget. These may include the previous budget and the estimated profit and loss with the actual profit and loss, the contemporary market situation as certain time period, the desired cash position, an estimation of sales and expenses as well as a blank worksheet is require while making a cash budget. Therefore, a cash budget is a planning tool that helps the management of a business company in making important decisions." (Orgler; 1970: 256)

Though there are many reasons to prepare a cash budget prior to initiate any business, but the most important purpose for preparing a cash budget is to help the management taking good decision in regard to the companies' cash reserve for furthering its business. When a cash budget is prepared, at the end of the year, the company gets a strong understanding over a series of monthly cash flows with in and this way. At the same time it also helps to evaluate a strong plan for the companies' capital needs as well as expected emergency needs during any shortcomings. However, this whole procedure is also known as a cash budget cycle.

"When a product is appreciated in the market and its sale expands than the expected percentage, the company with in a short time has to bring the product back in the market with out a noticeable gap to the customers. This is important for not only the repute of the company but also for the consistency of the product in the market. Therefore, in such circumstances a company if has a backup of cash flows, will not lose otherwise its profits will transfer to losses. Another way to deal such situation is to raise the prices of such products whose sale has expanded so rapidly, which leads to negative cash flow." (Van Horne; 1990: 67)

At the same time, the cash budget should not extend a more liberal credit to its customers. In cases of negative cash flow, the customers will benefit more then the company thus the company will be at financial loss or be at the edge of insolvency.

The management of any business company should be sharp in its calculations specifically in keeping safety stock for situations. For instance, successful companies will at a very early stage smell the rapid increase in sales of its products, so in such circumstances, if the company has a safety stock it can satisfy its customers and at the same time maintain its inventory.

Therefore, in order to produce a long term financial strategy, it is very important for the management to keep collateral in stock for its financial arrangements specifically to overcome emergent targets.

“Financial manager of any business company is responsible to produce a successful cash budget plan. The financial manager takes a historical view of the previous cash budget cycles and also keeps in mind the current demands of the market, evaluating the possible profit and loss estimation for its cash budget. Therefore, it summarizes the financial need of the company, understands the very aspects of financial information related to the business of cash budget.” (Weston, et al.; 1978: 251)

2.1.6 Investment in Marketable Securities

“A firm should hold optimum balance of cash, and invest any temporary excess amount in short term securities. Cash in excess of the requirement of operating cash balance may be held for two reasons. First, the working capital requirements of the firm fluctuate because of the elements of seasonally and business cycles. The excess cash may build up during slack seasons but it would be needed when the demand picks up. Thus excess cash during slack season is idle temporarily, but has a predictable requirement later on. Second, excess cash may be held as a buffer to meet unpredictable financial needs. A firm holds extras cash because cash flows cannot be predicted with certainty. Cash balance held to cover the future exigencies is called the precautionary balance and is usually invested in the short term money market investments until needed.” (Solman; 1978: 117) The excess amount of cash held by the firm to meet its variable cash requirements and future contingencies should be temporarily invested in marketable securities, which can be regarded as near moneys.

As the firm invests its temporary cash balance, its primary criterion in selection a security or investment opportunities will be its quickest convertibility into cash, when the need for cash arises. Thus in choosing among alternative investment, the firm should examine three basic features of security they are safety, maturity and marketability.

A firm can invest in different types of marketable securities such as Treasury bills, Commercial papers, Certificates of deposits, Bank deposits, Inter-corporate deposits, Money market mutual funds etc.

2.2 Review of Related Studies

2.2.1 Review of Books

In this section we will try to review some books relating to Cash Management. Different authors had defined and analyzed the cash in different ways.

R. Narayanaswamy in his book *"Financial Accounting, A Managerial Perspective"* has focused for the internal control on cash for Cash Management. In his view the objectives of cash management are to ensure planning cash needs, to establish independent accountability for cash collections, to ensure recording of all payments and to protect cash resources from thefts and embezzlements. The term liquidity refers to the ease with which an asset can be converted into other assets or be used to buy services or satisfy obligations. Clearly, cash is the most liquid asset. Every business must own some cash so that bills for purchases and operating expenses can be paid on time and cash is available for meeting emergency needs.

Cash is often a small item in the balance sheet of a company in relation to its assets. Even though control of cash is regarded as an important part of an internal control system, the reason is that being the most liquid asset, cash is more prone to embezzlement, theft, fraud and defalcation than other assets. In fact, handling cash can prove to be the severest test of integrity for employees experiencing financial troubles. It is important that strict control over cash receipts and cash disbursements in maintained. A system of internal control for cash should provide for protection of both cash receipts and cash disbursements wherever collusion of two or more employees is impossible.

Although business varies in their internal control procedures for cash, they usually observe the following principles:

1. Persons responsible for actually handling cash should not be responsible for keeping the cash records.
2. Only a limited number of persons specifically designated by management should be allowed access to cash.
3. All employees having cash responsibilities should be bonded.
4. Surprise checks of cash balances and cash records should be conducted by senior persons from outside the cash department.
5. All cash receipts should be recorded and deposited promptly.
6. All cash payments should be made by cheque.

The extent to which these principles can be followed will, of course, depend upon several factors including the nature of business, size of the company, number of employees, the volume of cash transactions and availability of banking facilities.

In the Book *"Fundamentals of Financial Management"* by **James C. Van Horne and John M. Wachowicz, Jr.** focuses the cash management as effective managing of collection, disbursement and temporary investment of cash. He writes the treasurer's department of a company is usually responsible for the firm's cash management system. A cash budget, instrumental in the process, tells us how much cash we are likely to have, when we are likely to have it, and for how long. Thus, it serves as a foundation for cash forecasting and control. In addition to the cash budget, the firm needs systematic information on cash as well as some kind of control system. With timely information reporting, a firm can generate significant income by properly managing collection, disbursements, cash balances and marketable securities investment. For a large firm, the information is usually computer based. It is necessary to obtain frequent report, generally daily, on cash balance in each of the company's bank account, on cash disbursements, on average daily balance, and on the marketable security position of the firm as well as a detailed report on change in this position. It is also useful to have information on major anticipated cash receipts and cash disbursements. All of this information is essential if a firm is to manage its cash in an efficient manner that provides for sage and convenient cash availability and for reasonable investment income on temporary investment of cash.

The various collection and disbursement methods that a firm employs to improve its cash management efficiency constitute two sides of the same coin. They exercise a joint impact on the overall efficiency of cash management. The general idea is that the firm will benefit by speeding up cash receipts and slowing down cash payouts. The firm wants to speed up the collection of accounts receivable so that it can have tha use of money sooner. Conversely, it wants to pay accounts payable as late as is consistent with maintaining the firm's credit standing with suppliers so that can make the most use of the money it already has.

Most business firms establish a target level of cash balances to maintain. They do not want to maintain excess cash balance because interest can be earned when these funds are invested in marketable securities. The greater the interest rate available on marketable securities, the greater the opportunity cost to maintaining idle cash balance.

Well known Indian professor **I M Pandey** in his book *Financial Management*, Vikash Publishing House Pvt. Ltd. New Delhi, India, defines cash as the money which a firm can disburse immediately without say restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Some times near-cash items, such as marketable securities or bank time's deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm.

Cash is the important current asset for the operations of the 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. 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 towards the firm's profitability. Thus a major function of the financial manager is to maintain a sound cash position.

Cash management assumes more importance than other assets because cash is the most significant and the least productive asset that a firm holds. It is (significant)(because) it is to pay the firm's obligations. However, cash is unproductive. Unlike fixed assets or inventories it does not produce goods for sales. Therefore the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid. The management of cash is also important because it is difficult to predict cash flows accurately, particularly the inflows of cash. In order to resolve the uncertainty about cash flow prediction and lack of synchronization between cash receipts and payment, the firm should involve strategies regarding the four factors of cash management. They are cash planning, managing the cash flows, optimum cash level and investing surplus cash.

MY Khan and PK Jain in the book *Financial Management*, published by Tata Mc Graw Hill Publishing Company Limited, New Delhi, India, takes the cash management as key areas of working capital management. He has cauterized the cash in two senses. In a narrow sense, it is currency and generally accepted equivalents of cash, such as cheques, drafts and demand deposits in banks. The broad sense, cash also includes near-cash assets, such as marketable securities and cash. Apart from the fact it is most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, that is receivables and inventory get eventually converted into cash. This underlines the significance of cash management. There are four factors for determining cash needs they are synchronization of cash flows, short costs, excess cash balance procurement and management and uncertainty. He focuses four factors in holding the cash that is Transaction motive, Precautionary motive, speculative motive and compensating motive. In his view the objectives of the cash management is to meet the cash disbursements needs and to minimize funds committed to cash balances. He emphasized on the speedy cash collection and slowing disbursement in the techniques of cash management.

After reaching the optimum level of cash balance of a firm the residual of its liquid assets is invested in marketable securities such securities are short-term investment instruments to obtain a return on temporarily idle funds. In other words they mare securities which can be converted into cash in a short period of time.

According to **Brigham & Houston** in their book *Fundamentals of Financial Management*, approximately one and hand percent of the average industrial firm's assets are held in the form of cash, which is defined as demand deposits plus currency. Cash is often calling non earning assets. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividends, and so on. However, cash itself earns no interest. Thus, the goal of the cash management is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet at the same time to have sufficient cash to take trade discounts, to maintain its credit rating and to meet unexpected cash needs. Firm holds cash for two primary reasons. They are:

a. Transaction Motive: Cash balances are necessary in business operations. Payments must be made in cash, and receipts are deposited in the cash account. Cash balances associated with routine payments and collections are known as transactions balances.

b. Compensation to banks for providing loans and services: Bank makes money by lending out funds that have been deposited with it, so the larger its deposits, the better the bank's profit position. If a bank is providing services to a customer, it may require the customer to leave minimum balance on deposit to help offset the costs of providing the services. Also, banks may require borrowers to hold deposits at the bank. Both types of deposits are defined as compensating balances.

c. Precaution Motive: Cash inflows and outflows are unpredictable with the degree of predictability varying among firms and industries. Therefore, firms need to hold some cash in reserve for random, unforeseen fluctuations in inflows and outflows. These safety stocks are called precautionary balances, and the less predictable the firm's cash flows, the larger such balances should be. However, if the firm has easy access to borrow funds that is, if it can borrow on short notice its need for precautionary balances is reduced.

d. Speculative Balances: Some cash balances may be held to enable the firm to take advantage of bargain purchases that might arise. These funds are called speculative balances. However, firms today are more likely to rely on reserve borrowing capacity or marketable securities portfolios than on cash for speculative purposes.

2.2.2 Review of Thesis

In this section the review of thesis relating to cash and cash management have been considered. In this regard review of "*Working Capital Management of Bansbari Leather and Shoe Factory*" by **Mr. Sindhu Lal Shrestha** was made. The analysis of the factory was based on the secondary data. The objective of this study was to operate with setting certain sales target and make regular inspection to find out the excess or deficit of current assets and to adopt suitable credit policy with responsible discount and should have appropriated cash balance and working capital.

Liquidity is the lifeblood of a corporation, a want of cash is the only factor, which may free it out of business cash flow in a corporation by direct cash sales of assets. It flows out indirect purchase and payment to creditors, wages and other costs. Cash also flows in the purchase and payment to creditors, wages and other equipment. In the payment of taking interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager's unable to pay obligation in time, which each situation in unique the one common threat that runs through all corporate in crisis is a lack of liquidity.

In the type of financial manager should not only attain towards the aspect of profitability but he should also turn towards ensuring the liquidity of the corporation. Since every business is a constant debtor an enterprise borrows funds from financial institution and purchase merchandise on credit, there by are fewer obligations to the government.

Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt, the reputation of the firm is tarnished at worst the creditor may force the firm to terminate its business.

A thesis work which is done for MBA on the Topic "*A Study in working capital management*", by **Mr Rajendra Giri** observed that the goal of working capital is to manage each of the firm current assets efficiently in order to maintain the firm's liquidity while not keeping any assets at to high level. Cash the most liquid assets (current assets) if the common denominator all can be reduced because the major liquid assets i.e. receivable and inventories get eventually converted into cash.

The cash balance of a firm is influenced by credit position of the firm. Status of firm's receivable and inventories nature of business enterprises. Management attitude towards risk and size of sales in relation to fixed assets. Besides these factors cash balance is also influenced by availability of short term credit, money market rate and variations in cash flow for effective management of cash, it is very much necessary that management should make every effort to speed up cash inflow and delay cash outflow. "It is also not necessary that management should not fail to meet its obligations while delaying the outflow of cash.

Similarly, **Pradhan, Bijaya** (1997), "*A Case Study of Cash Management in STCL*", had found that,

- The cash collection efficiency in this corporation is very low.
- The collection of trade credit in the corporation is low during three years study period.
- Management has taken liberal credit policy to sales of goods. Hence the cash and bank balance of study period is minimum Account Receivable.
- No, optimum cash balance is maintained. The cash and bank balance with respect to current assets has been fluctuating trend. Similarly in the case with respect to the total assets.
- To improve such problem i.e. major critical finding, he had recommended the STCL, to efficient management of cash.
- Prepare monthly trial balance cash, fund statement and financial report.
- Design the effective A/R management policy.
- Invest surplus cash in profitable opportunities.
- Prepare cash budget.

Another research done by **Mr Binod Prasad Koirala,** (2005), "*A study on Cash Management in Royal Drugs Limited*", has made conclusion indicating the poor cash management practices of Royal Drugs Limited (RDL)". He concluded that:

- Overall cash management practices have been found disappointing.
- RDL doesn't maintain certain minimum level of cash balances.
- Inventory level of RDL is very fluctuating trend.
- RDL has huge amount of investment in total assets and current assets; and other non-productive fixed assets.

- One of the short comings of RDL is that the variables held under different headings are rather a casual guesswork, without any consideration on to its impact on sales and profits of the company. For instance the company has held higher inventory though the sales has gone down.
- 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. RDL has been bearing losses in almost all fiscal years.
- Overall cash budgeting practice of RDL is very poor. It is preparing cash budgets without any definite planning.
- RDL may suffer from cash deficit at any point of time.

The research work done by **Mr Janga Bahadur Hamal** (2006), on *"Working Capital management of Manufacturing Companies Listed in NEPSE"* has concluded and recommended the following points regarding cash management and about liquidity of the companies:

- Optimum level of cash balance should be maintaining throughout the year. Many ways of effective management of cash can be followed in the manufacturing companies such as minimization of collection float, better synchronization of cash flows, slowing disbursements and more frequent requisitioning of cash to branches etc. Most of the Nepalese manufacturing companies have deficit cash balance.
- There should be neither over not lower investment in account receivable because policies concerning receivable management involve a trade off between risk and return. The main determinants of its investment size are the size of customers to be given credit, paying practices of customers, efficiency in collecting receivable etc. The investment in receivables can be controlled by finding receivable as a percentage of sales as well as by preparing aging schedule of receivable, analyzing credit worthiness of customers and minimizing float.

- The liquidity positions of the Nepalese manufacturing companies are inconsistent and are facing liqudity crisis. So the stickness in the inventories should be controlled by coordinating between schedule of raw materials requirement and production with customer demand. Credit of the companies is to be re-examined and tightened up to reduce the firm's level of account receivable.
- Because of high operating costs of production some of the Nepalese manufacturing companies are incurring losses. The unskilled manpower, over staffing, unsystematic purchase of raw materials, unnecessary expenses, misuse of facilities, heavy expenses on overhead etc. are the major causes for high operating costs. So the management should give attention towards the minimization of administrative and operating expenses.
- Management Information System should be used in the manufacturing companies. With the help of MIS two way communications can be maintained. Timely reports are to be prepared which helps in determining the amount of working capital needs. Most of the sucessful executives use to make their decisions based on adequate, accurate and timely information. However, the cost of acquiring information should of reasonable and whatever the information is collected must be enabled to accomplish the effective working capital management of the manufacturing companies.

2.2.3 Review of Journals

It is very hard to find the articles and journals relating to cash management in spite of that I tried to review some of the articles and journals written by some well known writers. First of all the journal written by **Radhe S. Pradhan** and **Kundan Dutta Koirala**, in the title *"Aspects of working capital management in Nepalese corporations"* 1982, July which is made for Tribhuvan University defined the functions of cash as the most important current asset as it is the basic input and ultimate output. Cash not only includes coins, currencies, cheques and balances held by the firm in its bank accounts but also near cash item e.g., marketable securities, and readily available credits. Hence the cash management has better been termed as Management of Money Position or Assets.

The importance of cash management is due to the fact that in is the most significant and least productive asset as it is not like other assets e.g. machines, inventories, etc. which produce goods for sale. Cash management is same as the duty of a banker as it involves avoiding lazy cash by maintaining adequate cash position to keep the firm sufficiently liquid and arranging for scheduled and predictable cash requirements.

One of the functions of investment in cash is to meet operational requirement in day to day business. It takes at least some time to convert cheques or bills into cash and therefore to carryout business operations during float, certain cash balances should be held by the firm. Again, a firm has to go on incurring small expenses and for that purpose petty cash is necessary. Similarly, the firm has to provide a reserve of liquidity for scheduled major outflows of cash like dividend, tax, purchase of land and other assets, debt redemption, etc. A firm cannot exploit business opportunities if it does not have adequate cash as its disposal.

Avoiding unexpected drains of cash is another function of investment in money assets. Further risks and contingencies like strike, fire, machine breakdown, etc., enables the firm to improve its credit worthiness as it pushes up current rations and acid test ratios at higher level. However, sufficient cash should not be interpreted as more cash than required.

They have pointed out some techniques to manage cash effectively. They are as follows:

- A business firm may have several branches or depots and if it is so, it has to supply them cash to carryout their operations. Under such a situation, more frequent requisitioning of cash enables firm to achieve effective money position. A firm does not need to draw from bank huge money at once.

- Nevertheless, a firm should always try to determine the optimum level of cash is the function of opportunity cost and transaction cost. More cash balance held by the firm means high opportunity cost and low transaction cost or vice versa.

- A firm should also try to make its disbursement of cash as slow as possible. It involves use of credit terms to the fullest extent. There is no advantage in paying sooner than prescribed credit period. Disbursement could be made slow if the firm does not pay in cash. It should use cheques, bills, drafts, etc., for payment as they take at least some time to convert into cash.

- Better synchronization of cash flows also helps the firm achieve effective management of money position in the business. It involves identification of all those events which make cash flows into and out of business. If cash inflows are going to exceed cash outflows, a firm should think of investing excess cash and if cash outflows are going to exceed cash flows, a firm should think of bringing additional cash into the firm.

- The achievement of effective management of money position is a difficult task. However, on way to ensure effective money position is to minimize float. A firm should constantly keep on watching the float. Even the minimization of float by one day can enable the firm to save huge money. Hence, the firm should pay sufficient attention to speedy collection of cash by using fastest means of transpiration. Establishing collection centers or branches at those points where concentration of debtors is high could be another way out to minimize float. Lock box system can also help speedy collection of cash but it is not popular and used in Nepal. All or some of those approaches could be followed if cash savings are going to exceed cost of collection.

Another Researcher **Subarna Lal Bajracharya**, who has done PhD. In cash management, conducted the study on "*Cash management in Nepalese Public Enterprises*" by using eleven years data from 1977 to 1987. Out of different objectives, one is to critically review the cash management techniques practiced by Nepalese public enterprises.

In his study he took 18 enterprises as a sample. According to his study, he concluded that;

- Cash management in public enterprises of is primarily based on the traditional practices. Lacking in a scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis.

- Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangement in connection with collection of receivables has been virtually ignored in many enterprises.

- Majority of the enterprises didn't face any serious liquidity problem. However, this was not because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay payment to creditors.

- By and large most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. However, on of the enterprises considered the implication of holding idle cash balance and few took on to account the potential benefit of investing surplus in marketable securities. These which failed to consider the cost of administering such investments.

- There has been wide variations over-time in the state of financial health of enterprises in terms of the composition of current assets to current liabilities as revealed by the relevant financial ratios.

- Neither interest rate nor the rate of inflation had any effect on the cash balance holding in most case.

Further he recommended for developing appropriate strategies for cash management. He stressed on cash planning and budgeting to cash project cash surplus and cash deficit. Firm can accelerate the inflows as far as possible to decelerate to decelerate outflow. He also stressed to maintain optimal level of cash and at last, it can be better to invest idle fund in marketable securities.

In the Journal *"Towards more efficient cash management"*, 1974, Kathmandu, by **Ram M. Saksena**, the term cash has a meaning according to the purpose for which it is used and persons with varying branches of knowledge convey various meaning have cash. According to economist cash as the means to satisfy human want but a lower opines the view that cash is the legal tender money issued by a determinate authority? However our concern of the meaning of cash is to look from the viewpoint of a balance sheet. Cash is an asset constituting the nest liquid item among all the assets. But the obtained involves cost because corporation has to rise through issue of shares or by borrowing with interest. Indeed cash which has a cost, whether received internally through generation of funds in business operations or externally through money market opportunity unless it is not put to its optimal uses."

Prof. Dr. Manohar Krishna Shrestha, done the research work on *"Working Capital Management"*, in his view corporate must adopt such a policy that makes optimum cash management possible for improving the efficiency of cash management effective method of collection and disbursement should be adopted. However in a developing country corporation has given not so much attention in assessing the time value of money so certain method of efficient cash management practiced by corporations in developed countries may not be viable in view of either the deficiency of knowledge or consciousness among corporate managers of developing country to calculate the interest lost or fund lost, if cash is not collected promptly.

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 turnover 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 and peak period must be adequately considered. The cash flow balance of corporation can be sufficient improved by increasing volume of sales and turnover of total asset. But on the whole measure should be taken to have efficient collection combined with disbursement."

The journal of finance, published bimonthly by American Finance Association for many decades is taken into account. In its volume XV of September 1960, **Joseph C. Schabacker**, in his article *"A Study of cash planning in small manufacturing companies"* is reviewed here, which is as follows:

The purpose of this study is to explore one specific phase of the managerial job in small companies, namely the forward planning of cash requirements. Many small business owners allow themselves to be pressured into ad hoc decisions as a result of no advance planning. The research was designed to test the hypothesis that the financial health of a small manufacturing firm is directly related to the amount of formal cash planning which is done.

A formal cash plan is here defined as a written forecast, as opposed to mental estimates. The solution of this problem involved a determination of the kinds of financial planning feasible, an analysis of how much is actually being done, and the formulation of a minimum amount of financial planning that should be accomplished.
A random sample of twenty-eight small machinery manufacturing companies in the Los Angles area was investigated. Financial and operational data were obtained through questionnaires and personal interviews with president (or senior executive). In addition, information was collected from each company's outside auditor, from the bank loan officer, and from Dun and Brandstreet files.

Statement analyses were prepared for the Dun and Brandstreet fourteen financial ratios for each company for the period 1951-56. These ratios were compared with appropriate industry results by year as published by Dun and Brandstreet. A score was then developed for each company representing overall operating results and net profit results.

The responses to the questionnaire items by the three parties and the comparative ratios analysis results were then analyzed to determine whether the use of formal cash planning resulted in higher profits or improve operating results.

This investigation of twenty-eight small manufacturing companies in Los Angles indicated that there is no direct correlation between higher profits in the small company and the act of formal cash planning. The evidence does not support a preconceived notion that the eight out of twenty eight presidents who used written cash forecasts experienced any greater profit results or over all operating improvements thereby. Other variables in the business environment appear to have had a stronger influence on profitability.

However, there are times in the life of a small company when formal cash forecasts seem to be crucial. These include when a company in undercapitalized, when a lending institution is approached for a loan, and when a company is contemplating or experiencing a growth stage.

Evidence in the study pointed to a need for more assistance in matters of financial planning on the part of bankers and certified public accountants for their small business clients.

CHAPTER- THREE
RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of this chapter is to focus on different research method and condition, which are used while conducting this study. Every study needs a systematic methodology to show the better result of the research.

Research methodology can be defined as a scientific and systematic search for patient information on a specific topic. Redman and Mory define Research as a systematized effort to gain new knowledge. Some people consider research as a movement, a movement from the known to the unknown. According to Clifford woody research comprise defining and redefining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making deduction and reaching conclusions and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis.

In this chapter the method of conducting the research is defined. How the research designed, what types of data are collected, how the data are collected, what is the population size, period of time considered for study and analytical tools used to analysis the collected data

3.2 Research Design

The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Basically the research design is conducted to have a decision of:

a. What is study about?
b. Why is the study being made?
c. Where will be study be carried out?
d. What type of data is required?

e. Where can the required data are found?
f. What period of time will the study include?
g. What will be the sample design?
h. What techniques of data collection will be used?
i. How will the data be analyzed?
j. In what style will the report be prepared?

Research design is needed because it facilitates the smooth sailing of the various operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money.

This study tries to make analyze single variable, make comparison in different variables and establish relationship between two or more variables. So this research is termed as analytical and descriptive. So as to facilitate the assessment, collected six years data of salt trading corporation limited and national trading limited and tabulated them. Different financial as well as statistical tools have been used to analyze and to find out needed result.

3.3 Population and Sample

In most of the research work and surveys, the usual approach happens to be to make generalization or to draw inferences based on sample about the parameters of population from which the samples are taken. The researcher quite often selects only a few items from the universe for his study purposes. All this is done on the assumption that the sample data will enable him to estimate the population parameters. The item so selected constitute what is technically called a sample, their selection process or technique is called sample design and the survey conducted on the basis of sample is described as sample survey.

As it is not possible to examine and study every item in the population and it is possible to obtain sufficient accurate results by studying only a part of total population. Among many trading companies running in Nepal, Salt trading and National trading are taken as a sample which are the oldest and reputed company.

3.4 Sources of Data

The main source of data is secondary data which is collected from the central office of STCL. Basically published audited annual report is used as a source of data. For the study six years balance sheets, profit and loss account, income and expenditure account, Cash flow and other account index related to balance sheet is considered. Some other related data and information is also collected from the other the corporation. Some data are published though articles, business journals, newspaper and some are not published.

3.5 Data Collection Procedure

The study is focused on the Cash Management for which salt Trading Corporation Limited is selected. For the purpose of fulfilling the data required, various published and unpublished data were collected. The data collected were mostly secondary data which is published audited annual report of the corporation. Some information is also collected as primary by interviews, interactions with the concerned office personnel were made to understand the problems and to find the solutions. Information and data were also collected by searching the World Wide Web of the corporation and other web sites.

3.6 Data Processing Procedure

After collection collecting the data it has to processed and analyzed. The collected raw data are processed and presented in tabular form with the help of simple arithmetic rules, financial ratios of cash management and statistical tools using least square regression, standard deviation, correlation. The entire raw data are somewhere converted into approximate and condensed in the tabular form. Most of the data have been compiled in one form and processed and interpreted as per the need of the study.

3.7 Analytical Tools

To analyze the collected data different financial and statistical tools have been used.

3.7.1 Financial Tools

3.7.1.1 Ratio Analysis

Financial ratios illustrate relationships between different aspects of a business's operations. They involve the comparison of elements from a balance sheet or income statement, and are crafted with particular points of focus in mind. Financial ratios can provide business owners and managers with a valuable tool to measure their progress against predetermined internal goals, a certain competitor, or the overall industry. In addition, tracking various ratios over time is a powerful way to identify trends as they develop. Ratios are also used by bankers, investors, and business analysts to assess various attributes of company's financial strength or operating results.

Ratios are determined by dividing one number by another, and are usually expressed as a percentage and times. They enable business owners to examine the relationships between seemingly unrelated items and thus gain useful information for decision making. They are simple to calculate, easy to use and provide a wealth of information. Ratio are aids to judgment and cannot take the place of experience. They will not replace good management, but they will make a good manager better. They help to pinpoint areas that need investigation and assist in developing an operating strategy for the future.

Virtually and financial statistics can be compared using a ratio. In reality, however, business owners and managers only need to be concerned with a set of ratio in order to identify where improvements are needed. As you run your business you juggle dojens of different variables, ratio analysis is designed to help you identify those variables which are out of balance.

It is important to keep in mind that financial ratio is time sensitive; they can only present a picture of the business at the time that the underlying figures were prepared.

A. Analysis of cash and bank balance

To find out and analyze the annual balance practice of cash & Bank balance, we can analyze the cash and bank balance of the corporation.

B. Analysis of cash Turnover

It reflects the company's ability to finance current operations, the efficiency of its working capital employment and the margin of protection for its creditors. A high cash turnover ratio may leave the company vulnerable to creditors, while a low ratio may indicate an inefficient use of working capital. In general, sales five to six times greater than working capital are needed to maintain a positive cash flow and finance sales.

It is obtained by:

$$\text{Cash Turnover} = \frac{\text{Sales}}{\text{Cash \& Bank balance}}$$

C. Analysis of Receivable Turnover

It measures the annual turnover of accounts receivable. A high number reflects a short Lapse of time between sales and collection of cash, while a low number means collections longer. It is best to use average accounts receivable to seasonality effects.

It is obtained by:

$$\text{Receivable Turnover} = \frac{\text{Sales}}{\text{Account Receivable}}$$

D. Analysis of Current Assets Turnover

Current assets turnover may be used as broad measure current assets efficiency.

It is obtained by:

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

E. Analysis of Cash & Bank Balance to Current Assets

To calculate the portion of cash and bank balance in current assets, we can calculate cash to current assets ratio:
It is obtained by:

$$\text{Cash to Current Assets} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

F. Analysis of Cash & Bank Balance to Total Assets

It measures the portion of a company's held in cash or marketable securities. Although a high ratio may indicate some degree of safety from a creditor's viewpoint, excess amounts of cash may be viewed as inefficient.
It is obtained by:

$$\text{Cash to Total Assets} = \frac{\text{Cash \& Bank Balance}}{\text{Total Assets}}$$

G. Analysis of Cash & Bank Balance to Current Liabilities

The cash to current liabilities ratio measures the extent to which a corporation or other entity can quickly liquidate assets and cover short liabilities:
It is obtained by:

$$\text{Cash to Current Liabilities} = \frac{\text{Cash \& Bank Balance}}{\text{Current Liabilities}}$$

H. Analysis of Cash & Bank Balance to Account Receivable

Corporation sells the goods either cash or credit. If it sells in cash there would not be account receivable but it is not possible to sell goods only in cash. So if the company sells the goods in credit, it takes some in cash and some in cash and some in credit. To find out the relation between cash and account receivable we can find the cash and account receivable ratio.

It is obtained by:

$$\text{Cash \& Bank Balance to Account Receivable} = \frac{\text{Cash \& Bank Balance}}{\text{Account Receivable}}$$

I. Analysis of Current Assets to Total Assets

Every company holds assets in two ways current and non current or fixed assets. To find out the proportion of current assets in total assets we can find out current assets to total assets ratio.
It is obtained by:

$$\text{Current Assets to Total Assets} = \frac{\text{Current Assets}}{\text{Total Assets}}$$

J Analysis of Cash Conversion Cycle

The length of time between the purchase of raw materials and the collection of accounts receivable generated in the sale of the final product, also called cash cycle. This measure illustrates how quickly a company can convert its products into cash through sales. The shorter the cycle, the more working capital a business generates, and the less it has to borrow.

It is obtained by:

Cash Conversion Cycle =(Average Stockholding Period+ Average Receivable Processing Period – Average payable Processing Period)

I. Average Stockholding period (in days)

Inventory conversion period indicates the efficient of the firm in selling its products. The short period indicates fast conversion of inventory to sales and the long period indicates slow conversion period of inventory to sales.
It is obtained by:

$$\text{Average Stockholding Period} = \frac{\text{Closing stock}}{\text{Average Daily Purchase}}$$

II. Average Receivables Processing Period (in days)

Average Receivables Processing period indicates the number of days debtor turnover into cash. It analysis the determining collectibles of debtors. The longer the collection period, more efficient in management of credit policy.
It is obtained by:

$$\text{Average Receivables Processing Period} = \frac{\text{Account Receivables}}{\text{Average daily credit sales}}$$

III . Average payable Processing Period (in days)

Payable processing period indicates the speed of creditors payable. A high payable processing period is favorable for the company.
It is obtained by:

$$\text{Average Payable Processing Period} = \frac{\text{Accounts Payables}}{\text{Average Daily Credit Purchase}}$$

K .Liquidity Analysis

Liquidity ratios demonstrate a company's ability to pay its current obligations. In other words, they relate to the availability of cash and other assets to cover accounts payable, short-term debt, and other liabilities. All company requires a certain degree of liquidity in order to pay their bills on time. In companies, low levels of liquidity can indicate poor management or a need for additional capital. Any company's liquidity may very due to seasonality, the timing of sales and the state of the economy. But liquidity ratios can provide the company with useful limits to help them regulate borrowing and spending. Some of the best known measures of a company's liquidity include:

I. Current Ratio

It measures the ability of an entity to pay its near-term obligations. 'Current' usually is defined as within one year .Though the ideal current ratio depends to some extent on the type of business, a general rule of thumb is that it should be at least 2:1. A lower current ratio means that the company may not be able to pay its bill on time,

while a higher ratio means that the company has money in cash or safe investments that could be put to better use in the business.
It is obtained by:

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

II. Quick Ratio/Acid Test Ratio

Quick Assets provide a definition of the company's ability to make payments on current obligations. Ideally, this ratio should be 1:1. if it is higher, the company may keep too much cash on hand or have a poor collection program for accounts receivable. If it is lower, it may indicate that the company relies too heavily on inventory to meet its obligations.
It is obtained by:

$$\text{Quick Ratio} = \frac{\text{Current assets-Stock}}{\text{Current liabilities}}$$

L. Cash Flow Statement

Cash flow is essential the movement of money into and out of your business; it's the cycle of cash inflows and cash outflows that determine your business' solvency.

Cash flow analysis involves examining the components of your business that affect cash flow, such as accounts receivable, inventory, accounts payable and credit terms. By performing a cash flow analysis on these separate components, you'll be able to more easily identify cash flow problems and find ways to improve your cash flow.

3.7.2 Statistical Tools

A. Correlation

When there are two or more than two independent variables, the analysis concerning relationship is known as multiple correlations. Partial correlation measures separately the relationship between two variables in such a way that the effects of other related

variables are eliminated. In partial correlation analysis, we aim to measuring the relation between a dependent variable and a particular independent variable by holding all other variables constant. Thus, each partial coefficient of correlation measures the effects of its independent variable on the dependent variable.

Karl Person's coefficient of Correlation is obtained by:

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

Where

$$u = X - \overline{X}$$

$$v = Y - \overline{Y}$$

B. Regression

Regression is the determination of a tactical relationship between two or more variables. In the simple regression there is two variables one independent and one independent and if there is two or more than two independent variables, it is called multiple regression. Regression can only interpret what exists physically; there must a physical way in which independent variable X can affects dependent variable Y. The basic relationship between X and Y is given by

$$Y = a + bx$$

C. Standard Deviation

Standard deviation is defined as the square-root of the average of squares of deviations, when such deviations for the values of individual items in a series are obtained from the arithmetic average. Standard deviations are the most common measure of statistical dispersion, measuring how spared out the values in a data set are. If the data points are all close to the mean, then the standard deviation is low. If many data points are very different from the mean, then the standard deviation is high. If all the data values are equal, then the standard deviation will be zero. It is worked out as under:

Standard deviation ( ) = $\sqrt{\frac{\sum(X_1 - X)^2}{n}}$

D. Dispersion

An average can represent a series only as best as a single figure can, but it certainly cannot reveal the entire story of any phenomenon under study. Especially it fails to give any idea about the scatter of the values of items of a variable in the series around the true value of average. In order to measure this scatter, statically devices called measures of dispersion are calculated. Important measures of dispersion are a) Range, b) Mean deviation and c) Standard Deviation.

E. Coefficient of variation(C.V.)

In probability theory and statistics, the coefficient of variation (C.V.) is a measure of dispersion of a probability distribution. It is defined as the ratio of the standard deviation to the mean.

$$C.V = \frac{s.d.}{\bar{X}} \times 100$$

The coefficient of variation is a dimensionless number that allows comparison of the variation of population that has significantly different mean values. It is often reported as a percentage (%) by multiplying the above calculation by 100.

CHAPTER- FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter includes the analysis and results of the gathered data with a view to assess cash management of the industry for the period of five years. Consequently, this research paper helps to the management to take benefit of strategic management techniques by providing information regarding strength and weakness of the industry. To show the cash management of STL & NTL, different tools and techniques have employed in this chapter.

4.1 Analysis of Data by Financial Tools

4.1.1 Analysis of Cash and Bank Balance

Holding of cash balance is the rational cash management practice of a business firm. Total cash balance refers to the cash in hand, cash at bank and cash in transit, near cash assets as marketable securities and time deposits in bank

Table 4.1 below shows the amount of cash and bank balance of STL & NTL during the period under the study. The cash balance of each fiscal year end has been compared to preceding years to analyze fluctuation.

Table 4.1

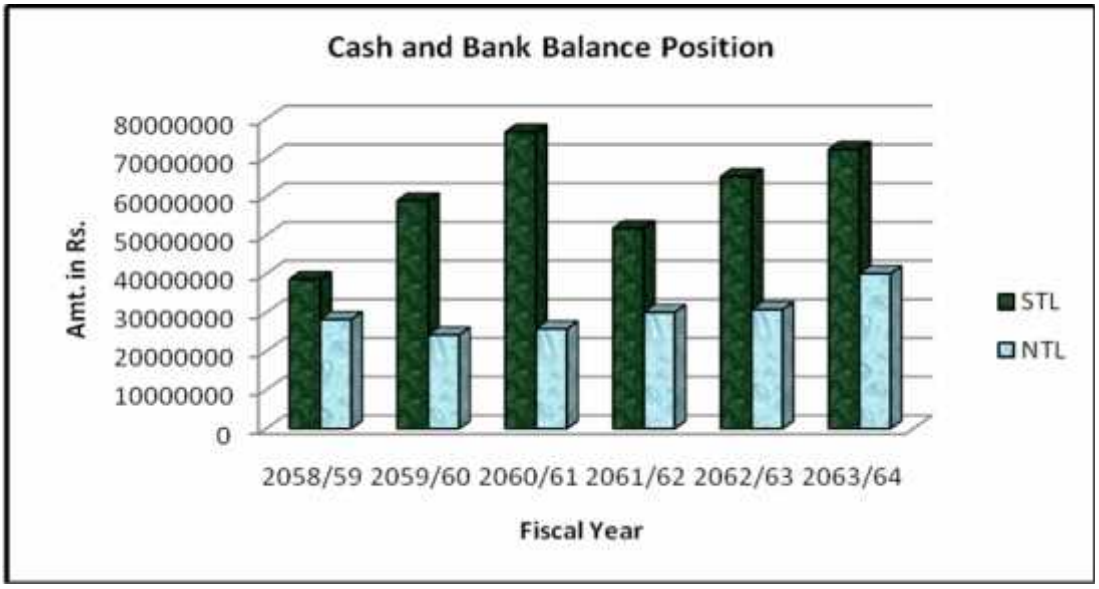
Cash and Bank Balance Situation

FY	Salt Trading		National Trading	
	Cash & Bank	% Increase	Cash & Bank	% Increase
2058/59	38530836	-	28161656	-
2059/60	58823666	52.67	24182989	(14.13)
2060/61	76545426	30.13	25714532	6.33
2061/62	51678428	(32.49)	29996446	16.65
2062/63	65072809	25.92	30714532	2.40
2063/64	72078428	10.76	39996532	30.22
Mean		**17.40**		**8.29**
Standard Deviation		**28.33**		**14.78**
C.V. %		**162.83**		**178.20**

(Source: Annual Reports of STL & NTL)

The cash and Bank balance situation of NTL and STL is depicted in Figure no.4.1:

Figure No.4.1



The above table No. 4.1 and Figure No.4.1 showed that the cash and bank balance of STL and NTL is in fluctuating trend. The coefficient of variance of STL (162.83%) and NTL (178.20%) shows greater volatility in both company. This fluctuating trend provides a base for changing the cash and bank balance plan for the company. In the study period, cash and bank balance of STL decreased in the fiscal year by 32.49% while such balance of NTL decreased in the fiscal year by 14.13% as compared to the previous fiscal year.

Looking the above inconsistency in the cash and bank balance, it is undubious to say that both organizations should formulate a strong cash and bank balance plan to meet the necessity. Since keeping neither adequate cash nor less cash is good for organization, it will be better if both the organizations consider a reasonable balance corressponding to the transactions, otherwise the organizations may turn bankruptcy.

4.1.2 Analysis of Cash Turnover

Cash turnover ratio represents how quickly the cash is received from its sale by formulates to find out. Higher turnover is the signal of good liquidity and vice versa.

Table 4.2

Cash Turnover Ratio (CTR)

FY	STL			NTL		
	Cash & Bank	Sales	CTR	Cash & Bank	Sales	CTR
2059/60	58823666	2461000708	41.84	24182989	967386997	40.00
2060/61	76545426	3898942646	50.94	25714532	977527493	38.01
2061/62	51678428	2193935368	42.45	29996446	809139234	26.97
2062/63	65072809	1850551513	28.44	30714532	957527234	31.17
2063/64	72078428	2200535368	30.53	39996532	975739493	24.39
Mean			**38.84**			**32.11**
Standard Deviation			**8.31**			**5.09**
C.V. %			**21.39**			**15.85**

(Source: Annual Reports of STL & NTL)

The Cash Turnover ratio of NTL and STL are presented in the figure below:

Figure No.4.2

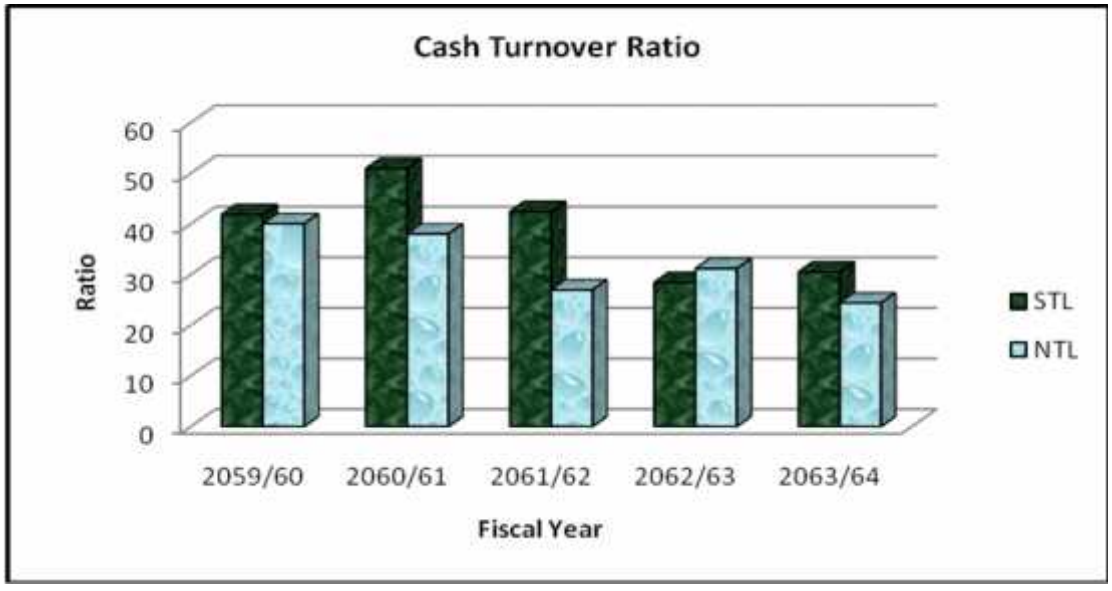


Table 4.2 shows of STL's that the highest CTR is 50.94 times in the FY 2060/61 and lowest of 28.4 in the FY 2062/63. The table shows average turnover of 5 years 38.84 times, Standard deviation 8.31 and C.V. 21.39. In the FY 2062/63 and 2063/64 the CTR is less than of the average. This analysis shows that a cash turnover times in a corporation is not homogeneity, there is a fluctually trend. Some FY it is more than average and some FY less it is less than average. This table also shows that in the FY

2062/63 & 2063/64 the corporation enjoyed high turnover because lesser the CTR the greater the times the cash inflow takes place.

NTL,s that the highest cash turnover is 40 times and lowest of 24.39 in the FY of 2059/60 and 2063/64 respectively. The table shows average turnover of 5 years is 32.11 times. Standard deviation 5.09 and CV is 15.85. In the FY 2061/62, 2062/63 and 2063/64 the cash turnover is less than the average. This means that the corporation collected cash at regular time intervals than in the remaining two years. This analysis shows that a cash turnover times in a corporation is not homogeneity, there is a fluctuation trend. Some FY it is more than average and some FY less than average. This Table shows that in the FY 2059/60 and 2060/61 corporation is unable to collect cash in timely from its credit sales because the ratio is higher than average ratio.

Since, the mean CTR of STL (38.84) is greater than that of NTL (32.11), it can be said that the NTL has higher capacity of collecting cash within a frequent time-interval in a given period of time. Also, lower the standard deviation (5.09) and C.V. (15.85%) of NTL as compared to the standard deviation (8.31) and C.V. (21.39%) of STL provide a base to reach such conclusion.

4.1.3 Analysis of Account Receivable Turnover

An Account measure used to quantify a firm's effectiveness in extending credit as well as collecting debts. Receivables turnover ratio is an activity ratio, measuring how efficiently a firm used its assets.

Some company's reports only show sales-this can affect the ratio depending on the size of cash sales. By maintaining accounts receivable, firms are indirectly extending interest-free loans to their clients. A high ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit not earning interest for the firm.

A low ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient.

Table 4.3

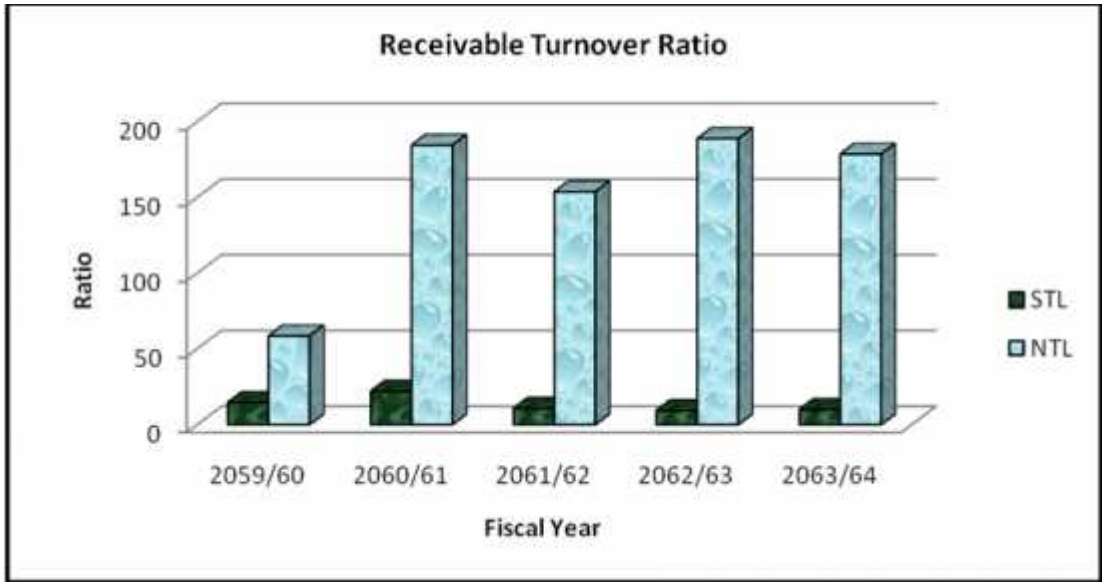
Receivable Turnover Ratio (RTR)

FY	STL			NTL		
	Receivable	**Sales**	**RTR**	**Receivable**	**Sales**	**RTR**
2059/60	167778845	2461000708	14.67	16519158	967386997	58.56
2060/61	177067184	3898942646	22.02	5300324	977527493	184.43
2061/62	203881404	2193935368	10.76	5264542	809139234	153.70
2062/63	196258556	1850551513	9.43	5072158	957527234	188.78
2063/64	200255556	2200535368	10.02	5464158	975739493	178.57
Mean			**13.38**			**152.81**
Standard Deviation			**4.69**			**48.66**
C.V. %			**35.05**			**31.84**

(Source: Annual Reports of STL & NTL)

The Receivable Turnover ratio of STL and NTL are presented in the figure no. 4.3

Figure No. 4.3



The table 4.3 shows the receivable turnover of 5 years of STL, the average turnover of 13.38, Standard deviation of 4.69 and CV of 35.05 of 5 years. Most of the years the receivable turnover is less than average. In the fiscal year 061/62,062/63 and 063/64 the ratio is less than the average but in the year 059/60 and 060/61 is more than average. This shows that in the previous years the company has weak collection policy while in the last three years the company improve its policy as a result the receivable is less in ratio. In the NTL the average turnover is 152.81, Standard

deviation and CV are 48.66 and 31.84 % respectively. In the FY 2059/60 is less than average but all other FY is more than average. It means the company receivable policy is weak in the last four years considering average receivable turnover ratio because higher receivable turnover ratio means that NTL has large sum of money in the market remained to be collected.

Comparing average RTR of STL (13.38) with the average RTR of NTL (152.81), it can be concluded that the RTR policy of STL is superior to that of NTL. NTL should ameliorate its RTR policy otherwise it can suffer from cash shortage, which forces to take higher amount of loan along with greater interest to run the business, resulting automatically aggravation of profit.

4.1.4 Analysis of Current Assets Turnover Ratio

Current Assets are items such as cash, inventory and account receivables that are currently cash or expected to be turned into cash within one year. Current Assets Turnover may be used as a broad measure of current assets efficiency. It's calculated by dividing sales by revenue by the current assets.

Table 4.4

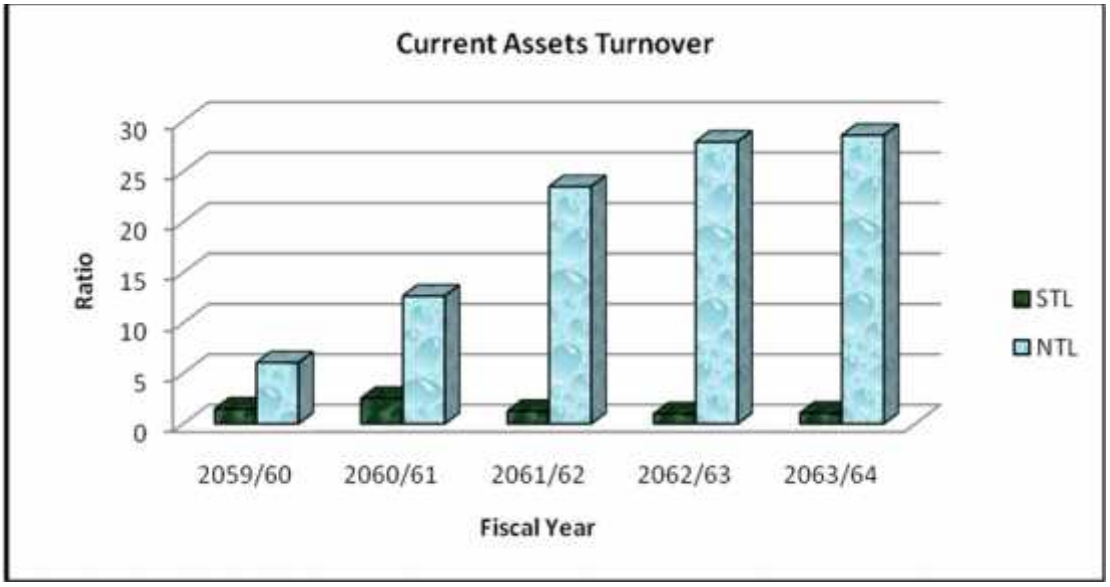
Current Assets Turnover

FY	STL			NTL		
	Current Assets	**Sales**	**Ratio**	**Current Assets**	**Sales**	**Ratio**
2059/60	1681074449	2461000708	1.46	159782990	967386997	6.05
2060/61	1543927934	3898942646	2.52	77184209	977527493	12.66
2061/62	1752856957	2193935368	1.25	34417022	809139234	23.51
2062/63	1884210608	1850551513	0.98	34284022	957527234	27.93
2063/64	2054108852	2200535368	1.07	34117209	975739493	28.6
Mean			**1.46**			**18.45**
Standard Deviation			**0.56**			**7.95**
C.V. %			**38.46**			**43.09**

(Source: Annual Reports of STL & NTL)

The current Assets Turnover ratio of NTL and STL are depicted in Figure No. 4.4.

Figure No.4.4



The table 4.4 shows the STL and NTL current assets turnover for 5 years. In the above table, the average current assets ratio in 5 years is 1.46, standard deviation is 0.56 and CV is 38.46. Most of the year the ratio is less than average, except in the year 059/60 and 060/61. Since higher the ratio indicates better utilization of current assets, it seems that STL had better utilized its current assets in the fiscal year 2060/61 because the ratio is highest (2.52) in that year. Similarly, NTL'S average current assets turnover in the 5 years is 18.45, Standard deviation is 7.95 and CV is 43.09. Except in the fiscal year 2059/60 and 2060/61, the ratio is higher than the average. In the surveyed years, STL had better utilized its current assets in the fiscal year 2062/63, when the ratio is highest i.e. 27.93.

While comparing STL and NTL in current assets ratio, it can be concluded that NTL had converted its current assets more efficiently into sales than STL because in each year NTL has greater current assets turnover ratio than that of STL.

4.1.5 Analysis of Cash & Bank Balance to Current Assets

As stated earlier, cash is the most liquid current assets and as such the more the amount of cash balances in an enterprise the more liquid the enterprise in meeting its current obligation. However, bearing excess cash signifies cash and bank balance to current assets indicates the proportion of cash balance in the current assets. Stable pattern of ratio for different fiscal years indicates that the company has been

following a systematic policy regarding how much cash balance to hold at the fiscal year end.

Table 4.5

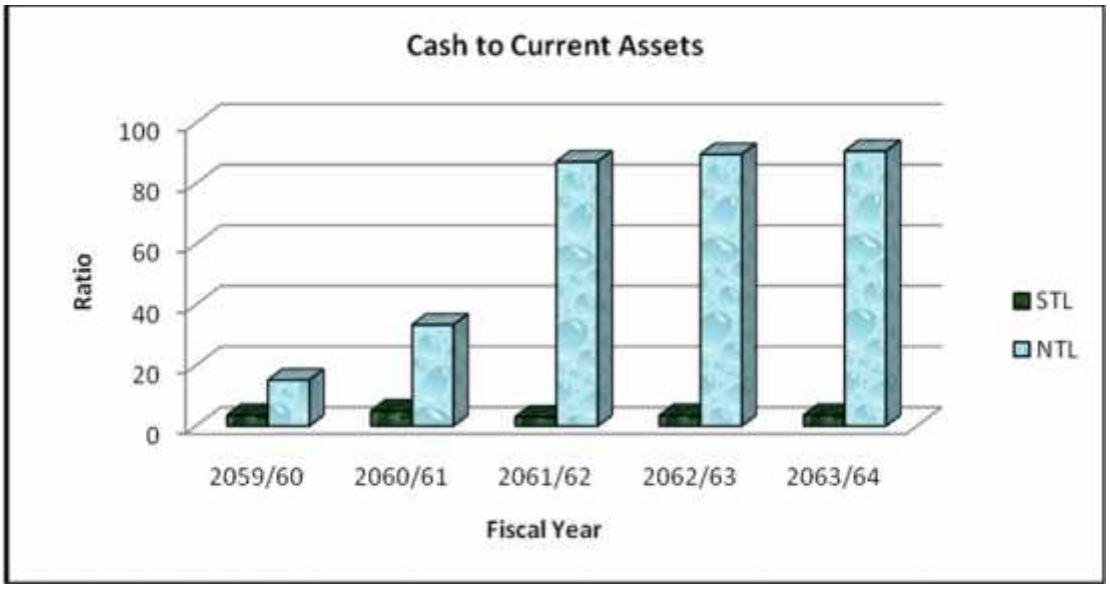
Cash & Bank to Current Assets

FY	STL			NTL		
	Current Assets	Cash & Bank	Ratio	Current Assets	Cash & Bank	Ratio
2059/60	1681074449	58823666	3.50	159782990	24182989	15.13
2060/61	1543927934	76545426	4.96	77184209	25714532	33.32
2061/62	1752856957	51678428	2.95	34417022	29996446	87.15
2062/63	1884210608	65072809	3.45	34284022	30714532	89.58
2063/64	2054108852	72078428	3.51	34117209	39996532	90.65
Mean			**3.67**			**63.17**
Standard Deviation			**0.68**			**32.33**
C.V. %			**18.53**			**51.79**

(Source: Annual Reports of STL & NTL)

The Cash to Current Assets of both NTL and STL are depicted in the Figure No. 4.5.

Figure No.4.5



The table 4.5 presents the amount of cash and bank balance in current assets. In Salt Trading, it shows the 3.67 average cash balance in current assets. It has standard deviation of 0.68 and CV of 18.53. The table shows that in the FY 059/60,061/62, 062/63 and 063/64 the amount are less than average and in 060/61 is higher than

average, so there is not much fluctuation of cash balance in current assets, we can found that the fluctuation is with in the 1%. This it can be said that the cash position in current assets is not bad. In National Trading, It shows 63.17 average cash balance in current assets. It has standard deviation 32.33 and CV of 51.79.In the FY 2059/60 and 2060/61 is less than average and rest FY is higher than average so we can say there is fluctuation of cash balance in current assets.

Considering above data, it can be said that STL keeps almost one-third of the current assets as cash and bank balance while NTL keeps almost one by sixty-three of the current assets as cash and bank balance which is comparatively lower than that of the policy set by the STL. The management of NTL weak in keeping the cash portion in current assets because keeping lower cash increases the possibility of not meeting its debt in case of urgency.

4.1.6 Analysis of Cash & Bank Balance to Total Assets

We can find the proportion of cash and Bank Balance in total assets from this. The higher ratio indicates higher risk and higher profitability whereas lower ratio indicates lower risk and lower profitability.

Table 4.6

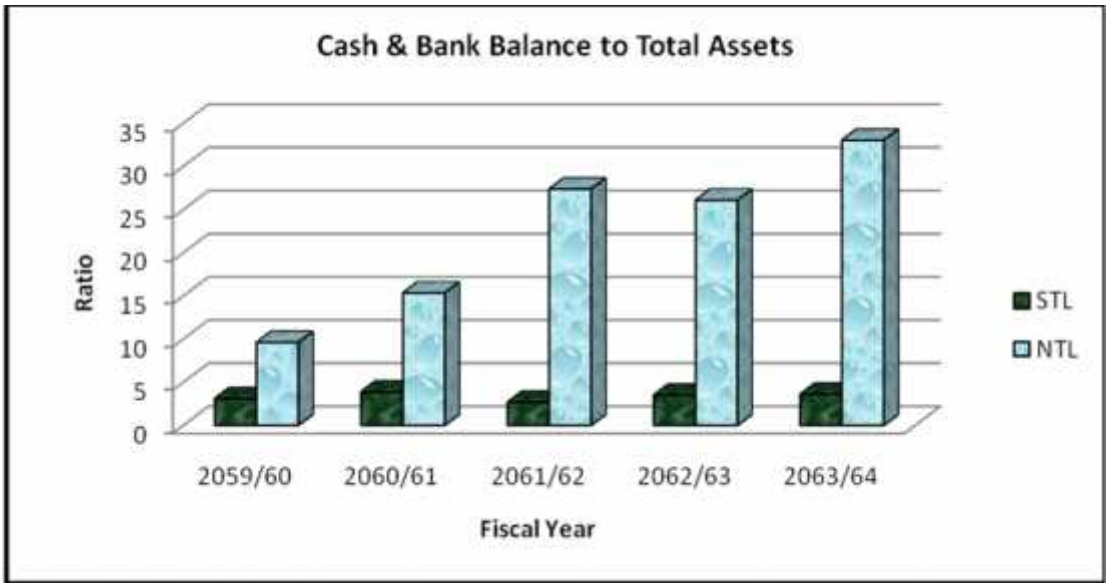
Cash & Bank Balance to Total Assets

FY	STL			NTL		
	Cash & Bank	Total Assets	Ratio	Cash & Bank	Total Assets	Ratio
2059/60	58823666	1902090115	3.09	24182989	251975482	9.60
2060/61	76545426	1971592358	3.88	25714532	167645321	15.34
2061/62	51678428	1933667240	2.67	29996446	109589645	27.37
2062/63	65072809	1854610254	3.51	30714532	117689645	26.09
2063/64	72078428	2003420342	3.60	39996532	121043210	33.04
Mean			**3.28**			**22.29**
Standard Deviation			**0.40**			**8.54**
C.V. %			**12.19**			**38.31**

(Source: Annual Reports of STL & NTL)

The Cash and Bank Balance to Total Assets of both NTL and STL are presented in the Figure No. 4.6.

Figure No. 4.6



In the table 4.6 we can see the proportion of cash & bank balance in total assets. In STL's we can see more than average in 060/61, 062/63 & 063/64 and less than average in 059/60 and 061/62. It means that in the fiscal year 060/61, 062/63 & 063/64, the portion of cash balance compared to the total assets are low, which indirectly abated in increasing profit. The average proportion of cash & bank balance is 3.28 in total assets in 5 years study period. The ratio fluctuates from 2.67 to 3.88 percentages. It has 0.40 standard deviation and 12.19 C.V. The NTL's average cash & bank balance to total assets is 22.29, standard deviation is 8.54 and C.V is 38.31. The lowest ratio (33.04) in the fiscal year 062/63 indicated that NTL kept comparatively low cash balance portion of total assets, investing greater amount of ideal cash in productivity and challenging greater risk of bankruptcy.

Overlooking the cash and bank balance to total assets of both organizations, it can be concluded that STL had the practices of keeping higher portion of total assets as cash and bank balance (average ratio: 3.28) whereas NTL kept lower portion of total assets as cash and bank balance (average ratio: 22.29). This clearly indicates that STL can meet its payable in time but reduces the chances of earning more profit through optimally utilizing such ideal cash. In contradict, NTL may turn bankruptcy by keeping low cash balance but can increase the chances of earning high profit.

4.1.7 Analysis of Cash & Bank Balance to Current Liabilities (Cash Assets Ratio)

Current liabilities are those liabilities that must be paid within one year including Short-Term notes payable, Account Payable, Current Maturities of Long-Term Debt, current portion of capital Leases, Accrued Expenses, Income taxes and other Current Liabilities.

Cash Assets Ratio is the total value of cash & bank balance divided by current liabilities. For a bank this is the cash held by the bank as a proportion of deposits in the bank. It measures the extent to which a corporation or other entity can quickly liquidate assets and cover short-term liabilities and therefore is of interest to short-term creditors. It is also called liquidity ratio or cash ratio.

Table 4.7

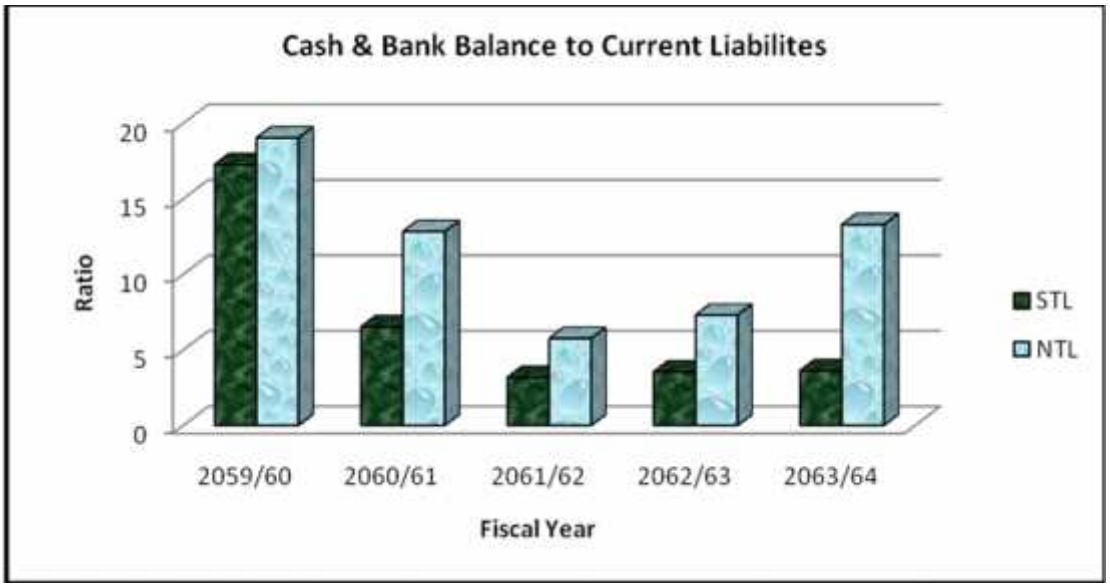
Cash & Bank Balance to Current Liabilities

FY	STL			NTL		
	Cash & Bank	Current Liabilities	Ratio	Cash & Bank	Current Liabilities	Ratio
2059/60	58823666	340863195	17.26	24182989	127048000	19.03
2060/61	76545426	1173052652	6.52	25714532	200530000	12.82
2061/62	51678428	1631182626	3.17	29996446	521677690	5.75
2062/63	65072809	1835166144	3.54	30714532	420576900	7.30
2063/64	72078428	1991166144	3.62	39996532	451653000	13.28
Mean			**6.82**			**11.64**
Standard Deviation			**5.35**			**4.74**
C.V. %			**78.00**			**40.72**

(Source: Annual Reports of STL & NTL)

The below Figure No. 4.7 shows the Cash and Bank Balance to Current Liabilities of STL and NTL:

Figure No. 4.7



In the Table 4.7 we can see the cash and bank balance and current liabilities and its ratio in the study period. It shows that salt trading maintained average ratio of is 6.82, standard deviation of 5.35, C.V. of 78%. Since higher ratio indicates lower cash balance compared to current liabilities, the highest ratio of 17.26 in the fiscal year 2059/60 had threaten STL's ability to pay the debt in time. In the remaining fiscal years, the ratios are quite favorable if average ratios are considered. In National Trading, we can see the average ratio is 11.64, Standard deviation is 4.74 and CV is 40.72%. The ratios of NTL in the fiscal year 2059/60 (19.03), 2060/61(12.82) and 2062/63 (13.28) are not satisfactory considering average ratio of 11.64.

Since the average cash and bank balance to current liabilities of STL is lower (6.82) than that of NTL (11.64), it can be concluded that management of NTL is less concerned to pay the current liabilities compared to STL. NTL may have suffered the cash deficit to meet its current liabilities in the sample period. Further, STL should also try to enhance its paying policy in order to avoid the higher cash and bank balance to current liabilities that of the fiscal year 2059/60.

4.1.8 Analysis of Cash & Bank Balance to Account Receivable

Accounts Receivable usually come in the form of operating lines of credit and is usually due within a relatively short time period, ranging from a few days or weeks up to one year.

If a company has receivables, it means it has made the sale but has yet to collect the money from the purchaser. Most companies operate by allowing some portion of their sale to be on credit. These sales are usually to frequent customers, who are invoiced periodically, allowing them to avoid the hassle of physically making payments as each transaction occurs. So account receivable is also very good liquid assets like cash and bank balance which can be collect quickly if the company has a good credit policy. In this section it is tried to find out the relation between cash and account receivable.

Table 4.8

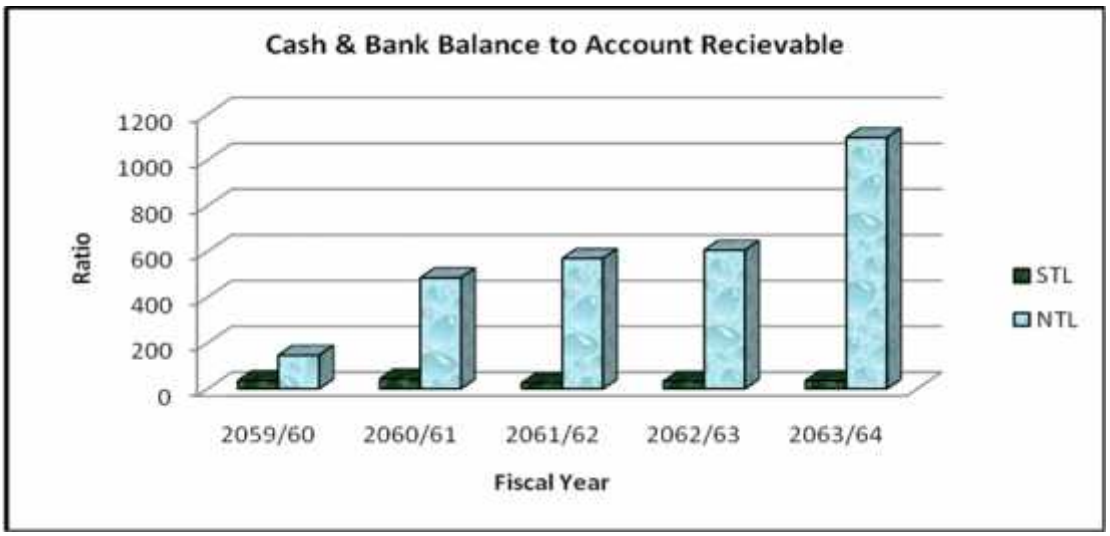
Cash & Bank Balance to Account Receivable

FY	STL			NTL		
	Cash & Bank	Receivable	Ratio	Cash & Bank	Receivable	Ratio
2059/60	58823666	167778845	35.06	24182989	16519158	146.39
2060/61	76545426	177067184	43.23	25714532	5300324	485.15
2061/62	51678428	203881404	25.35	29996446	5264542	569.78
2062/63	65072809	196258556	33.16	30714532	5072158	605.55
2063/64	72078428	200255556	35.99	39996532	5464158	1098.00
Mean			**34.56**			**580.79**
Standard Deviation			**5.73**			**305.32**
C.V. %			**16.58**			**52.55**

(Source: Annual Reports of STL & NTL)

The Cash and Bank balance to Account Receivable of STL and NTL is depicted in the Figure No. 4.8.

Figure No.4.8



From the Table 4.8, we can analyze that Cash and Account Receivable of both Corporations. As we know account receivable is also consider as liquid assets of any corporation. Corporation should make a good policy to speed up the collection of account receivable. In this Table average ratio of salt trading is 34.56, standard deviation is 5.73 and CV is 16.58. Similarly, the average ratio of National Trading is 580.79, Standard deviation of 305.32 and CV is 52.55%. This shows that STL kept low cash to account receivable in FY 2061/62 and 2062/63, the company's liquidity position depend heavily on account receivable. Similarly, STL liquidity position rely on account receivable in the fiscal year 2059/60, 2060/61 and 2061/62 because the ratio is low than the average ratio.

In each fiscal year, cash & bank balance to account receivable of NTL is greater than that of STL. Similarly, the average ratio of NTL (580.79) is 17 times greater than the average ratio of STL (34.56), which clearly indicates that NTL has weak management in collecting the receivables. NTL should quickly implement the policy of speed collection of cash from the market because keeping larger portion of receivables can jeopardize the existence of the organization. It will be better for both organizations if they reduce their portion of receivables.

4.1.9 Analysis of Current Assets to Total Assets

A balance sheet item which equals the sum of cash and cash equivalents, account receivables, inventory, marketable securities, prepaid expenses and other assets that could be converted to cash in less than one year. A company's creditors will often be interested in how much that company has in current assets, since these assets can be easily liquidated in case the company goes bankrupt. In additional, current assets are important to must companies as a source of funds for day- to- day operations. Where as total assets is the sum of both current and non-current assets. This figure is taken directly from the company's balance sheet. Non-current Assets include receivables that will not be collected within twelve month, investments, property, plant, equipment intangibles and any future income tax benefit.

Table 4.9

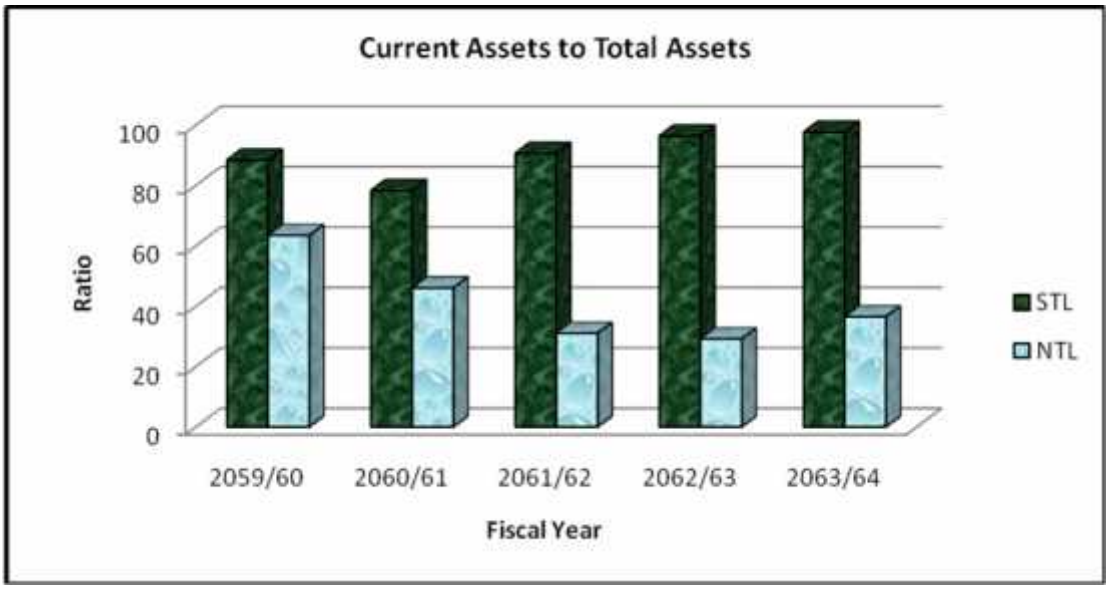
Current Assets to Total Assets

FY	STL			NTL		
	Current Assets	Total Assets	Ratio	Current Assets	Total Assets	Ratio
2059/60	1300318707	1902090115	88.38	159782990	251975482	63.41
2060/61	1175281777	1971592358	78.31	77184209	167645321	46.04
2061/62	1200212707	1933667240	90.61	34417022	109589645	31.04
2062/63	1121287778	1854610254	96.39	34284022	117689645	29.13
2063/64	1125287877	2003420342	97.65	34117209	121043210	36.45
Mean			**90.27**			**41.21**
Standard Deviation			**6.91**			**12.55**
C.V. %			**7.07**			**30.45**

(Source: Annual Reports of STL & NTL)

The Current Assets to Total Assets of NTL and STL is depicted in the following Figure No.4.9.

Figure No.4.9



In the table 4.9 we can find the variation in current assets holding in total assets. In Salt Trading which fluctuated from 78.31 to 97.65 percent. The average current assets holding in total assets are 90.27 percent, Standard deviation of 6.91 and CV of 7.07 in the study period of 5 years. It shows the increasing trend in current assets of the study period. In National Trading which fluctuated from 29.13 to 63.41 percent. The

average current assets holding in total assets are 41.21 percent, Standard deviation of 12.55 and CV of 30.45 in the study period of 5 years.

The lower average current assets to total assets of NTL (41.21) than that of STL (90.27) indicates that NTL keeps larger portion of current assets compared to STL as a result NTL can easily convert such current assets into cash in case of deficiency of cash and can meet its necessity more easily than STL.

4.1.10 Analysis of Cash Conversion Cycle

Cash conversion cycle also known as asset conversion cycle, net operating cycle, working capital cycle or just cash cycle, is a figure used in the financial analysis of a business. The higher the number, the longer a firm's money is tied up in operations of the business and unavailable for other activities such as investing. The cash conversion cycle is the number of days between paying for raw materials and receiving the cash from the sale of the goods made from the raw materials.

Usually a company acquires inventory on credit, which results in accounts payable. The company will then sell the inventory on credit, which results in accounts receivable. Cash is therefore not involved until the company pays the accounts payable and collects accounts receivable. So the cash conversion cycle measures the time between outlay of cash and the cash recovery. This cycle is extremely important for companies whose focus is the retail sector. This measure illustrates how quickly a company can convert its products into cash through sales. The shorter the cycle, the more working capital a business generates, and the less it has to borrow.

It is quite possible for a business to have a negative cash conversion cycle, i.e. receiving payment from customers before it has to pay suppliers. Examples are typically companies which employ Just In Time practices, and companies which buy on extended credit terms and sell for cash. The longer the production process, the more cash the firm must keep tied up in inventories. Similarly, the longer it takes customers to pay their bills, the higher the value of accounts receivable.

To find out the cash conversion cycle first we should find out the Average stockholding period in days, Average Receivables Processing Period (in days) and Average Payable Processing Period in days.

4.1.10.1 Average Stockholding Period (in days):

Average stock holding period indicates the efficient of the firm in selling its product. The short period indicates fast conversion of inventory to sales and the long period indicates slow conversion period of inventory to sales. It can be calculated follows:

Average stockholding period (in days) = Closing Stock / Average Daily Purchase.

Table 4.10

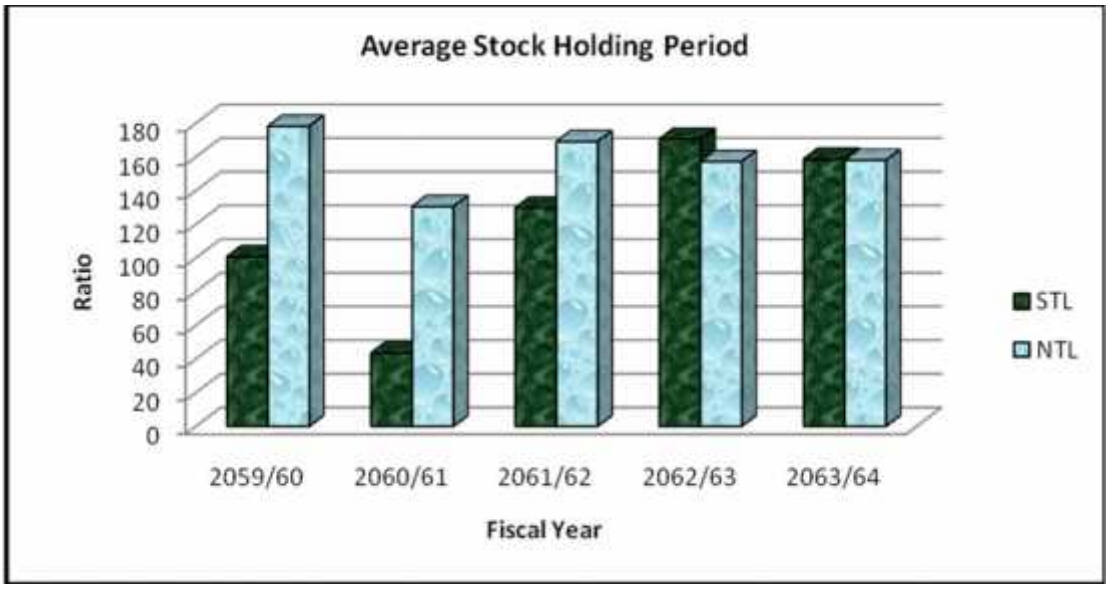
Analysis of Average stockholding Period

FY	Days in a Year	Salt Trading			National Trading		
		Purchase	Inventory	ASP	Purchase	Inventory	ASP
2059/60	360	2461000708	688133549	100.67	967386997	477983399	178.21
2060/61	360	3898942646	470669773	43.48	977527493	354400766	130.43
2061/62	360	2193935368	789888205	129.64	809139234	380570968	169.01
2062/63	360	1850551513	876578232	170.53	957527234	417903766	157.20
2063/64	360	2200535368	969733549	158.59	975739493	427970766	157.89
Mean				**120.58**			**158.55**
Standard Deviation				**45.52**			**16.05**
C.V.				**37.75**			**10.12**

(Source: Annual Reports of STL & NTL)

The Average Stock Holding Period of both Salt Trading and National Trading has been depicted in the Figure No. 4.10.

Figure No.4.10



The above Table no. 4.10 and Figure No.4.10 show that the average stock holding period of STL is 120.58 days. However, it ranges from 43.48 days to 170.53 days which show that the organization would fail to convert inventory into sales in time. In contrast, NTL has 158.55 days of average stock holding period which is close to the taken data. Further, NTL has also a low coefficient of Variation i.e. 10.12%. These show that NTL has a good stockholding period and thus can convert inventory into sales at fast rate.

While comparing ASP of NTL and STL, NTL took longer period of time in converting stock to sales in three consecutive years from 2059/60 to 2061/62 while in remaining years STL took longer period of time. Since average ASP of STL (120.58) is lower than the average ASP of NTL (158.55), it can be said that STL has higher capacity of turning stock into sales in less period than NTL. Consequently, NTL should enhance its converting period to earn more profit.

4.1.10.2 Average Receivable Processing Period (in days)

Average Receivable processing period measures the average number of days from the sale of goods to collection of receivables. It analyzes the determining collectibles of debtors. The longer collection period refers liberal credit policy and short period refers the strict credit policy. The average receivables processing period is calculated as follows:

Average Receivable Processing Period (in days) = Account Receivable/ Average Daily Credit Sales.

Table No. 4.11

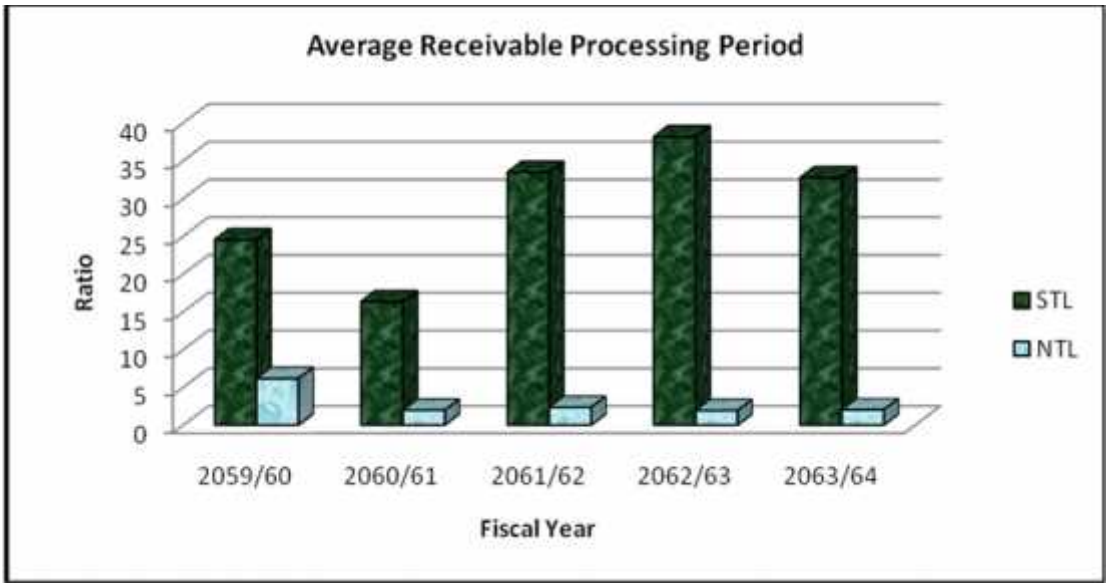
Analysis of Average Receivable processing Period

FY	Days in a Year	Salt Trading			National Trading		
		Sales	Receivable	ARPP	Sales	Receivable	ARPP
2059/60	360	2461000708	167778845	24.54	967386997	16519158	6.15
2060/61	360	3898942646	177067184	16.35	977527493	5300324	1.95
2061/62	360	2193935368	203881404	33.45	809139234	5264542	2.34
2062/63	360	1850551513	196258556	38.18	957527234	5072158	1.91
2063/64	360	2200535368	200255556	32.76	975739493	5464158	2.02
Mean				**27.06**			**2.87**
Standard Deviation				**7.97**			**1.65**
C.V.				**29.45**			**57.49**

(Source: Annual Reports of STL & NTL)

The Average Receivable Processing Period of NTL and STL is depicted in the following Figure No. 4.11.

Figure No. 4.11



The above table no. 4.11 and figure no. 4.11 show that the average receivable processing period of STL is 27.06 days and the coefficient of variance is 29.45%. There is little variance between the collection period and the average collection period. This means that STL collected the receivables according to its benchmarked period. However, the average receivables processing period of NTL is 2.87 days and the processing period varied from 1.91 days to 6.15 days. In addition, the coefficient of variance of NTL is also 57.49%. These data show that NTL is inefficient in meeting its standard processing period.

While comparing the ARPP of STL and NTL, it showed that NTL can collect its credit within 2.87 days but STL can collect in 27.06 days. It will be fruitful, if STL absorbs strict credit policy besides having consistent collection policy.

4.1.10.3 Average payable Processing Period (in days)

Payable processing period indicates the speed of creditors payable. A high payable period is favorable for the company which will increase in working capital. It is calculated as follows:

Average Payable Processing period (in days) = Accounts payables/Average Daily Credit Purchase.

Table 4.12

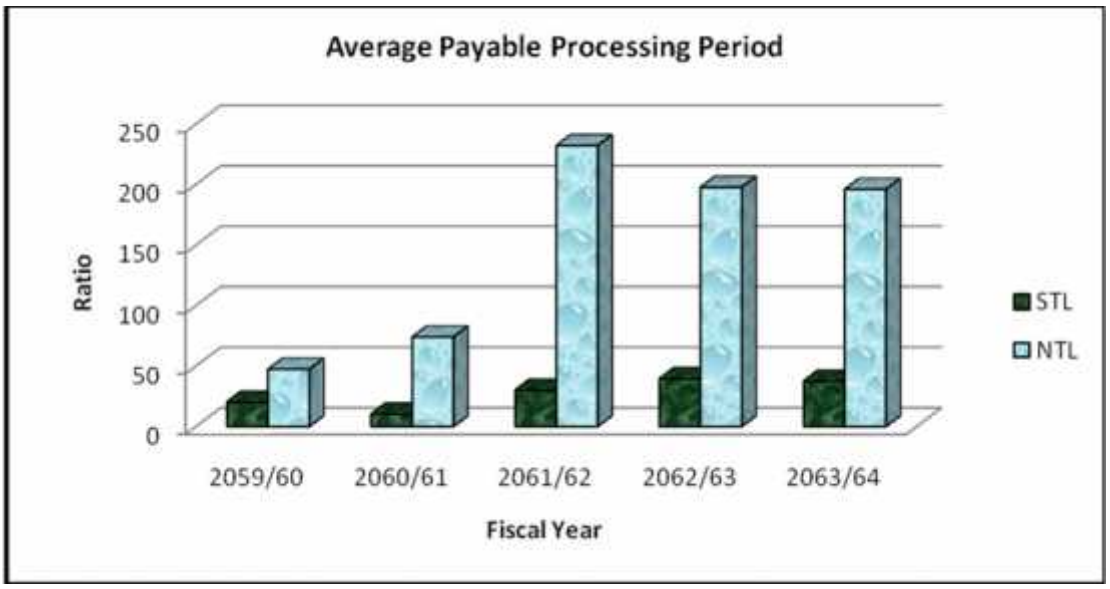
Analysis of Payable Processing Period

FY	Days in a Year	Salt Trading			National Trading		
		Purchase	Payable	APPP	Purchase	Payable	APPP
2059/60	360	2461000708	138430575	20.24	967386997	127048000	47.28
2060/61	360	3898942646	111270387	10.27	977527493	200530000	73.85
2061/62	360	2193935368	188912700	30.10	809139234	521677690	232.10
2062/63	360	1850551513	202775675	39.45	957527234	525776690	197.67
2063/64	360	2200535368	228970387	37.46	975739493	530048690	195.96
Mean				**27.50**			**149.37**
Standard Deviation				**10.94**			**74.13**
C.V.				**39.78**			**49.63**

(Source: Annual Reports of STL & NTL)

The Payable Processing Period of both NTL and STL is depicted in the bar diagram in Figure No. 4.12.

Figure No. 4.12



The above table no.4.12 and figure no.4.12 showed the payable processing period of both STL and NTL. According to the table, the average payable processing period of STL is 27.5 days and that of NTL is 149.37 days. Similarly, the coefficient of variance of STL is 39.78% and that of NTL is 49.63%. The APPP of STL ranged from 10.27 days to 39.45 days and the APPP of 47.28 days to 232.10 days which

implied that both the organization had irregularities in the payment procedures although high payment processing days increase the working capital.

Since APPP of STL (27.50) is lower than APPP of NTL (149.37), it can be concluded that NTL takes longer period of time to pay its credit purchase and thus maintains higher working capital than STL.

4.1.10.4 Cash Conversion Cycle

It is the duration between the purchase of a firm's inventory and the collection of accounts receivable for the sale of that inventory. The cash conversion cycle is also known as cash cycle.

Cash Conversion Cycle = Average Stockholding Period (in days) + Average Receivable Processing Period (in days) – Average Payable Processing period (in days) with:

Table 4.13

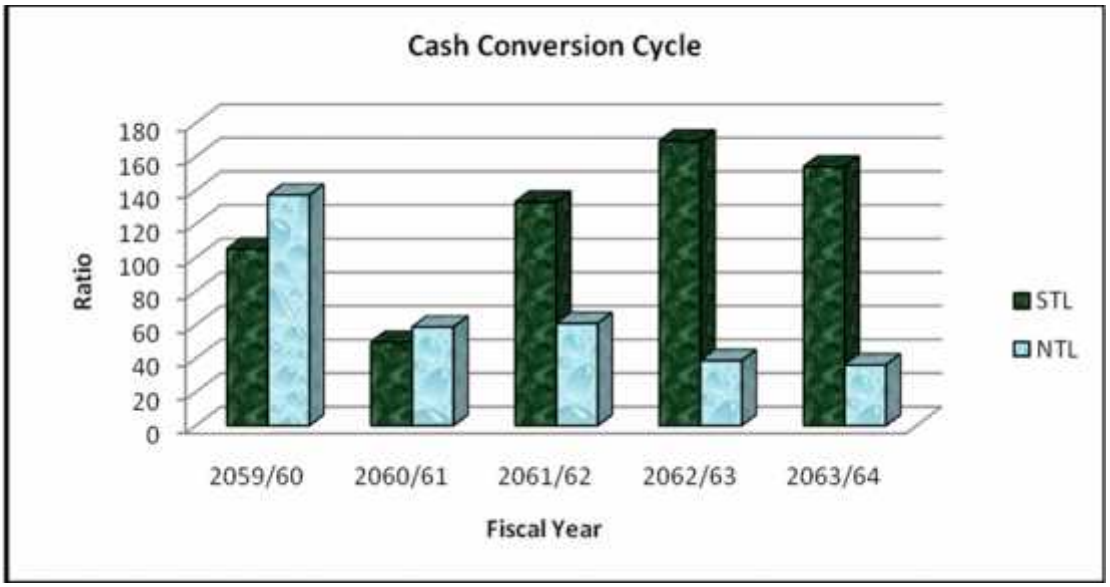
Analysis of Cash Conversion Cycle

Fiscal Year	STL				NTL			
	ASP	**ARPP**	**APPP**	**CCC**	**ASP**	**ARPP**	**APPP**	**CCC**
2059/60	100.67	24.54	20.24	104.97	178.21	6.15	47.28	137.08
2060/61	43.48	16.35	10.27	49.56	130.43	1.95	73.85	58.53
2061/62	129.64	33.45	30.10	132.99	169.01	2.34	232.10	60.75
2062/63	170.53	38.18	39.45	169.26	157.20	1.91	197.67	38.56
2063/64	158.59	32.76	37.46	153.89	157.89	2.02	195.96	36.05
Mean				**122.13**				**66.19**
Standard Deviation				**42.21**				**36.84**
C.V.				**34.56**				**55.65**

(Source: Annual Reports of STL & NTL)

The Cash Conversion Cycle of both NTL and STL is depicted in the following Figure No.4.13.

Figure No.4.13



The above table no.4.13 and figure no. 4.13 showed the cash conversion cycle of STL and NTL. The table showed that STL has 122.13 days of average cash cycle and the coefficient of variance is 34.56%. The CCC of STL has ranged from 49.56 days to 169.26 days. It means that STL has irregularities in the duration between purchase of firm's inventory and the collection of account receivables. The same thing happened in NTL also. NTL has average CCC of 66.19 days and the coefficient of variation of 55.65%. The range of CCC is from 36.05 days to 137.08 days. These data implied that the management of both organizations should set a benchmark for CCC and should make timely inspection of the implementation.

Comparing CCC of both STL (122.13) and NTL (66.19), it can be concluded that NTL takes shorter period of time to convert the inventory into cash. It will be worthwhile if STL reduces its CCC because longer CCC is not favorable for the organization.

4.1.11 Analysis of Cash flow Statement

The statement of cash flows reflects an enterprise's major sources of cash receipts and cash payments. It reports the cash effects during a period of an enterprise's operations, its investing transaction and its financing transaction. The statement provides information to explain the movements over the period in cash and cash equivalents.

Cash includes not only currency on hand but also demand deposits with bank or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any item and withdraw funds at any time without prior notice or penalty.

Cash equivalents are short term, highly liquid investments that are both a. readily convertible to known amount of cash and b. so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, an investment qualifies as a cash equivalent only when it has an original maturity of three months or less. Treasury bill, Certificate of deposit, Commercial paper and money market deposit are examples of investments commonly considered to be cash equivalents. Generally, an investment qualifies as a cash equivalent only when it has an original maturity of three months or less from the date of acquisition.

As part of their cash management activities, enterprises commonly invest cash in excess of immediate needs in short term, highly liquid investments with the objective of earning interest on temporarily idle funds. Whether an enterprise's cash is on hand, on deposit or investment in a short term financial instrument that is readily convertible to a known amount of cash is largely irrelevant to users' assessments of liquidity and future cash flows. That is why the statement of cash flows should focus on the aggregate of cash and cash equivalents. An enterprise shall disclose its policy for determining which items are treated as cash equivalents.

The main purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. The statement of cash flows explains changes in cash by listing the activities that increased cash and those that decrease cash. Each activity's cash inflow or outflow is segregated into three categories: Operating, Investing and Financial activities. A major benefit of the statement of cash flow is that the user gets a reasonably detailed picture of a company's operating investing and financial transaction involving cash. This three part breakdown of cash flow aids the user in assessing the company's current and potential future strengths and weakness. The information will help users of financial statement to assess the amounts, timing and uncertainty of prospective cash flows to the enterprises.

To investors, lenders, suppliers and employees, a business enterprise is a source of cash in the form of dividends, interest and repayment of borrowing, payment for goods and services and salaries. They are directly concerned with the ability of the enterprises to generate favorable cash flows. The statement of cash flows is useful to them in assessing an enterprise's liquidity, financial flexibility, Profitability and risk.

Investor, analysts, creditors, managers and other will find the information in the statement of cash flows helpful in assessing the following:

- The enterprise's ability to generate positive future net cash flows.
- The enterprise's ability to meet its obligations, its ability to pay dividends and its needs for external financing.
- The reasons for differences between net profit and associated cash receipts and payments.
- The effects on the enterprise's financial position of both its cash and non-cash investing and financing transaction during the period.

Mainly, the cash flow statement of an organization demonstrates the cash flow from three activities, viz, Operating Activity, Investing Activity and Financing Activity. The cash flow statement of the two trading limited is presented in the following table.

Table No. 4.14

Cash Flow Statement

Year	Cash Flow From Activities			
	Operating	**Investing**	**Financing**	**Total Cash Flow**
STL				
2059/60	-299,067,524	-18,545,312	337,905,666	**20,292,830**
2060/61	321,469,487	-14,327,499	-289,420,228	**17,721,760**
2061/62	-18,806,729	-301,738,985	295,678,716	**-24,866,998**
2062/63	62,548,892	-41,056,064	-8,098,447	**13,394,381**
2063/64	84,747,882	-57,836,748	-19,905,515	**7,005,619**
NTL				
2059/60	-14,253,632	-6,747,814	-3,267,221	**-24,268,667**
2060/61	-2,072,730	3,312,271	292,002	**1,531,543**
2061/62	5,837,341	-1,893,201	337,774	**4,281,914**
2062/63	5,008,560	-3,336,050	-954,424	**718,086**
2063/64	8,847,253	2,454,810	-2,020,063	**9,282,000**

(Source: Annual Reports of STL & NTL)

Cash Flow from Operating Activities

This section measures the cash used or provided by a company's normal operations. It shows the company's ability to generate consistently positive cash flow from operations. Think of "normal operations" as the core business of the company. For example, Microsoft's normal operating activity is selling software.

Concerning STL, the trading company maintains quite satisfactory cash balance in operating activities except in the fiscal year 2059/60 (-299,067,524) and the fiscal year 2061/62 (-18,806,729). The negative cash flow indicates that the company has increase in current assets while decrease in current liabilities. Similarly, the loss in the sale of fixed assets also resulted such decrease in cash flow. The organization should try to decrease the administrative expenses as well to increase the cash from operating activities.

While in NTL, the company faced the decrease in cash balance in the fiscal year 2059/60 (-14,253,632) and the fiscal year 2060/61 (-2,072,730) in the study period. In the remaining year, the company has positive cash flow. The organization should try to abate the various hurdles such as increase in current assets, decrease in current liabilities, increase in administrative expenses and so on in order to maintain a smooth cash flow.

Cash Flow from Investing Activities

This area lists all the cash used or provided by the purchase and sale of income-producing assets. Bought or sold companies for a profit or loss, the resulting figures would be included in this section of the cash flow statement.

The STL has negative cash flow in investing activities in all the fiscal year taken for research. This negative cash flow indicates that the STL is inspired to acquire more fixed assets. The company made a maximum jump in the fiscal year 2061/62 (-301,738,985) as compared to previous year in purchasing fixed assets. The company should consider whether increasing fixed assets is proportionately increasing the profit or not.

Except in the fiscal year 2060/61 and the fiscal year 2062/63, NTL has also negative cash flow from investing activities. The company is also strived to acquire more and more fixed assets as compared to the previous year's fixed assets.

Cash Flow from Financing Activities

This section measures the flow of cash between a firm and its owners and creditors. Negative numbers can mean the company is servicing debt but can also mean the company is making dividend payments and stock repurchases, which investors might be glad to see.

In the financing activity section of STL the negative cash flow in the Fiscal Year 2060/61, 2062/63 and 2063/64. This negative cash flow indicates that the company is refunding its long term loans and borrowing and paying interest on these years. The company is also investing its cash in shares and debentures. The organization should try to deduce the negative cash flow because it invites more interest payments and other expenses and causes the case of bankruptcy.

Similarly in NTL, the company has negative cash flow in the fiscal year 2059/60, 2062/63 and 2063/64. The company paid more dividends, interest in debentures and investment on shares and debentures in these years. To maintain a smooth flow of cash the company should consider these negative cash flows.

However, both the organizations have positive total cash flow except in the year 2061/62 STL has -24,866,998 and in the fiscal year 2059/60 NTL has -24,268,667. This shows that both the company maintained satisfactory cash balance in the study period.

4.1.12 Liquidity Analysis

As we know a firm has to have sufficient liquidity. In other words they have to be able to meet their day to day payments. It is no good having your money tied up or invested so that you haven't enough to meet yours bills. Current assets and liabilities are an important part of this liquidity and so to measure the firms' liquidity situation. Liquidity ratios demonstrate a company's ability to pay its current obligations. In

other words, they relate to the availability of cash and other assets to cover accounts payable, short-term debt, and other liabilities. All small businesses require a certain degree of liquidity in order to pay their bills on time, though start-up and very young companies are often not very liquid. In mature companies, low levels of liquidity can indicate poor management or a need for additional capital. Any company's liquidity may vary due to seasonality, the timing of sales and the state of the economy. But liquidity ratios can provide small business owners with useful limits to help them regulate borrowing and spending.

4.1.12.1 Current Ratio

Current ratio measures the ability of an entity to pay its near-term obligation. "Current" usually is defined as within one year. Thought the ideal current ratio depends to some extent on the type of business. This figure should always be above 1 or the firm doesn't have enough assets to meet its liabilities and is therefore technically insolvent. However, a figure close to 1 would be little close for the firm as they would only just be able to meet their liabilities and so a figure of between 1.5 and 2 is generally considered to be desirable. A figure of 2 means that they can meet their liabilities twice over and so is safe for them. If the figure is any bigger than this then the firm may be typing up too much of their money in a form that is not earning them anything.

Table 4.15

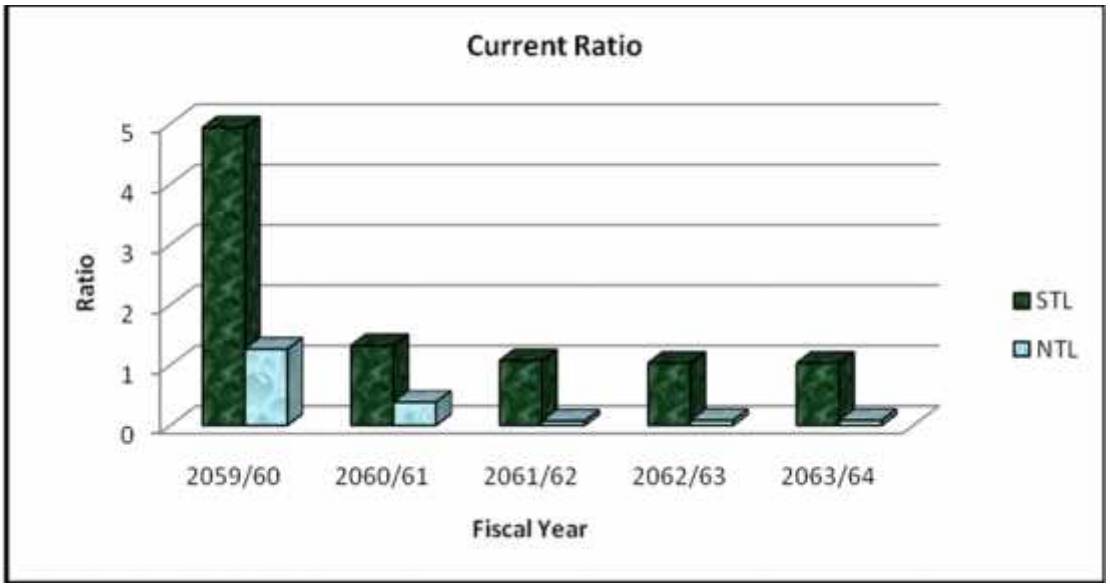
Current Ratio

FY	STL			NTL		
	Current Assets	**Current Liabilities**	**Ratio**	**Current Assets**	**Current Liabilities**	**Ratio**
2059/60	1681074449	340863195	4.93	159782990	127048000	1.26
2060/61	1543927934	1173052652	1.32	77184209	200530000	0.38
2061/62	1752856957	1631182626	1.07	34417022	521677690	0.07
2062/63	1884210608	1835166144	1.03	34284022	420576900	0.08
2063/64	2054108852	1991166144	1.03	34117209	451653000	0.08
Mean			**1.88**			**0.37**
Standard Deviation			**1.53**			**0.46**
C.V.			**81.56**			**122.99**

(Source: Annual Reports of STL & NTL)

The Current ratio of both STL and NTL is depicted in the following Figure no. 4.14.

Figure No. 4.14



The above table no. 4.15 and figure no. 4.14 showed the current ratio of STL and NTL. The average current ratio of STL is 1.88 and that of NTL is 0.37 only. The coefficient of variance of STL and NTL are 81.56% and 122.99% respectively. Both the organizations failed to meet the benchmark ratio of 2:1. The data showed that the organization can turn into bankruptcy in case of need of high amount.

4.1.12.2 Quick Ratio/ Acid Test Ratio

The Current Assets also include the firm's stock. If the firm has a high level of stock, it may mean one of two things:-

- Sales are booming and they're producing masses to keep up with demand.
- They can't sell all they're producing and it's piling up in the warehouse.

If the second of these is true then stock may not be a very useful current assets and even if they could sell it. It isn't as liquid as cash in the bank and so a better measure of liquidity is the acid test or quick ratio. This excludes stock from the current assets but is otherwise the same as the current ratio.

Ideally this figure should also be above 1 for the firm to be comfortable. That would mean that they can meet all their liabilities without having to sell any of their stock. This would make potential investors feel more comfortable about their liquidity. If

the figure is far below 1:1 they may begin to get worried about the firm's ability to meet its debts.

Table 4.16

Quick Ratio

FY	STL			NTL		
	Quick Assets	**Current Liabilities**	**Ratio**	**Quick Assets**	**Current Liabilities**	**Ratio**
2059/60	992940900	340863195	2.91	170538083	127048000	1.34
2060/61	1073258161	1173052652	0.91	170257382	200530000	0.85
2061/62	962968752	1631182626	0.59	353131335	521677690	0.68
2062/63	1007632376	1835166144	0.54	224846633	420576900	0.53
2063/64	1084375303	1991166144	0.54	267606000	451653000	0.59
Average			**1.10**			**0.80**
Standard Deviation			**0.91**			**0.29**
C.V			**82.88**			**25.00**

(Source: Annual Reports of STL & NTL)

The Quick ratio of both NTL and STL are shown in the following Figure No. 4.15.

Figure No. 4.15

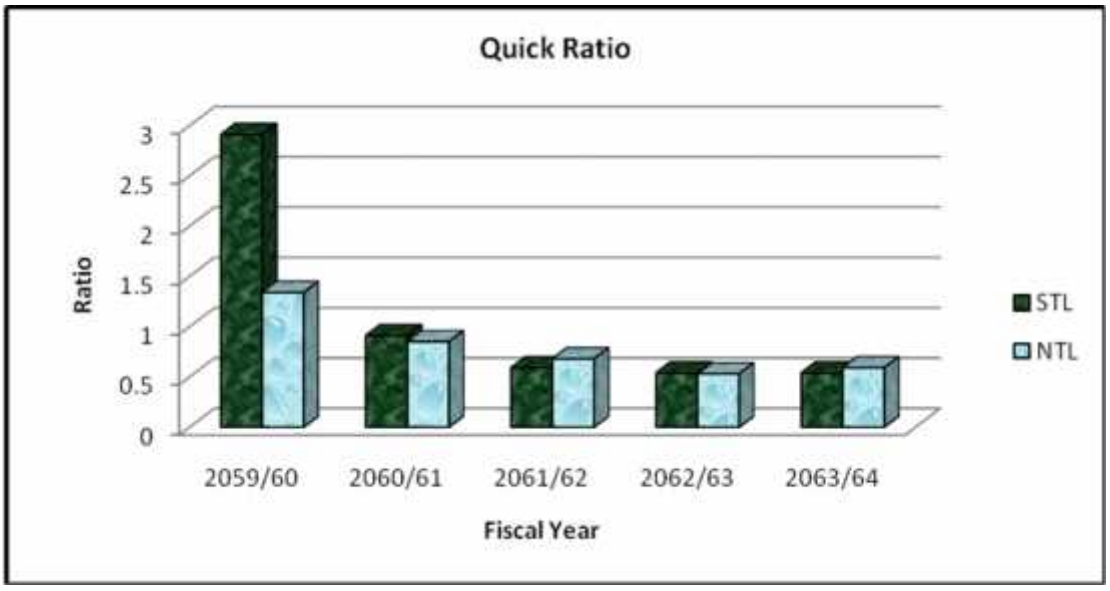


Table 4.16 and Figure 4.15 show the quick ratio of STL during the study period. It has a 1.10 of average quick ratio for 5 years with 0.91of Standard deviation and 82.88% of CV. Looking to this figure we can say the firm is efficient to fulfill the required current necessary expenses due but it is in relaxed position to meet it and should maintain a uniform ratio by deducing the coefficient of variance. Likewise in

NTL it has a 0.80 of average quick ratio of 5 years with 0.29 of Standard deviation and 25 of CV. The firm should increase its quick assets in order to decrease the chance of bankruptcy.

4.2 Analysis of Data by Statistical Tools

4.2.1 Dispersion in Cash and Bank Balance

A measure of statistical dispersion is a real number that is zero if all the data are identical and increase as the data becomes more diverse. An important measure of dispersion is the standard deviation, which is the square root of the variance, which is itself a measure of dispersion.

Table 4.17

Dispersion in Cash and Bank Balance

(Rs. In Million)

FY	STL			NTL		
	Cash & Bank	**$X-\overline{X} = x$**	**x^2**	**Cash & Bank**	**$X-\overline{X} = x$**	**x^2**
2059/60	58.82	-6.15	37.82	24.18	-5.94	35.28
2060/61	76.54	11.57	133.86	25.71	-4.41	19.45
2061/62	51.68	-13.29	176.62	29.99	-0.13	0.02
2062/63	65.07	0.1	0.01	30.71	0.59	0.35
2063/64	72.08	7.11	50.55	39.99	9.87	97.42
Total	**324.83**		**398.86**	**150.58**		**152.52**

Mean $_{STL}$ ($\overline{X}$) = 324.83/5 = 64.97 Mean $_{NTL}$ ($\overline{X}$) = 150.58/5 = 30.12

Standard deviation $_{STL}$ = 8.93 Standard deviation $_{NTL}$ = 5.52

Table no.4.17 shows the dispersion in the cash balance at the year ends under study. Standard deviation is the measures of dispersion used for the analysis.

Dispersion in cash balance shows that the company has been fluctuations in cash balance. The cash balance held is sometimes too high and at other times too low. Computed standard deviation has been found Rs.8.93 in STL and Rs 5.52 million in NTL.

Calculation of coefficient of variation (C.V) further shows that the uniformity of homogeneity of cash balance held.

C.V. $_{STL}$ = 13.75 C.V. $_{NTL}$ = 17.73

Lower C.V. indicates higher consistency or higher homogeneity or highly stable cash balance, whereas higher C.V. indicates just the opposite. C.V. of both organizations definitely signifies that the homogeneity in holding cash balance is high.

4.2.2 Karl Person's Correlation Coefficient Between Cash & Bank balance and Current Liabilities

The analysis of cash and Bank balance to current liabilities indicates the proportion of cash balance available to meet the payments of current liabilities. A moderate ratio is considered satisfactory, too high ratio indicates excess cash balance held idle and too low is indicative of the company being unable to meet its payments of current liabilities in time.

Table 4.18

Correlation Coefficient between Cash & Bank Balance and Current liabilities

A) Salt Trading

FY	Cash Balance (X)	Current iability (Y)	X-x = u	Y-y = v	u^2	v^2	uv
2059/60	58.82	340.86	-6.02	-1053.42	36.24	1109693.69	6341.59
2060/61	76.54	1173.05	11.7	-221.23	136.89	48942.71	-2588.39
2061/62	51.68	1631.18	-13.16	236.9	173.19	56121.61	-3117.60
2062/63	65.07	1835.16	0.24	440.88	0.06	194375.17	105.81
2063/64	72.08	1991.16	7.24	596.69	52.42	356038.95	4320.03
Total	**324.19**	**6971.43**			**398.8**	**1765172.13**	**5061.44**

Mean (x) =∑X/N =324.19/5 = 64.84

Mean (y) =∑Y/N =6971.43/5 =1394.28

Karl Persons' coefficient of correlation of STL (r) = 5061.44/26532.07

= 0.1908

b) National Trading Limited

FY	Cash Balance (X)	Current liability (Y)	X-x = u	Y-y = v	u^2	v^2	uv
2059/60	24.18	127.04	-5.94	-217.26	35.28	47201.9	1290.52
2060/61	25.71	200.53	-4.41	-143.76	19.45	20666.94	633.98
2061/62	29.99	521.67	-0.13	177.38	0.02	31463.66	23.06
2062/63	30.71	420.57	0.59	76.28	0.35	5818.64	45.00
2063/64	39.99	451.65	9.87	107.36	97.42	11526.17	1059.64
Total	**150.58**	**1721.46**	**0.0**	**0.0**	**152.52**	**116677.3**	**3052.2**

Mean (x) =∑X/N = 150.58/5 = 30.12

Mean (y) =∑Y/N =1721.46/5 = 344.29

Karl Persons' coefficient of correlation of NTL (r) = 3052.2/4218.48

= 0.7235

To find out the degree of relationship between cash and current liabilities, we can use Karl persons' coefficient of correlation (r) as the statistical tool. The coefficient of correlation (r) between cash and bank and current liabilities are 0.1908 and 0.7235 of STL & NTL respectively. Positive correlation indicates that there exits positive correlation between these variables.

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

= $0.6745 \times \frac{1 - (0.1908)^2}{\sqrt{5}}$

= 0.1299

Now, 6 PE (r) =6 x 0.1299 = 0.7794

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

= $0.6745 \times \frac{1 - (0.7235)^2}{\sqrt{5}}$

= 0.0642

Again, 6 PE (r) =6 x 0.0642 = 0.3852

In STL, r = 0.1908 is less than 6 PE (r) = 0.7794 indicates that the negative correlation between these two variables, it is not significant. So it shows that there is deficit to meet current liabilities payments.

In NTL, r = 0.7235 is greater than 6 PE (r) = 0.3852, it indicates that the positive correlation between these two variables, it is significant. In short, when cash balance held decreases, the current liabilities also decrease and vice-versa. So it shows that there is no deficit to meet current liabilities payments.

To determine the limits within which the population correlation coefficient may be expected to lie, in STL that is upper limit = r + P.E (r) = 0.1908 + 0.1299 = 0.3207 and lower limit = r - P.E (r) = 0.1908 - 0.1299 = 0.0609 in NTL that is upper limit = r + P.E (r) =0.7235+0.0642 =0.7877 and lower limit = r - P.E (r) = 0.7235-0.0642=0.6593.

Hence, coefficient of correlation is expected to lie between - 0.3207 and 0.0609 of STL and 0.7877 to 0.6593 of NTL.

4.2.3 Karl Person's Correlation Coefficient between Cash and Bank balance to Sales

To find out the correlation between sales and cash balance Karl Person's coefficient of correlation (r) is determined. For this purpose Sales (X) are assumed to be dependence variable and cash balance (Y) are assumed to be independent variable. The significant of correlation 'r' is tested with probable error.

Table 4.19

Correlation Coefficient between Cash & Bank balance and Sales

A) Salt Trading

FY	Cash Balance (Y)	Sales (X)	Y-y = u	X-x = v	u^2	v^2	uv
2059/60	58.82	2461.00	-6.02	14.01	36.24	196.28	-84.34
2060/61	76.54	3898.94	11.7	-8.35	136.89	69.72	-106.59
2061/62	51.68	2193.93	-13.16	-3.76	173.19	14.14	49.61
2062/63	65.07	1850.55	0.24	-1.73	0.06	2.99	-0.40
2063/64	72.08	2200.53	7.24	-0.17	52.42	0.03	-1.23
Total	**324.19**	**12604.95**			**398.8**	**283.16**	**-142.95**

$$\text{Mean } (\overline{Y}) = \frac{\sum Y}{N} = \frac{324.19}{5} = 64.84$$

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N} = \frac{12604.95}{5} = 2520.99$$

$$\text{Karl Person's coefficient of Correlation (r)} = \frac{\sum uv}{\sqrt{\sum u^2 \times \sum v^2}}$$

$$= \frac{-142.95}{\sqrt{398.8 \times 283.16}}$$

$$= \frac{-142.95}{336.04}$$

$$= -0.425$$

B) National Trading Limited

FY	Cash Balance(Y)	Sales (X)	$Y-\overline{Y}$ = u	$X-\overline{X}$ = v	u^2	v^2	uv
2059/60	24.18	967.38	-5.36	29.93	28.73	895.8	-160.42
2060/61	25.71	977.52	-4.4	40.07	19.36	1605.6	-176.31
2061/62	29.99	809.13	-0.12	-128.56	0.014	16527.67	15.43
2062/63	30.71	957.52	0.6	20.28	0.36	411.28	12.17
2063/64	39.99	975.73	9.88	38.28	97.61	1465.35	378.21
Total	**150.58**	**4687.28**			**146.07**	**20905.7**	**69.08**

$$\text{Mean } (\overline{Y}) = \frac{\sum Y}{N} = \frac{150.58}{5} = 30.11$$

$$\text{Mean } (\overline{X}) = \frac{\sum X}{N} = \frac{4687.28}{5} = 937.45$$

$$\text{Karl Person's coefficient of Correlation (r)} = \frac{\sum uv}{\sqrt{\sum u^2 \times \sum v^2}}$$

$$= \frac{69.08}{\sqrt{146.07 \times 20905.7}}$$

$$= \frac{69.08}{1747.48}$$

$$= 0.0395$$

To find out the degree of relationship between cash and sales, we can use Karl Person's coefficient of correlation (r) as the statistical tool. The coefficient correlation (r) between cash and bank and sales is -0.425 of STL and 0.0395 of NTL.

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

$= 0.6745 \times \frac{1 - (-0.425)^2}{\sqrt{5}}$

$= 0.1105$

Now, 6 PE (r) = 6 x 0.1105 = 0.663

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

$= 0.6745 \times \frac{1 - (0.0395)^2}{\sqrt{5}}$

$= 0.0665$

Again, 6 PE (r) = 6 x 0.0665 = 0.399

In STL r = -0.425 is less than 6 PE (r) = 0.663 it indicates that the negative correlation between these two variables, it is not significant. So it shows that there is deficit to meet current liabilities payments.

In the same way NTL r = 0.0395 is less than 6 PE (r) =0.3325 it indicates that the negative correlation between these two variables, it is not significant. So it shows that there is deficit to meet current liabilities payments.

To determine the limits within which the population correlation coefficient may be expected to lie, in STL that is upper limit = r + P.E (r) = -0.425 + 0.1105 = -0.3145 and lower limit = r - P.E (r) = -0.425 - 0.1105 = -0.5355 in NTL that is upper limit = r + P.E (r) = 0.0395 + 0.0665 =0.106 and lower limit = r - P.E (r) = 0.0395-0.0665 = -0.027

Hence, coefficient of correlation is expected to lie between -0.3145 and -0.5355 of STL and 0. 106 to -0.027of NTL.

4.2.4 Fitting the straight line trend by least square for variations in cash balance

Fitting the straight line trend by least square method we can forecast the future value. Here it is applied to cash balance to forecast the cash & Bank balance next year of study period.

Table 4.20

Straight Line Trend for Variation in Cash Balance

A) Salt Trading

Fiscal Year	No. of Yr. X	Cash & Bank Y	$(X-\bar{X})$ = x	$(X-\bar{X})^2$ = x^2	xy
2059/60	1	58.82	-2	4	-117.64
2060/61	2	76.54	-1	1	-76.54
2061/62	3	51.68	0	0	0.0
2062/63	4	65.07	1	1	65.07
2063/64	5	72.08	2	4	144.16
Total		**324.19**		**10**	**15.05**

Here,

X = No. of observation time

Y = Cash Balance

$$a = \frac{\sum y}{N} = \frac{324.19}{5} = 64.84$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{15.05}{10} = 1.505$$

Straight line trend (Yc) = a + bx

= 64.84 + 1.505 x

B) National Trading

Fiscal Year	No. of Yr. X	Cash & Bank Y	$(X-\overline{X})$ = x	$(X-\overline{X})^2$ = x^2	xy
2059/60	1	24.18	-2	4	-48.36
2060/61	2	25.71	-1	1	-25.71
2061/62	3	29.99	0	0	0.0
2062/63	4	30.71	1	1	30.71
2063/64	5	39.99	2	4	79.98
Total		**150.58**		**10**	**36.62**

Here,

x = No. of observation time

Y = Cash Balance

$$a = \frac{\sum y}{N} = \frac{150.58}{5} = 30.12$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{36.62}{10} = 3.66$$

Straight line trend (Yc) = a + bx

= 30.12 +3.66 x

We got the straight line trend equation 64.84 + 1.505 x for the cash balance of the STL. From the analysis it is showing that the cash balance increasing trend is 1.505 times. From the equation we can forecast the next years (FY 2064/65) forecasted cash balance. The next year's cash balance will be 69.335 million (64.84 + 1.505 x 3)

In similar we got the straight line trend equation 30.12 +3.66 x for the cash balance of the NTL. From the analysis it is showing that the cash balance increasing trend is 3.66 times. From the equation we can forecast the next years (FY 2064/65) forecasted cash balance. The next year's cash balance will be 41.1 million (30.12 +3.66 x 3)

4.3 Major Findings

The major findings after the detailed analysis of cash management of STL and NTL are mentioned below.

- Both STL and NTL have fluctuating trend of Cash and Bank Balance. Salt trading has a percentage decrease of Cash and Bank from 52.67% (2059/60) to 10.76% (2063/64) while that of NTL is a percentage increase from -14.33% (2059/60) to 30.22% (2063/64). These data show the unprepared cash balance.
- Mean cash turnover ratio of STL and NTL showed that NTL has higher capability of turning sales amount into cash because CTR of STL (38.84%) is greater than that of NTL (32.11%).
- Current Assets Turnover ratio is almost constant. The standard deviation of STL is 0.56 and that of NTL is 7.95 only.
- Corporations should make a good policy to speed up the collection of account receivable. The average ratio cash and Bank to Account Receivable of salt trading is 34.56, standard deviation is 5.73 and C.V. is 16.58 while the average ratio of National Trading is 580.79; Standard deviation of 305.32 and CV is 52.55%.
- In cash conversion cycle, the average stock holding period of STL 120.58 days and that of NTL is 158.55 days. Average receivable processing period of STL is 27.06 days and that of 2.87 days. Similarly, average payable processing period of STL is 27.5 days and that of NTL is 149.37 days. Here, the payable processing of both STL and NTL are greater than average receivable processing period of corresponding corporations which indicates a satisfactory position on cash conversion cycle in both corporations.
- The cash flow statement of both corporations is not satisfactory. Both corporations have disordered cash flow. The cash inflow of STL in the fiscal year 2061/62 and NTL in the fiscal year 2059/60 are negative (i.e. -24,866,998 of STL and -24,268,667) while in remaining years the cash inflow is positive.
- The liquidity position of both corporations is also disappointing. The average current ratio of both STL (1.88) and NTL (0.37) does not meet the benchmark of 2:1. While the liquid ratio of STL (1.10) satisfies the benchmark of 1:1 whereas the liquid ratio of STL (0.80) does not meet the

standard ratio. Thus, the corporations may turn to bankruptcy in case of requiring high cash amount.

- Dispersion of Cash and Bank Balance of both STL and NTL showed that there was higher homogeneity of cash balance since $C.V._{STL}$ = 13.75% and $C.V._{NTL}$ = 17.73% are lower.
- The correlation coefficient between cash and bank balance and current liabilities of both corporations is positive. However, there exists low correlation between cash & bank balance and current liabilities of STL (i.e. 0.19) and high positive correlation in NTL (i.e.0.72).
- Similarly, the correlation between Cash and Bank Balance to Sales of STL (r = -0.425) showed negative correlation between them, which means increase in sales means decrease in cash and the correlation between them of NTL (r = 0.0395) showed positive correlation, however, if sales increases there is little increase in cash.
- The least square method shows that the projected cash balance of STL and NTL will be Rs. 69.335 million and Rs. 41.1 million respectively in the fiscal year 2064/65.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Trade plays a major role to enhance the national economic growth. To operate any organization, everybody thinks twice about the cash that are necessary, because cash is the lifeblood of every organization and without it no one can even imagine about the operation of trading activities. Cash management has been the most indicated and challenging area of modern corporate finance. Both keeping adequate cash and insufficient cash can thwart the business any time. Hence, management of cash in right way is the crucial step in every organization to achieve the goal. The present study is conducted to overview the practices of managing cash in Nepalese Enterprises. For this, STL and NTL were selected to know the cash management in these organizations.

With the realization that overall development is not possible by the efforts of the government alone, open and liberal economic policy was adopted by the then Government and started to operate in public-private enterprises for economic reforms. The result of such policy gave the growth of STL, which operated its business from 2020 B.S. The main objective of STL was to make available high quality daily necessary goods in reasonable price and to make such goods easily accessible to the consumer. Other objectives were to carry out import and export and act as an agent for domestic as well as for foreign companies and eventually to ameliorate nation's economy. Similarly, NTL was established as a public limited company in 1962 A.D. with the objective of making accessible of construction material and industrial raw material that are needed for the infrastructure development and also to supply bonded warehouse and duty free goods and act as an agent of Government of Nepal in the matter of import and distribution of goods.

The basic objective of the research is to study, evaluate and highlight the degree of application of cash management in STL and NTL. The study could be significant to the management and shareholders of STL, NTL and general public also. For the fulfillment of the objectives of research, various financial reports of STL and NTL

from the fiscal year 2059/60 to the fiscal 2063/64 have been utilized and analyzed with the abet of various statistical and financial tools. Major portion of data has been collected from secondary sources such as annual report, prospectus and website of STL and NTL etc. and partially from primary sources by making discussion, phone enquiries and through direct observation etc.

The study has been organized in five main chapters consisting of (i) Introduction, (ii) Review of Literature, (iii) Research Methodology, (iv) Data Presentation and Analysis and (v) Summary, Conclusion and Recommendations.

5.2 Conclusion

After analyzing and studying the practice of cash management in STL and NTL, the researcher considered that there is not complete and systematic cash management system in both organizations. Both organizations have fluctuating trend of Cash and Bank Balance which directly indicated the inefficiency of management and can jeopardize the organization's life. While comparing the organizations in terms of cash turnover ratio, NTL was found better in turning sales amount in cash. Similarly, current assets turnover ratio is almost constant in both organizations in the taken fiscal years. The account receivables period of both organizations are depressing.

In cash conversion cycle, the average stock holding period of NTL is higher than STL but average receivable processing period of NTL is less than STL. Similarly, the average payable processing period of NTL is greater than STL. Again, the cash flow statements of both coporations are not satisfactory and are in uncontrolled form. The corporations lack a good cash management team. The corporations borrowed mid-term and long-term loan to meet the cash deficiency as a result the organizations faced the high burden of interest and the problem of negative cash flow from operation which indicated the improper cash management and high operating expenses.

The liquidity positions of the corporations were also disappointing. The current ratios of both corporations do not meet the benchmark which can invite bankruptcy in any time. However, the liquid ratio of STL is satisfactory but that of NTL is disappointing. NTL may face the problem of cash insufficiency in meeting its obligation. Although STL maintains low positive correlation and NTL maintains high positive correlation, both organizations are considered good in maintaining positive

relation between Cash & Bank Balance and Current Liabilities. The correlation between Cash & Bank Balance and Sales of NTL is also positive; however the correlation between them of STL is negative which indicated that increase in sales of NTL reduces the amount of cash. Besides these, there was lack of proper coordination between top-level management and lower-level management. Both corporations did not involve lower-level management while formulating plans and policies.

Finally, the following strengths and weakness of STL and NTL have been concluded after analyzing the operations of the corporations:

Salt Trading Corporation Limited:

Strengths:

- Sole industry of country involved in salt.
- Local raw material promoting organization.
- High quality product and have reasonable price.
- Increasing market demand.

Weakness:

- High administrative cost.
- Lack of participatory management.
- Burden of loan.
- Absence of separate planning department.
- Low promotional and advertising expenses.

National Trading Limited:

Strengths:

- Leading Social Organization.
- Agent of Government.
- Competitive market price.
- Good distribution channel.
- Experienced staffs.

Weakness:

- Highly dependent on imported products.
- High Burden of Interest.

- ❖ Absence of separate planning department.
- ❖ Adoption of traditional approach.

5.3 Recommendations

On the basis of analysis of the operations of STL and NTL, they need some suggestions to improve the application of cash management system for their better operation in future. So the study recommends the following aspects to improve the cash management procedures of STL and NTL.

- ❖ Since Cash and Bank Balance position of both organizations are in fluctuating trend, it would be worthwhile if both STL and NTL maintain an optimum level of cash.
- ❖ Analysis of Cash Turnover showed that both STL and NTL should speed up their credit collection. The greater number of cash inflow at regular time interval is necessary for both corporations.
- ❖ STL should introduce a better policy to collect its receivables, which is very high, while NTL should give continuity to the present receivable policy. It is recommended that STL adopt policy of allowing discount to its customer who pays early in order to reduce the receivables amount.
- ❖ It would be worthwhile if STL reviewed it Current Assets Turnover because its current assets are not efficiently converted into sales.
- ❖ A clear-cut and effective program regarding inventory should be introduced. Both organizations should adopt a policy of fast converting process of inventory into sales.
- ❖ Analyzing Cash & Bank Balance to current assets, it can be implied that NTL needs to increase its cash and bank balance which is comparatively very low as compared with other items of current assets.
- ❖ Both organizations need to enhance their paying policy because the cash and bank balance to current liabilities are in fluctuating and thus can turn the organizations into bankruptcy.

- Analysis of current assets to total assets indicated that STL should increase the portion of current assets in order to convert such assets into cash in case of high cash necessity.

- The management of both corporations should focus on speed converting of receivables and stock in to cash and delay payment. Because the cash conversion cycle of both are not so satisfactory.

- Both organizations need to reduce the high interest amount by paying loan because such interest is reducing the cash inflow amount.

- Both current ratio and quick ratio of NTL needs to be raised. The management of NTL should reduce the chances of bankruptcy by keeping higher amount of current and liquid assets. A special program should be introduced to maintain a good liquidity position and get relief from the problem of meeting obligations.

- Finally, both organizations need to set up a separate planning department for cash management and should involve lower echelon employee as well while making policy. The corporations should disseminate information to various departments and various levels so that communication barriers can be eliminated.

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APPENDIX-I

SALT TRADING CORPORATION LIMITED

Balance sheet from the Fiscal Year 2059/60 to 2063/64

Particulars	Fiscal Year				
	2059/60	2060/61	2061/62	2062/63	2063/64
Capital and Liablities					
a) Capital and Reserve					
Share Capital	24,777,700	24,777,700	24,777,700	24,777,700	24,777,700
Reserve and Surplus	517,719,525	584,204,906	1,546,000,307	1,524,163,848	1,532,866,909
Total Capital and Reserve	**542,497,225**	**608,982,606**	**1,570,778,007**	**1,548,941,548**	**1,557,644,609**
b) Mid-term and Long-term Loan					
Secured Loan	1,359,592,890	362,609,752	362,889,233	305,668,706	247,048,485
Total Capital and Liabilities (a+b)	**1,902,090,115**	**971,592,358**	**1,933,667,240**	**1,854,610,254**	**1,804,693,094**
Assets					
a) Fixed Assets	466,904,330	474,436,982	1,405,458,211	1,434,491,341	1,476,704,351
Less: Depreciation	4,775,200	8,444,993	12,300,129	54,883,289	57,243,301
Net Fixed Assets	**462,129,130**	**465,991,989**	**1,393,158,082**	**1,379,608,052**	**1,419,461,050**
b) Investment	**139,642,278**	**151,781,287**	**441,759,529**	**455,721,383**	**459,731,683**
c) Current Assets					
Closing Stock	688,133,549	470,669,773	789,888,205	876,578,232	969,733,549
Receivables	167,778,845	177,067,184	203,881,404	196,258,556	200,255,556
Cash and Bank Balance	58,823,666	76,545,426	51,678,428	65,072,809	72,078,428
Advance and Deposits	766,338,389	819,645,551	707,408,920	746,301,011	703,916,490
Total Current Assets	**1,681,074,449**	**1,543,927,934**	**1,752,856,957**	**1,884,210,608**	**1,945,984,023**
Less: Current Liabilities & Provision	380,755,742	1,190,108,852	1,654,107,328	1,864,929,789	2,020,483,662
Net Current Assets	**1,300,318,707**	**353,819,082**	**98,749,629**	**19,280,819**	**(74,499,639)**
Total Assets (a+b+c)	**1,902,090,115**	**971,592,358**	**1,933,667,240**	**1,854,610,254**	**1,804,693,094**

APPENDIX-II

SALT TRADING CORPORATION LIMITED

Profit and Loss Account

From the Fiscal Year 2059/60 to 2063/64

Particulars	2059/60	2060/61	2061/62	2062/63	2063/64
Income from sales	2,461,000,708	3,898,942,646	2,193,935,368	1,850,551,513	2,200,535,368
Less: Cost of sales	2,202,300,714	3,603,256,766	1,937,235,347	1,592,061,174	1,899,073,267
Gross Profit	**258,699,994**	**295,685,880**	**256,700,021**	**258,490,339**	**301,462,101**
Add: Other Income	4,482,620	8,555,765	27,551,148	34,576,890	54,271,864
Total	**263,182,614**	**304,241,645**	**284,251,169**	**293,067,229**	**355,733,965**
Administrative Expenses	75,363,707	75,851,818	82,292,322	88,365,099	97,238,072
Interest Expenses	111,425,761	115,686,298	119,994,903	154,015,234	158,067,212
Depreciation Expenses	2,536,865	3,628,563	3,873,130	4,733,230	4,821,264
Net Profit from Operation	**73,856,281**	**109,074,966**	**78,090,814**	**45,953,666**	**95,607,417**
Profit/(loss) from sale of fixed asset	133,344	(7,993)	144,783	840	1,225
Profit before Provision for Bonus and Income Tax	**73,989,625**	**109,066,973**	**78,235,597**	**45,954,506**	**95,608,642**
Bonus Provision	7,398,962	10,906,697	7,823,560	4,595,451	5,556,371
Provision for Income Tax	16,340,415	25,135,625	20,604,056	12,306,070	23,902,161
Net Profit	**50,250,248**	**73,024,651**	**49,807,981**	**29,052,985**	**66,150,110**
Accumulated profit till previous year	1,510,553	5,472,366		(8,062,054)	731,062
Transferred from general reserve	-	-	12,033,970	4,695,671	
Profit for appropriation	**51,760,801**	**78,497,017**	**61,841,951**	**25,686,602**	**66,881,172**
Appropriation					
Director Appraisal	1,332,895	1,507,507	2,190,740		3,222,571
General Reserve	10,000,000	10,000,000	10,000,000		10,000,000
Investment Adjustment Fund	30,000,000	50,000,000	40,000,000	10,000,000	30,000,000
Debtors Adjustment Fund				10,000,000	10,000,000
Proposed Dividend	4,955,540	4,955,540	4,955,540	4,955,540	4,955,540
Transferred to Balance sheet	5,472,366	12,033,970	4,695,671	731,062	8,703,061
Total	**51,760,801**	**78,497,017**	**61,841,951**	**25,686,602**	**66,881,172**

APPENDIX-III

SALT TRADING CORPORATION LIMITED

Cash Flow Statement

From the Fiscal Year 2059/60 to 2063/64

Particulars	2059/60	2060/61	2061/62	2062/63	2063/64
A) Cash Flow From Operating Activities					
a) Income before adjustments	66,590,663	98,160,276	70,412,037	41,359,055	39,221,067
Adjustments:					
i) Depreciation	2,536,865	3,628,563	3,873,130	4,733,227	4,821,264
ii) Interest	111,425,761	115,686,298	119,994,903	154,015,233	158,067,212
iii) Profit from sale of Assets	(133,344)	7,993	(144,783)	(840)	1,225
iv) Dividend Received	(908,010)	(7,710)			
v) Preliminary Exps. Written Off			18,761		
vi) Interest Income		(767,325)			
vii) Last Year P&L Adjustment				(8,062,054)	
Total Adjustments	**112,921,272**	**118,547,819**	**123,742,011**	**150,685,566**	**162,889,701**
Income After Adjustments (a)	179,511,935	216,708,095	194,154,048	192,044,621	202,110,768
b) Working Capital Changes					
i) Closing Stock (Increase)/Decrease	(317,417,036)	217,463,776	(319,218,432)	(86,690,027)	(93,155,317)
ii) Debtors (Increase)/Decrease	(15,585,868)	(10,002,157)	(26,814,220)	7,622,848	(3,997,000)
iii) Advance & Deposit (Increase)/Decrease	(212,968,978)	(102,180,559)	106,421,685	(41,525,706)	42,384,521
iv) Current Liabilities increase/(Decrease)	63,345,879	3,692,802	37,780,297	(4,109,334)	(37,776,173)
v) Provision for Providend Increase	5,379,438	6,721,223	5,868,502	6,838,943	2,686,763
vi) Directors Appraisal Increase	(1,332,894)	(1,507,507)	(2,190,740)		(3,222,571)
Total Working Capital Changes (b)	**(478,579,459)**	**114,187,578**	**(198,152,908)**	**(117,863,276)**	**(93,079,777)**
Cash Flow before Tax (a+b)	**(299,067,524)**	**330,895,673**	**(3,998,860)**	**74,181,345**	**109,030,991**
Add: Tax Paid		(9,426,186)	(14,807,869)	(11,632,453)	(24,283,109)
Cash Flow From Operating Activities (A)	**(299,067,524)**	**321,469,487**	**(18,806,729)**	**62,548,892**	**84,747,882**
B) Cash Flow From Investing Activities					
i) Dividend Received	908,010	7,710			
ii) Fixed Assets Purchase	(19,695,944)	(7,595,519)	(12,050,295)	(29,078,989)	(42,213,010)
iii) Investment in Share	(6,000)		(284,235,000)	(5,076,000)	(4,010,300)
iv) Fixed Assets Sale	248,622	19,881	289,552	24,779	57,248
v) Other Investment Increase		(6,759,571)	(5,743,242)	(6,925,854)	(11,670,686)
Cash Flow From Investing Activities (B)	(18,545,312)	(14,327,499)	(301,738,985)	(41,056,064)	(57,836,748)
C) Cash Flow From Financial Activities					
i) Mid-term & Long-term Loan					

Received/Paid	456,792,652	(175,520,443)	(120,865,035)	(57,220,527)	(58,620,221)
ii) Interest Paid	(111,453,676)	(115,154,848)	(114,790,794)	(161,934,199)	(75,781,212)
iii) Dividend Paid	(7,433,310)	(4,955,540)	(4,422,634)	(5,052,067)	(1,202,140)
iv) Bank Overdraft		5,443,276	535,757,179	216,108,346	115,698,058
v) Interest received on Fixed Account		767,327			
Cash Flow From Financial Activities (C)	337,905,666	(289,420,228)	295,678,716	(8,098,447)	(19,905,515)
Total Cash Flow (A+B+C)	20,292,830	17,721,760	(24,866,998)	13,394,381	7,005,619
Add: Opening Cash Balance	38,530,836	58,823,666	76,545,426	51,678,428	65,072,809
Closing Cash Balance	58,823,666	76,545,426	51,678,428	65,072,809	72,078,428

APPENDIX-IV

NATIONAL TRADING LIMITED

Balance sheet from the Fiscal Year 2059/60 to 2063/64

Particulars	Fiscal Year				
	2059/60	**2060/61**	**2061/62**	**2062/63**	**2063/64**
Capital and Liablities					
a) Capital and Reserve					
Share Capital	169,335,000	169,335,000	169,335,000	169,335,000	169,335,000
Reserve and Surplus	82,640,482	(1,689,679)	(59,745,355)	7,126,016	20,546,071
Total Capital and Reserve	**251,975,482**	**167,645,321**	**109,589,645**	**176,461,016**	**189,881,071**
b) Mid-term and Long-term Loan					
Secured Loan					
Total Capital and Liabilities (a+b)	**251,975,482**	**167,645,321**	**109,589,645**	**176,461,016**	**189,881,071**
Assets					
a) Fixed Assets	**23,623,252**	**21,622,063**	**21,783,185**	**22,182,204**	**22,784,234**
b) Investment	**68,569,240**	**68,839,049**	**73,389,437**	**61,212,213**	**65,424,527**
c) Current Assets					
Closing Stock	477,983,900	354,400,766	380,570,969	417,903,766	427,970,766
Receivables	16,519,158	5,300,324	5,264,542	5,072,158	5,464,158
Cash and Bank Balance	24,182,989	25,714,533	229,996,446	30,714,532	39,996,532
Advance and Deposits	129,835,435	139,242,525	117,870,347	91,587,381	100,556,268
Total Current Assets	**648,521,482**	**524,658,148**	**733,702,304**	**545,277,837**	**573,987,724**
Less: Current Liabilities & Provision	488,738,492	447,473,939	719,285,281	452,211,238	472,315,414
Net Current Assets	**159,782,990**	**77,184,209**	**14,417,023**	**93,066,599**	**101,672,310**
Total Assets (a+b+c)	**251,975,482**	**167,645,321**	**109,589,645**	**176,461,016**	**189,881,071**

APPENDIX-V

NATIONAL TRADING LIMITED

Profit and Loss Account

From the Fiscal Year 2059/60 to 2063/64

Particulars	2059/60	2060/61	2061/62	2062/63	2063/64
Income from sales	967,386,997	977,527,493	809,139,234	957,527,234	975,739,493
Less: Cost of sales	844,445,674	964,602,390	758,055,536	835,212,033	865,276,208
Gross Profit	**122,941,323**	**12,925,103**	**51,083,698**	**122,315,201**	**110,463,285**
Add: Other Income	20,210,216	32,451,974	15,967,489	20,212,890	34,313,422
Total	**143,151,539**	**45,377,077**	**67,051,187**	**142,528,091**	**144,776,707**
Administrative Expenses	109,292,182	104,152,201	102,028,376	104,073,567	104,895,998
Interest Expenses	29,719,700	25,931,060	22,278,404	32,213,505	34,527,608
Depreciation Expenses	2,912,751	2,496,390	2,249,352	2,849,451	2,731,426
Net Profit from Operation	**1,226,906**	**(87,202,574)**	**(59,504,945)**	**3,391,568**	**2,621,675**
Income from Investment	3,559,270	4,416,807	3,625,998	4,289,254	5,462,998
Profit/(loss) from sale of fixed asset					
Profit before Provision for Bonus and Income Tax	**4,786,176**	**(82,785,767)**	**(55,878,947)**	**7,680,822**	**8,084,673**
Bonus Provision	287,171				
Provision for Income Tax	1,030,697				
Net Profit	**3,468,308**	**(82,785,767)**	**(55,878,947)**	**7,680,822**	**8,084,673**