CHAPTER – I

INTRODUCTION

1.1 Background of the study

Industrialization is an important (major) factor for achieving the basic objectives of a country's economic and social progress or in another words, industrialization is considered essential for economic development for the country these day. Industrialization not only provides goods and services but also creates employment opportunities. It facilitates an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. Industrial development thus has a multiplier effect on the economy (Pant, 2003:17).

Industrialization plays a crucial role in the process of economic development and its importance is a means of achieving economic growth and prosperity within the country. Hence industrialization is universally accepted as a strategy of economic development as well as fundamental goals (Pradhan, 1994: 44).

Development plans of Nepal have been emphasizing the development of both public and private sector industries. In every plan the word industrialization has been maintained too frequently. It is stated that private sector hasn't been able to come forward in industrial investment despite the several facilities provided by the government. The policy of government to encourage industrialization in the private sector including financial support with establishing financial institution, tax concession, establishing other infrastructure. But there is also another view in this regard. It is mentioned that, that is not private sector which has not come foreword to stabilize industry. The development planner have felt that lack of industrial development strategy in Nepal has posed a curtail problem in designing an industrial program which is not most causes has been more listing of projects in the company's development plan (Pradhan,1994).

Both private and public sector have been contributing to our nation however the private sector is recognized as the driving force behind it with the dawn of multi party democracy. The Economic liberalization has made a sharp turn as the numbers of industries has increased greatly.

Public sector manufacturing companies has been quite unsatisfactory of capacity utilization. Most of the manufacturing units in Nepal run below its production capacity. The private as well as public sector company plays vital role of industrialization and economic growth of nation.

The government has to play a good attention and a very careful role to develop industrialization. Economic liberalization and privatization, tax rebates, developing infrastructures and other facilities is the main attraction for new establishment of industries. Many experts provided different policies and techniques for appropriate cash management. Due to inadequacy of knowledge, the policies and techniques have not been applied / implemented in Nepalese manufacturing companies.

Now the Nepal has adopted the policy of economic liberalization and privatization and also gets the membership of the world trade organization (WTO) through the globalization. For the strengthening the economy of any country both the private and public sector should play vital role. Now, Nepal government adopting foreign direct investment policy to encourage foreign investors. These policies create positive impact to the private manufacturing companies for industrial development. Nepalese Private Sector industries reaping low profit due to the poor performance in term of capacity utilization, productivity, efficiency and profitability. Nepalese public sector manufacturing company need to take competitive strategy innovation research and development to be alive in competitive environment of globalization. Today industries can sustain their existence and growth only through a continuous process of innovation in functions quality and cost of product and its importance is as a means of achieving economic growth and prosperity within the country.

Simply, cash refers assets continuing the most liquid item among all the assets. A firm has focus for cash management for smooth run. The size of cash balance in hand and in account to be maintained on the behavior of operating cash flows of firms. Each business operation is unique in the matter of cash collection and disbursement, as such as, a firm needs to follow cash management strategies and policies.

A manufacturing company must maintain certain cash during production and sales.

The main objectives of cash management are as follows:

1. To meet payment schedule
2. To minimize funds committed to cash balances.
3. For speedy collection of usable cash.
4. To slowing disbursement.
5. Effective use of capital.
6. To maximize the profit of the organization.

1.1.1 Brief introduction of selected companies

a. Unilever Nepal Limited

Unilever Nepal limited was established in 1994 as a joint – Venture Company with an objective of establishing a factory to manufacture soap, detergents, cosmetics, toiletries, oleaginous, saponaceous, unguents and other chemical products under the brand name of the products of Hindustan Lever limited. Hindustan liver limited with 80 percent ownership has invested Rs. 73.7 million in equity. This is the first joint venture of Hindustan lever limited outside India.

b. Bottlers Nepal Limited.

Bottlers Nepal established as multinational company, its parent company is Coca-Cola (Asia) Ltd, a company incorporated in Dubai, UAE which holds 98.16 percent shares of Bottlers Nepal Ltd. The principal activity of the company is to manufacture and sell soft drinks under registered trademark of The Coca-Cola Company. It has listed its ordinary shares at Nepal stock exchange in 1984/06/21. It has two subsidiary company named Bottler (Terai) Ltd, and Troika Traders Pvt.

Ltd. Troika Traders Pvt. Ltd involved in the distribution of the products of parent company. Company distributes its product through the "Manual Distribution Center" directly through the Troika traders. Four Boards of Directors of the company are nominated from Coca Cola Sabco (Asia) ltd and rest form the Nepalese Shareholders.

1.2 Statement of the problem

Cash management in manufacturing companies of Nepal is primarily based on traditional approach. A more serious aspect of cash management has been the absence of any formalized system of planning and budgeting.

Without proper management of cash even a profitable venture can be liquidate for not being able to meet its financial obligation on time. Poor cash management leads to bad reputation. Employee may be demotivated from not being paid on time. Supplier may refuse to extend credit facilities.

The study attempts to have an insights over the problem of cash management in listed manufacturing companies so that attempt has been made to identify the answer of following questions as a major problem.

1. What is the liquidity position of the company and are the companies able to maintain appropriate level of liquidity position?
2. What is the cash flow position of selected firms?
3. Does it exits any relation between cash holding and profitability for selected firms?

1.3 Objective of the study

The major objective of this study is to examine the management of cash in selected manufacturing companies and to study the cash flow position over the period for the selected firms. The specific objectives of the study are as follows:

1. To identify the liquidity position of the companies.
2. To Study the cash flow position of selected firms.
3. To study the relationship of cash with other influencing variables of cash.
4. To provide necessary recommendation for improvement of cash management on the basis of analysis.

1.4 Significance of the study

The explosive growth of investing and raiding capital in the global market has put new emphasis on a policy which strives for zero- working capital. The worldwide financial analysts, together with analyst's researchers, users, regulatory bodies are involved in great effort in the management of working capital through efficient cash management. The primary goal of cash management is to reduce the amount of cash held to the minimum requirements to conduct business.

The study of cash would be a crucial study because suggests to manage cash more efficiently by the selected Nepalese manufacturing companies. The study would be significant equally to the related/unrelated parties who are interested on cash management

as business people, financial analysts and academician. This study helps business people to impose better cash management practices whereas analysis and academician can make further researcher.

1.5 Limitation of the Study

The study has very limited area of investigation. It is only a part and partial analysis of cash management of the selected manufacturing companies. Comprehensive study of cash management is not possible in this dissertation due to its deadline of completion and availability of data and information. The study is not bounded by the fixed standard of measurement and relationship between two or more variable with cash. So cash relationship with other variables is analyzed on the basis of average cash increments.

So the limitation of the study is as follows:

- Two companies are chosen as sample out of the total listed manufacturing companies. (2007/08-2011/12)
- Only five years data has been used.
- The study is totally based on the secondary data.
- Financial and statistical tools and techniques have been used for analyzing data.

1.6 Organization of the Study

This study has been organized into five different organs (chapters) which are as follow:

1. Introduction

This chapter includes background of the study, statement of the problem, objective and limitation of the study. The major objectives of this study is to examine the management of cash in selected manufacturing companies and to study the cash flow position over the period for the selected firms. The study has very limited area of investigation. It is only a part and partial analysis of cash management of the selected manufacturing companies.

2. Review of Literature

The second chapter, review of literature, deals a theoretical frame work and review of related studies. The major objective of this study is to find out the review of independent study in Nepal, review of related thesis, meaning of cash and research gap of the studies.

3. Research Methodology

This chapter deals with introduction, research design, population and sample, nature of source of data and tools and techniques for analysis data i.e. statistical and financial tools.

4. Presentation and Analysis Data

The acquired data are presented and analyzed, through the way of designed methodology in this fourth chapter to accomplish the research objective. the analysis and presentation of data section is the main text of the study to find out answer of research question and get objectives of the study.

5. Summary, Conclusion and Recommendation:

The last chapter provides the summary, recommendation and conclusion of overall study.
At the end an extensive bibliography and appendices are also included at the end of the part of thesis book.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning of Cash

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

Approximately 1.5 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 called a "nonearning 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 (and also most commercial checking accounts) earns no interest. Thus, the goal of the cash manager 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 (1) to take trade discounts, (2) to maintain its credit rating, and (3) to meet unexpected cash needs. (Brigham and Ehrhardt 2004)

As such whatever cash a corporation has must be utilized efficiently to meet obligations of interest payment of Cash Corporation has responsibility to owners in assuring them to pay favorable rate of return. Since cash is not easy to obtain, the available cash must be prudently spent without incurring loss although it is on possible to formulate a set of assets management policies of universal applicability, one rule or policy that appears to be unanimously accepted is that cash must be conserved. It is the rule of conversion of cash which holds the view that cash is expensive so tit is ought to be acquired and used with adequate caution. If cash holding is bad for inefficient corporation, cash shortage is dangerous for efficient corporation. As for Inefficient Corporation it does not matter whether cash increases or decreases if they are not in a position to utilize them. But efficient corporation due to undertaking of more operation need more cash besides having profit (Shrestha, 1980)

The size of cash balance in hand and in account to be maintained depends on the behavior of operating cash flows of the firms. Each business operation is unique in the matter of cash collection and disbursement, as such, a firm needs to follow cash management strategies based on its own financial strength and objective in the matter of cash management, financial manager are mainly concerned with the (a) Management of cash receipt, (b) management of disbursement, (c) minimization of cash balances, (d) use of most inexpensive source of financing for cash balance and (e) investment of excess balance of cash. The standard principles of cash management are follows:

a) To collect account receivable as soon as possible without annoying and loosing potential customers by establishing a system of lock boxes, electronic fund transfer, preauthorized checks, and deposit concentration.
b) To delay payment as long as permitted without damaging the firm's credit rating by establishing controlled disbursement system.
c) To minimize cash balance without adversely affecting the business operation by following the techniques of cash balance management such as Baumol &miller Orr-Models.
d) To manage most inexpensive source of financing for meeting short term cash deficiency by optimally balancing between cost and risk.
e) To invest short term excess cash in most efficient market portfolios of securities such as some by market instruments. (Pradhan, 1992)

The term cash with reference to cash management is used in two senses. In a narrow sense, it is used broadly to cover currency and generally accepted equivalent of cash, such as cheques, draft and demand deposits in bank. The broad vie of cash is also includes near cash assets, such as marketable securities and time deposits in banks. The main characteristics of this are that they can be readily sold and converted in to cash. They serve as a reserve pool of liquidity that provides cash quickly when needed. They also provide a short term investment out let for excess cash are also useful for meeting planned out flow of fund. Irrespective of the firm in which it holds a distinguishing feature of cash, as an asset, is that it has no earning power. Cash does not earn any return, why it is hold? There are four primary motives of cash balance, these are:

This refers to holding of cash to meet routine cash requirement to finance the transaction which a firm carries in the ordinary course of business. A firm enters in to a variety of transaction to accomplish its objectives which have to pay for in the form of cash. The requirement of cash balance to meet routine cash needs is known as transaction motive and such motive refers to the holding of cash to meet anticipated obligation whose timing is not perfectly synchronized with cash receipt (Khan and Jain 2003)

The cash balance hold in reserves for random and unforeseen fluctuation in cash flows are called as precautionary balances. In other word precautionary motives of holding cash implies the need to hold cash to meet unpredictable obligation. Thus, precautionary cash balance serves to provide a cushion to meet unexpected contingences. The more unpredictable are the cash flows, the larger is the need for such balance. Another factor which has a bearing as the level of such cash balances is the availability of short tern credit. If a firm borrows at short notice to pay for unforeseen obligation, it will need to maintain a relatively small balance and vice versa (Khan and Jain 2003:302-308)

It refers to the desire of a firm to take advantage of opportunities which presents themselves at unexpected moments and which is typically outside the normal course of business. While the precautionary motive is defensive in nature in that firm must make provision to tide over unexpected contingencies, the speculative motive represents a positive and aggressive approach. The firm's aim to exploit profitable opportunities and keep cash in reserve to do so. The speculative motive helps to take advantages of

- An opportunity to purchase raw materials at a reduced price on payment of immediate cash.
- A change to speculate on interest rate movement by buying securities when interest rates are expected to decline.
- Delay purchases of raw materials on the anticipation of decline in pries , and

- Make purchases at favorable prices.
  (Khan and Jain 2003)

It is to compensating banks for providing certain services and loans. Usually, clients are requested to maintain a minimum balance of cash at the bank since this balance can not ne utilized by the firm for transaction purpose, the banks themselves can use the amount to earn a return. Such balances are compensating balance.

Compensating balance is also required by some loan arrangement between a bank and its customer. During periods when the supply of credit is restricted and interest rates are rising, banks require a borrower to maintain a minimum balance in his account as a condition precedent to the grant of loan. This is presumably to 'compensate' for a rise in the interest rate during the period when the loan will be pending.

Of four primary motives of holding cash balances the two most important are transaction motive and the compensation motive. Business firm do not normally speculate and need not have speculate balances requirement of precautionary balances can be met out of short term borrowing. (Khan and Jain 2003)

The basic objective of cash management is to reconcile two mutually contradictory and conflicting tasks. They are:

In the normal course of business, firm have to make payments of cash as a continuous and regular basis to supplier of good, employees and so on. At the same time, there is constant inflow of cash though collection from debtors. Cash is therefore, aptly described as "oil to lubricate the ever turning wheels of business: without it the process grinds to a stop " a basic objective of cash management is to meet the payment, schedule, that is , to have sufficient cash to meet the cash disbursement needs of a firm.

In minimizing the cash balances, two conflicting aspects have to be reconciled. A high level of cash balance will ensure prompt payment together with all the advantages. But it also implies that large fund will remain idle, as cash is non earning assets and the firm will have to forgo profit. A low level of cash balances, on other hand, may mean failure to meet the payment schedule. The aim of cash management, therefore, should be to have an optimal amount of cash balances.

Cash performs a number of functions as it makes payment possible and serves to meet emergencies. But if cash is kept idle it contributes directly mouthing to earning of corporations. As such corporations must adopt such a policy that makes optimum cash management possible. The financial manager of the corporation should try to minimize the corporation's holding of cash while still maintaining enough to ensure payment of obligation. For improving the efficiency of cash management, effective method of collection and disbursement should be adopted. The method of efficiency of cash management is described as:

When a customer writes and mails a cheque, this does not mean that the funds are immediately available to the receiving form (Weston and Copeland, 1992) so method of speeding collection

of usable cash from customer payment of receivable should be used for optimization of cash management. This can be done through lock- box system concentration banking and spinal handling of the movement of fund (Shrestha: 1980).

Concentration banking is a system of centralizing corporate cash in order to control the firm's fund and minimize the idle cash balances. Under this system a concentration bank is designated to receive funds from lock-boxes or any of subsidiaries depository banks. Wire transfer can be made automatically, according to instruction given by the firm. The concentration bank reports available balances daily so the firm's treasures can take maximum advantages of investing opportunities.

A second method of concentration banking employs a depositary transfer cheque (DTC), which is non-negotiable demand deposit instrument, used to transfer money from our bank account to another.

Special handling of cash enable corporations to have sufficient funds the a can be pit to profitable user it is often found that some corporations pen too many accounts in a bank and there by creating excessive idle fund in a bank such policy no doubt profitable in strengthening the4 degree of good will either bankers. Yet they make little sense in the overall cash management of the corporations. Moreover, the corporations should give special attention to the handling of large remittances with a view of get them quickly deposited in a bank and undertake, measures to pickup these cheques personally on the use of air mail and special delivery.

Apart from speedy collection of account receivable the operating cash requirement can be reduced by slow disbursement of account payable (Khan and Jain 2003: 662). Quick collection and slow disbursement accomplish the corporation with adequate cash on hand for larger period. Effective control of disbursement can result in a faster turnover of cash. The idea is to collect receivable as soon as possible, but pay account payable as late as it consist with maintaining the firm's credit standing with suppliers. In other word most firms desire to maintain reputations and good relation with suppliers by disbursing funds in a timely and accurate fashion. At the same time, a disbursement system should have a low operating cost, provide accurate management reports and extend disbursement float where practical and reasonable (Hampton, 1989).

A number of banks offer a zero balance account (ZBA) services that allow the writing of cheques against individual operating accounts containing no fund. The cheque clear through regular banking channels and are then presented for collection. at the close of business, the bank automatically transfer funds from the company's concentration or master account to the different operating account in order to return each operating account to zero balance

In this method, checks ate drawn on bank, in areas that do not receive frequent clearing services from the Federal Reserve. Firm is not tying up funds before the checks are presented for payment.

Transaction are recorded on magnetic tape and cleared directly through an automated clearing house. This will eliminate the need to print checks, will minimize float and will significantly reduce proper week and related expanses.

Efficiency in the use of cash depends upon the cash velocity i.e. Level of cash over period of tine. But the amount of sales in crucial factor that determines the cash velocity. The greater amount of sales, is the greater would be the additional cash necessary to conduct the higher scale of operation.

$$\text{Cash Velocity} = \frac{\text{Annual sales}}{\text{Average cash balances}}$$

Corporations are required to keep a minimum cash Balance requirement of bank either for services it renders of in consideration of lending arrangement. Every bank calculates the average collected balances and the account deems to be profitable if the total cost is less than total income. But in practice cash balance of the corporation with the banks is higher than cash in hand. It is because corporation always finds if to keep large funds with bank otherwise it may be utilized or misappropriated if kept in hand. (Shrestha: 1980: 89).

With a perfect synchronization of cash inflows and out flows and a higher degree of predictability, cash balances could be held to low levels. An example of synchronization demonstrates l of cash flows can be improved through more frequent requisitioning of fund to divisions offices from the firm's central office. if funds are requisitioned once a month, we may now explore the possibility of requisitioning of funds on fortnightly, or weekly of daily basis. Moreover, effective forecasting can be achieved; it will enable the firm to economic on the amount of money it must borrow and thereby keeping interest expenses to a minimum. It is necessary to understand now that there are different types of float. We have seen that the float of the different between book cash bad back cash, representing the net effect of changes in process of clarity. The first type of float is disbursement float. As we write check, it declares book balance but does not immediately change available balance. Similarly, the collection float refers to the result of cheque received, which increases book balance nut not immediately change available balance. The net float is the overall different between the firm's available and is book balance. (Pradhan, 2004)

Another general factors to be considered to determine cash need is the cps associated with a short fall in the cash needs forecast presented in the cash budget would reveal periods of cash shortages. In addition, there may be some unexpected involves a cost depending upon the security, duration and frequency of the of the shortfall and how the shortage is covered. Expense incurred as results of shortfall are called short costs included in the short cost is the following:

- Transaction cost associated with raising cash to tide over the shortage. This is usually the brokerage incurred in relation to the sale of some short term meat cash assets as marketable securities.
- Borrowing cost associated with borrowing to cover the shortages these include items such as interest on loan commitment charge and other expenses relating to the loan.
- Loss of cash discount, which is a substantial loss because of temporary shortage of cash.
- Cost associated with determination of the credit rating which is reflected a higher bank charges on loans , stoppages of supplies , demand for cash payments ,refusal to sale, loss of image and the attendant decline in sales and profits.

- Penalty rates by bank to meet a shortfall in compensating balances.
  (Khan and Jain, 2003).

The cost of having excessively large cash balance is known as the excessive cash balance cost. If large funds are idle, the implication is that the firm has missed opportunities to invest those funds and has thereby lost interest which it would otherwise have earned. This loss of interest is primarily the excess cost

There are the cost associated with the establishing and operating cash management staff and activities. They are generally fixed and are mainly accounted for by salary, shortage, handling of securities and so on

Finally, the impact of uncertainty of cash management strategy is also relevant on cash flows can not be predicted with complete accuracy. The first requirement is a precautionary cushion to cope with irregularities in cash flows, unexpected delays in collections and disbursements, default and unexpected cash needs.
The impact of uncertainty on cash management can, however, be mitigate through (1) improved forecasting of tax payments, capital expenditure, dividend, and so on and (2) increased ability to borrow though over draft facility.

Cash planning is a technique to plan and control the use of cash. It protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows for a given period. Cash plans are very crucial in developing the overall operating plans of the firm (Pandey, 1999:839).

Cash budget is the most significant device to plan foe and control ash receipt and payment a cash budget is a summary statement of the firm's expected cash inflows and outflows over a projected time period:

Cash forecast are needed to prepare cash budget generally forecasts covering period of one year of less are considered as short term forecast. The important functions of carefully developed short term forecast are ton (a) determine operating cash requirement (b) anticipate short term financing and (b) manage investment surplus cash methods of short term forecasts are :

The prime aim of receipt and disbursement forecast is to summarize these floes during a predetermined period. In case of these companies where each items of income and expenses involve floes of cash, this method id favored to keep a close control over cash.

This method of cash forecasting involves the tracing of working capital flows it is same time called the sources and uses approach. Three are two objectives of the adjusted net income method. They are to project company's need for cash at a future date and to show whether the company can generate the required fund internally and if not how much will have to be borrowed or raised in the capital market. it is a projected cash flow statement based on preformed financial statement one popularly used method of projecting working capital is to use ratios relating account receivable and inventory to sales

One useful method of getting insights about the variability cash flow is sensitivity analysis. Cash budget can be prepared under three sales condition, they are, optimistic, most probable and pessimistic. A knowledge of the out cone of extreme expectation will help the firm, to be prepared with contingency plans a cash budget prepared under worst condition will prove to be useful to management to face these circumstances.

Forecasts, these extending beyond one year are considered long term. Once a company has developed long term cash forecast, it can be used to evaluate the impact of say, new predict development acquisition on the firm's financial condition three, five or more years in the future the major uses of long term forecasts are

- To indicate as company's future financial needs especially for its working capital requirement.
- To evaluate proposed capital projects. It pinpoints the cash required to finance these project as well as the cash to be generated by the company to support the.
- To improve corporate planning long term cash forecast compel each division to plan for future and no formulate project carefully. (Pandey, 1999)

The flow of cash should be properly managed the cash inflows should be steady and predictable, as far as possible, the cash out flow should be known.

The firm should decide about the appropriate level of cash balances the cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.

The surplus cash balance should be properly invested to earn profits. The firm should decide about the decision of such cash between alternative short term investment opportunities such as bank deposits, marketable securities, or incorporate landing.

The firm needs cash to purchase raw materials and pay wages and other expenses as well as for paying dividend, interest and taxes. There test of liquidity is the availability of cash to meet the firm's obligation when they become due. In other word firm require cash for various purpose, our or total requirement, how much to maintain in cash and how much in marketable securities is the question which needs a careful analysis of behavior of cash inflows and outflows may not synchronize all the time, the cash balance often fluctuates, and as a result, the balance could be sometime more and other time less than necessary. It is therefore, necessary to adopt a system to correct such fluctuation and ,maintain an optimal balance at al time.

If the firm keeps high cash balance, it will have a strong liquidity but its profitability will be low. The potential profit forgone as holding large cash balance is an opportunity cost to the firm the firm should maintain optimum cash balance.

The models for maintaining optimal cash balances are described below.

This model, developed by William Baumol (1952) essentially applies a basic
Inventory model to cash management. The purpose of there model ids to determine the minimum cost amount of cash that a financial manager can obtain by converting securities to cash, considering the cist

of conversion and the counter balancing cost of keeping idle cash balance which otherwise could have been invested in marketable securities the total cost associated with cash management, according to the model, has two elements they are (i) cost of concerting marketable securities in cash and (ii) cost of opportunity cost as such the firm attempts to minimize the cost of holding cash and cost of holding cash and cost of marketable securities are converted in to cash. Symbolically total conversion cost fro period:

$$B = \frac{Tb}{C}$$

Where,

B = cost per conversion assumed to be independent of the size of the transaction.

T = total transaction cash needs for period

C = value of marketable securities sold at each conversion.

The opportunity cost is derived from the cost / forfeited interest rate (i) that could have been earned on the investment of cash balances. Total opportunity cost in the interest rate times the average cash balance kept by the firm. The model assumes a constant and a certain pattern of cash out flows. At the beginning of watch period, the firm starts with a cash balance which is gradually spends until at the end of the period, the firm starts with a cash balance which is gradually spends until at the end of the period it has a zero cash balance and most replenish its each supply to the level of cash balance in the beginning which is shown graphically as

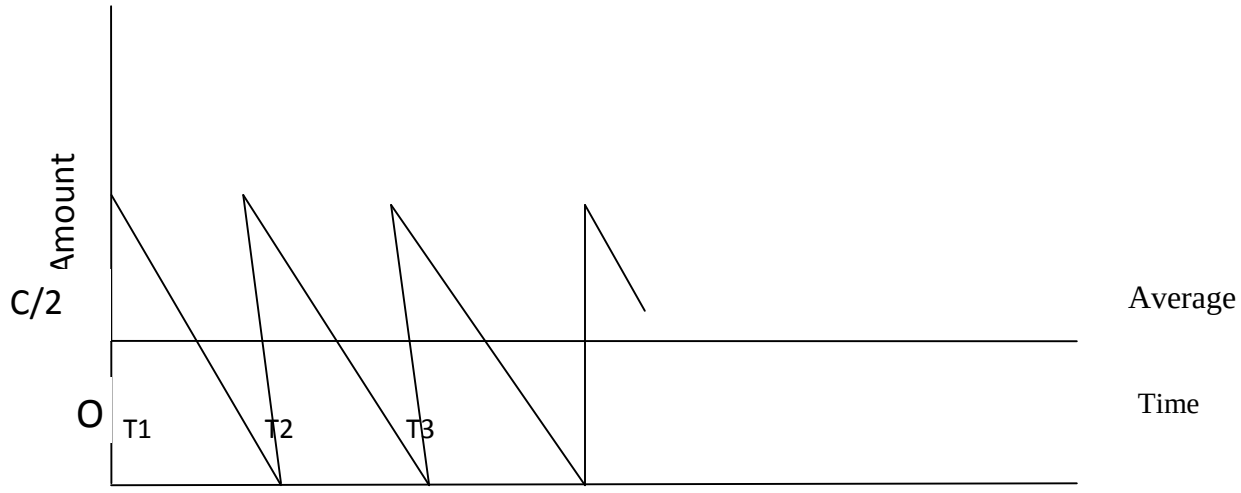


Figure No 2.1 Baumol Model for Optimum Cash Balance

Source: I. M. Pandey, Financial Management.

Mathematically,

The Opportunity Cost of Holding Cost = $[\frac{C}{2}]$

Where,

I = interest rate that could have earned.

C/2 = the average cash balance, the beginning cash plus the ending cash balance of the period (0) divided by '2'.

The total cost associated with cash management comprising. Total conversion cost plus opportunity cost of not investing cash until needed in interest bearing instruments can be symbolical

$$C = \sqrt{2bt/i}$$

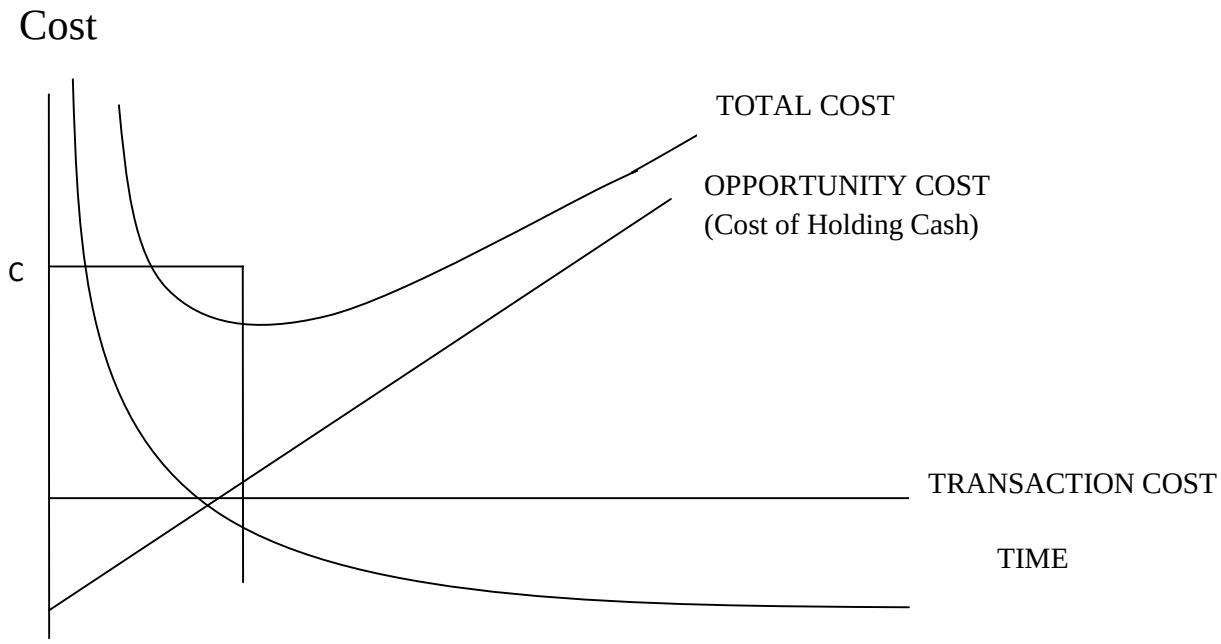


Figure No 2.2: Cost Trade off, Baumol's

(Source: I. M. Pandey, Financial Management.)

In sum the Baumol model of cash management is very simplistic. Further, its assumptions of certainly and regularity of withdrawal of cash do not realistically reflect the actual situation in any firm. Also the model is concerned only with transaction balance and not with precautionary balances. In addition the assumed fixed mature of cash withdrawal is not also realistic.
Nevertheless, the model does clearly and concisely demonstrate the economics of scale and the counteracting nature of the conversion and opportunity costs which are undoubtly major consideration in any financial manager's cash management strategy.

The objective of cash management, according to miller off (MO), is to determine the optimum cash balance level which minimizes the cost of cash management. It assumes that net cash flows are normally distributed with a zero value of mean and a standard deviation. each firm's cash floes fluctuates randomly and hit the upper control limit the it buys sufficient marketable securities to cone back a normal level of cash balance. Similarly, when the firm's cash flows wander and hit the lower limit, it sells sufficient marketable securities to bring cash balance back to the modal level.

Symbolically: $C = \frac{bE(N)}{T} + i\,E(M)$

Where,

b = the fixed cost per conversion

E (M) = the expected average daily cash balance.

E (N) = the expected number of conversion

t = number of days in the period

i = cost opportunity cost

C = total cash management cost

Graphically,

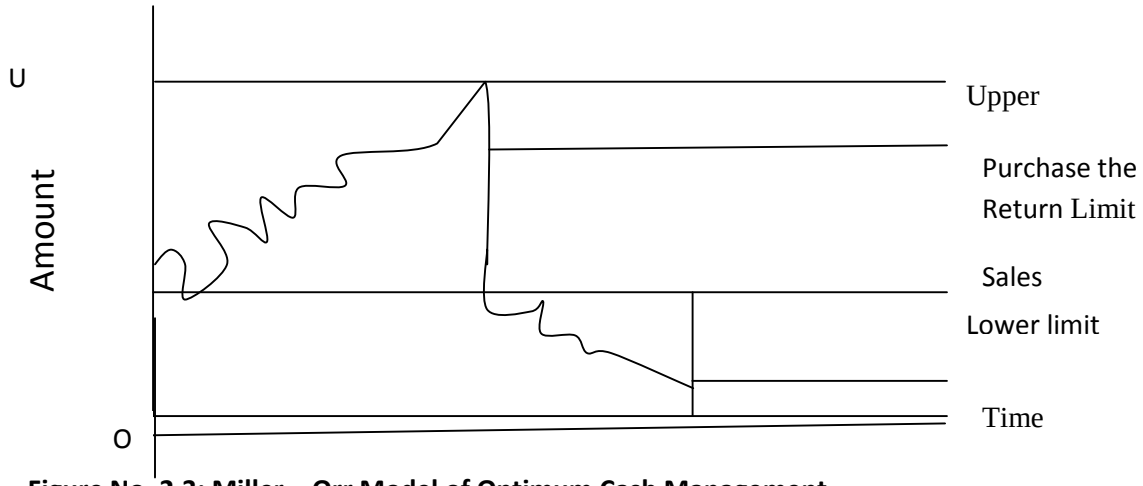


Figure No. 2.3: Miller – Orr Model of Optimum Cash Management

According to Miller-Orr Model the optimal cash balance (Z) can be expressed symbolically as

$$\varpi X \sqrt{\frac{3br2}{4i}}$$

Where

r2 = the variance of daily change in cash balance.

Miller – Orr model also specifies the optimum upper boundary (u) as

U = lower limit + 3Z

Similarly return point

R = lower limit +z

If lower limit is zero,

Upper limit is there times of optimum level of cash and return point is equal to the optimal level of cash. Further, the financial manager could consider the use of less liquid, potentially more profitable securities on investment for the cash balance excess of 'U'.

According to this model an optimum cash management strategy can be determined through the use of multiple linear programming model the comprise of the model comprises three sectors. They are, (i) selection of appropriate planning horizon,(ii) selection of appropriate decision variable and (iii) formulation of cash management strategy itself. The advantage of linear programming model is that it

enables coordination of optimum cash management strategy with the other operation of the firm such as production and with less restriction o working capital balances.

Orgler's objective function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period. The objective function recognizes each operation of the firm that generate cash inflows or outflows on adding or subtracting profit opportunities for the firm from its cash management operation. In the objective functions, decision variables which cause inflows such payments of receivable, have positive coefficient while decision variable which generate cash inflows, such as interest and short term borrowing have negative coefficient. The formulation of the model requires that the financial managers first specify an objective function and then specific a set of constraint.

The constraint of the model could be (I) institutional of policy constraint. The institutional constraint are those imposed but external factors that is bank required compensating balance policy constraint are imposed on cash management by the firm itself. For instance, the financial manager may be prohibited from selling securitized before maturity either constraint can occur in the model during on monthly period for over several of all the month in one yea planning horizon.
An example of linear programming model is as follows:

Objective function

$$Maximize \quad \Pr ofit \quad X a1x1 \Gamma a2x2$$

Subject to

b1 $\leq$ production

b2 x2 $\leq$ constraint

c1x1 + c2x2 $\leq$ cash available constraint

8x1+8x2 $\leq$ Current assets requirement constraint

xi $\geq$ 0; = n non- negatively constraint.

A very important feature of the model is that it allows the financial managers to integrate cash management with production and other aspects of the firm

Although the Baumol model and other theoretical models provides insights into the optimum cash balance , they are genera;;u not practical for use rather, firms generally sat they target cash balances based as some " safety stock " of cash that holds the risk of running out of money to some acceptability law level. One commonly used procedure is Monte Carlo simulation. Sales and collections are the driving forces in cash budget and of course are subject to un certainty. In the cash budget we used expected values for sales and collection as well as for other cash flows. However, it would be relatively easy to use Monte Carlo simulation to introduce uncertainty. If cash budgets are constructed using a spread sheet program with Monte Carlo add in software, then the key uncertain variables could be specified as continuous probability distributions rather than point value.

The budget as a cash management tool would throw light on the net cash position the management should work out the basic strategies to be employed to manage its cash.

The financial needs of the corporations are affected by the details of the cash cycle involved in the process of conversion from purchase production and sales to ultimate collection. Opportunities to improve cash cycle help in best management of cash. The cash cycle of the corporate is as follows (Shretha, 1980)

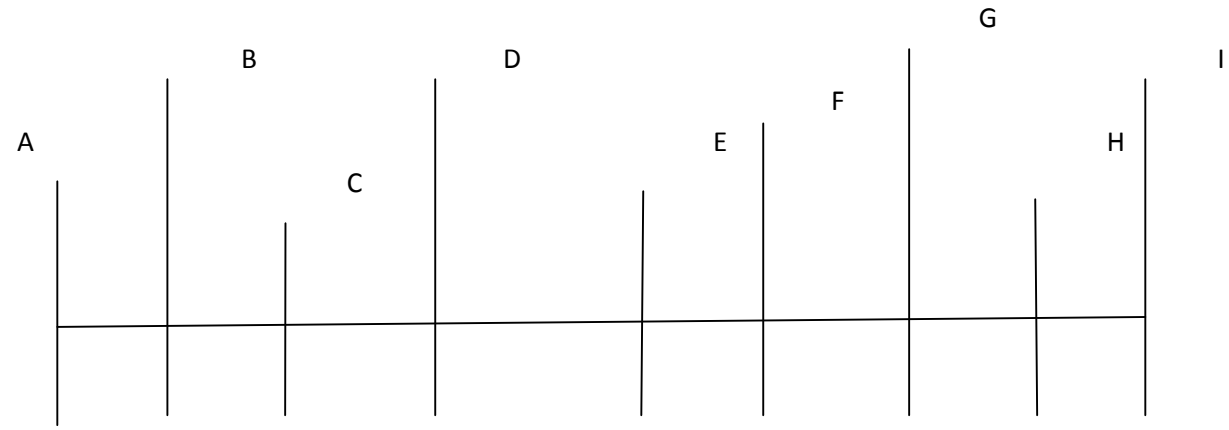


Figure No. 2.4: Details of Cash Cycle

Source: M. k. Shrestha Financial management, 1982

Where,

A = Material Ordered
B = Material Received
C = Payment
D = Check Clearance
DE = Good Sold
F = Customer Mails Payments
G = Payment Received
H = Check Deposited
I = Fends Collected

In addressing the issue of cash management strategies we are concerned with the time period involved in strategies BCD & FGHI. A firm has no control over time involved between stage A &B. The lag between D & E is determined but the production process and inventory policy the time period between stage E and F is determined by credit terms and payment policy of customers.

The higher the cash turnover the less is the cash a firm should, therefore try to maximize cash turnover. But it must maintain a minimum amount of operating cash balance so that it doesn't run out of cash the

minimum level of operating g cash in determined bun dividing the total operating annual out lays by the cash turnover rate. Cash management strategies are intended to minimize the operating cash requirement. The basic strategies that can be employed to do the needful are as follows:

One basic strategy of efficient cash management is to stretch the account payable. In other words, a firm should pay its account payable as late as possible without damaging its credit standing. It should, however take advantages of cash discount available on payments.

This strategy is to increase the inventory turnover ratio, avoiding stock outs that are shortage of stock this can be done in following ways:

- Increasing the raw materials turnover by using more efficient inventory control techniques.
- Decreasing production cycle through better production planning scheduling and control techniques into will lead an increase in the work-in progress inventory turnover
- Increasing finished good turnover through better forecasting of demand and a better planning of production.
- Efficient inventory and production management cause a decline in operating cash, and hence, a saving in cash operating cost.

We spell out the implication of these strategies to minimum cash balance and the associated cost with the underlying assumption that a firm should adopt such cash management strategies as will lead to the minimizing of to operating cash requirement in other words efficient cash management implies minimum cash balances consistent with the need to pay wills when they become due.

(Khan & Jain 2003)

The cash conversion cycle model diagrams the length of time between when the company makes payments and even it receive cash. The following terms are used in the model.

- Inventory conversion period
- Receivable collection period
- Payable deferral period

The cash conversion cycle net outs these three periods and thus equals the length of time between the firm's actual cash expenditures for productive resources and its own cash receipts from the sale of products. The cash conversion cycle w quails the average length of time a dollar is tied up in current assets:

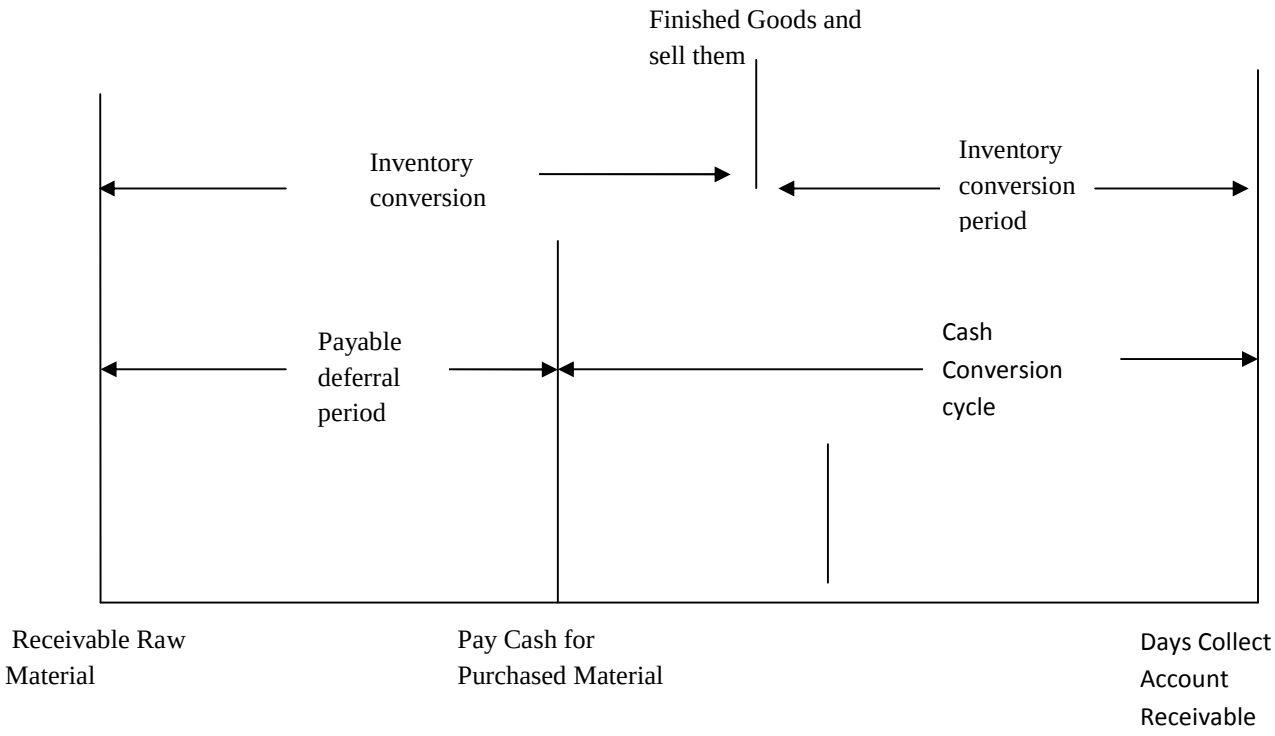
Symbolically,

1	+	2	-	3	=	4
Inventory conversion cycle	+	Receivables Collection Period	-	Payables deferral period	=	Cash Conversion Cycle

In another way,

Receipt delay – payment delay = net delay

Table for Cash Conversion Cycle Model



2.5: Cash Management Cycle Model

Source: Brigham, Gapenski , Ehrhardt, Financial Management , 2001, P. 870.

The cash conversion cycle can be shortened (1) if the firm can reduce the inventory conversion period by processing and selling goods quickly (2) if it can reduces the receivable collection period by speeding up collection period by speeding up collection or (3) if it cans lengthen the payable deferral period by slowing down its own payments. To tale extents that these actions can be taken without increasing cost or depressing sales they should be carried out. (Brigham, Gape ski and Earnhardt: 2001)

2.2 Review of Books

Various scholars as well as authors have gave different views about cash management some of them have to be taken as review of books for cash management. According to batty (1972) cash in only none constituent t of what is essentially a combination of business resources. It is the part of working capital and as such provides the means of earning of a profit investment for useless. the objective should aim to obtain an optimum level for each component of current assets figu8re and a smooth and rapid conversion

of these asses to cash both of these lead to on prove earning power he again suggested that if cave is taken for crash program me for improving cash my have unexpected consequences. In the short term it will be possible to cut back expenditure on marketing and other functions, but future sales will probably suffer and , consequently, there will be further detritions in cash flow further he defined cash management as the process involved in the effective planning and control of cash requirements of a business.

Similarly, Pandey (1999) suggested that the firm should keep sufficient cash either more or less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain. Idle, without contributing anything toward. The firm's profitability according to him the major function of financial manager is to maintain sound cash position. Some theoretical insights about cash management has presented by him. he said that cash management id concerned with the managing of , (1) cash flows into and out of the firm , (ii) cash flows within the firms, (iii) cash balance hold by the firm at point of time by financing deficit or investing surplus cash it cab be represented by a cash management cycle. A sale generates cash which has to be disbursed out. The surplus cash has to be invested while deficit has to be borrowed cash management sees to accomplish this cycle at a minimum cost at the sometime, it also seeks to achieve liquidity and control cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm holds it is significant because it is used or pay the firm's obligation however, cash is unproductive. Unlike fixed assets or inventories it does not produce goods for sale. Therefore, the aim of cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. The cash management cycle is shown as follows:

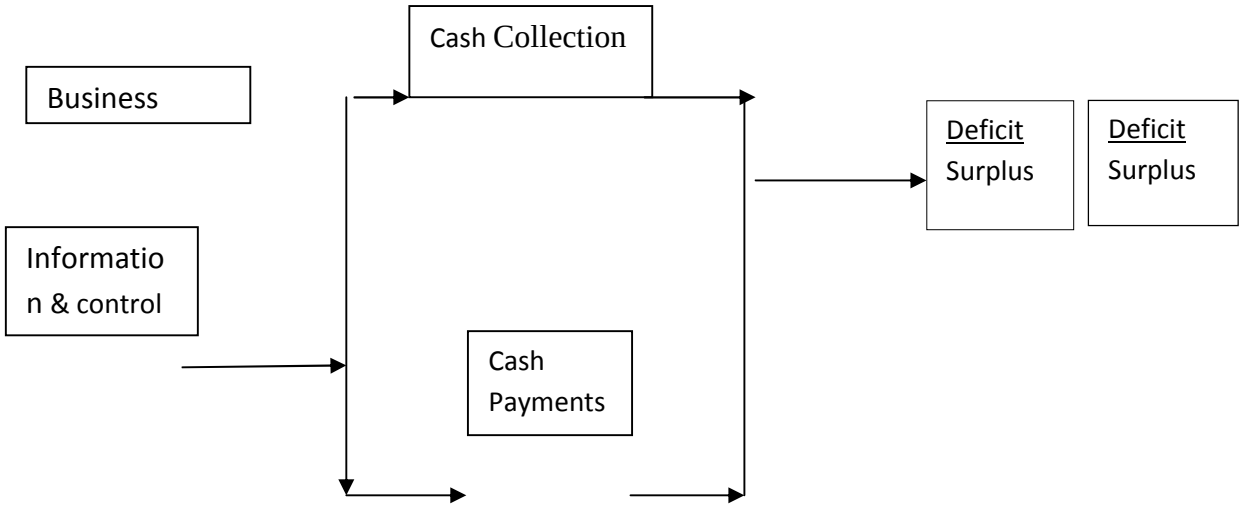


Figure no 2.6: Cash Management Cycle
(Source: IM Pandey , Financial Management)

The management of cash is also important because it is difficult to predict cash flows accurately, particularly the inflows, and there is no prefect coincidence between inflows and out flows of cash.

During some period cash outflows will exceed cash inflows because payment of taxes, dividend or seasonal inventory builds up. At other tunes, cash inflows will e more than cash payment because there may be large cash sales and debtors mau be realized in large sums promptly. Cash management is also important because cash constitutes the smallest portion of the total current assets. Yet management's considerable time is devoted in managing it. In recent past / a number of innovations have been done in cash management techniques. An obvious aim of the firm new a days is to manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash in profitable investment opportunities.

Jain & narang (1993) have described about cash management. He said that cash is crucial component of working capital of a concern. Cash like bloodstream of human body, gives strength to human body gives strength to business unit/. He explained that cash is ultimate resource for business, so management of each business unit should Endeavour to secure larger cash at the end of each working capital cycle than what it had at the beginning of working capital cycle. Further the important objective in managing cash should be trad4e off liquidity and profitability in order to maximize profits. By keeping larger amount of cash, the firm is able more to meet its obligation when they fall due and the risk of technical insolvency is reduced. However, cash is non warning assets, so unnecessary cash should not be kept as hand than the optimum required to continue the operation of the business efficiency. Liquidity and profitability must be balanced in such a way that the organization retains its liquidity and at the same time maximizes its profitability. They also stressed that business transaction, without involvement of cash is mythical in this monetary world. Today the importance of cash management in recognized by all segments of organization activities. If some of departments are handled independent without considering their implication of cash management the conflicting interest of these departments are bound to create serious problem. The study of cash management is therefore considered as an integrated approach to management science.

Simons & kerrenbrock (1964) expressed that cash is more often than other assets is the item involved in business transaction. This is due to nature of business transactions, . Which include a price and condition calling for settlement interims of medium of exchange. In striking contrast to activity of cash it is unproductive in nature. Since cash is measure of value, it can not expand to grow unless it is converted in to other properties excessive balance of cash on hand is often referred to as "idle cash ". To be most useful to a business enterprise, cash must be kept moving.

Hampton (1989) has given more suggestion fro effective management of cash. He explained that net working capital is the measure of liquidity, which is defined an the adequacy of neat term cash to meet the firm's obligation. The highly liquid firm has sufficient cash to pay its bills at all time. An illiquid firm is unable to pay its bills when due. The investment of excess cash, minimizing of inventory, speedy collection of receivables, and elimination of unnecessary ad costly short-term financing all contribute to maximizing the value of firm. In a periled of high interest rate, customer may be slow in paying their bills, a fact that evil because an increase in receivable3. If the level of cash is linked to the level of sales, variable working capital may be changed.

Khan and Jain (2003) explained that cash management link aged both working capital management. He expressed that cash management id one part of the key areas of working capital management. A part from the fact that is the most liquid current asset, cash is the common denominator or which all current assets can hoe reduced because the other major liquid assets, that is. Receivables and inventories get eventually converted into cash. This underlines the significance of management. He presented a detail account of the problem involved in managing cash and motive for holding cash , objective of cash management, factors determining cash needs, cash management models , cash budgets, basic strategies fir efficient management of cash, and specific techniques to manage cash subsequently.

Shrestha (1980) has described some conceptual ingredient s about cash management which are based on his various research studies. We can learn lesson from it and also helpful for this study indeed. He adjusted the relation of cash with efficient and inefficient corporations. He suggested that if cash holding is bad for inefficient corporations. As for inefficient corporations. Of does not matter feather cash inverses or devisees if they are not in a position to utilize them? But efficient corporation due to undertaking of more operations need more cash besides having profit.

Weston and Brigham (1978) have poured some views about cash management after their various studies on it. The bond conceptual finding of their studies proved sound knowledge and guide lines fro the future studies in the fired of cash management. They explained in the beginning the motives for holding cash , specific advantage of adequate cash , synchronization of cash flows, expanding collection and cheque clearing , using float , cost of cash management, determining minimum cash balance , compensating balance, marketable securities. Substitutes for cash criteria for setting securities investment alternatives.

Van Horne (2002) has prescribed the knowledge about cash management. He said that cash management involves managing the monies of the firm to maximize the cash availability and interest income to any idle funds. At one end the function starts when a customer writes a check to pay the firm on its account receivable. The function ends when a supplier, an employee of government realizes collected fund from the firm as an amount payable of accruals. All activities between these two points fail within the realm of cash management. the firm's efforts to get customers to pay their bills at a certain time fall within account receivable management on other hand, the firm's decision about when to pay its bills involves account payable and accrual management. He again described an idea of effective collection and disbursement of cash, we should attempt to accelerate collection & handle disbursement so that maximum cash is available. Collection can be accelerated by me and of concentration banking, a lock box system and certain other procedures. Disbursement should be handled to give maximum transfer flexibility and the optimum timing of payment, heeding meaningful, however, of supplier relations.

Methods of controlling disbursement I. e. Electronic fund transfer is becoming increasingly important, and most corporation use such transfer in one way of another.

Brigham, Gapenski and Ehrhardt (2001) described some conceptual insights which sure based in various research studies. They believed that cash is often called non earning assets. it is needed to pay for labor ad raw materials, to buy fixed assets, top pay taxes, to service debt , to pay dividend and so on . However, cash it self earns no interest thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities. Yet, the same time, to have sufficient cash (i) to take trade discount, (ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.

Pradhan (2004) explained about cash and it management. He told that cash includes coins, currencies, cheque hold but a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "hear cash items" are also includes in cash, e g, marketable securities. . if the firm has excess cash, it may decide to convert it to short term investments . The financial manager will purchase low risk, high liquidity money market instruments that can he converted aback to cash without delay if the has been arise. The securities provide a small profit on cash that may not be needed immediately for the firm's operation. These securities are widely used as short term investment by the firm in developed countries. Each security offers different characteristics that make it suitable for different firms. He said cash management is also called management of money position because cash includes not only the cash or currency in hand but also the easily convertible securities or other neat cash items. E.g. time and demand deposits, readily available credit and so on. According to him concerning area of cash management are:

- Management of cash flows into and out of the firms.
- Management of cash flow within the firm
- Management of cash balance held by the firm at a point of time

Weston & Copeland (1992) suggested about cash management firm various study and research. they said that relatively high level of interest rates have increased the importance of cash management , while , at same time advances' in technology have changed the mature of cash management function . Financial manager have developed new techniques for optimizing cash balance and determining the appropriate relation between holding cash & holding investments in marketable securities.

2.3 Review of Related Study

Cash management is regarded as a important part of working capital management, the thrust for a separate theory in this area was attempted by many economist, since 1950's –some of them enunciated cash management theories whereas others extended the common run approaches with new techniques.

2.4 Review of related thesis

In this section an attempt has been made to review some thesis / dissertation and there related publications related to cash management. Only four dissertations have been found which are written on cash management in different categories in Nepal. No on dissertation has shown the significant result. In other word, cash management was found on very weak position in Nepalese companies.

Bajracharya, (1990) has studied the "*cash management practices in Nepalese public enterprises*"; he has taken 18 enterprises as a sample. According to his study, he concluded that,

i. Cash management in public enterprises of Nepal is primarily based in the traditional practices, lacking in a scientific approach. A more serious aspect 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.

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

iii. Majority of the enterprises didn't face a 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 in payment to creditors.

iv. By and large most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. However, non of the enterprises considered the Implications of holding idle cash balance and few took in to account the potential benefit of consider the cost of administering such investments.

v. There had been wide variation over time in the state of financial health of enterprises in terms of the composition of current assets to current liabilities as revealed but the relevant financial ratios.

vi. Neither nether interest rate nor the rate of inflation had any effect on the cash balance. Further there was very little evidence of effect of economy of scale on cash balance holding in most cases.

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 out flow. He also stressed to maintain optimal level of cash and at last, it can be better to invest idle fund in marketable securities.

Similarly, pradhan (2005) from his case study of *"cash management in STCL"*, had fund that,

i. STCL could not make the best are of available cash balance prudently.
ii. The cash collection efficiency in this corporation is very low.
iii. The collection of trade credit in the corporation is low during three years of study period.
iv. Management has taken liberal credit policy; to sales of goods. Hence the cash and bank balance of study period is minimum AR.
v. No, optimum cash balance is maintained. The cash and bank balance with inspect to current assets has been fluctuating trend. Similar in the case with respect to the total assets.

To improve such problem i.e. major critical findings, he had recommended the STCL, to

a) Efficient management of cash
b) Prepare monthly trail balance cash, fund statement and finical report.
c) Design the effective A/R management adopts efficient credit policy.
d) Invest surplus cash in profitable opportunities
e) Prepare cash budge
f) Maintain optimum cash balance
g) Investment in marketable securities

Another research which submitted has been found to make the study easier. This study has concerned on *"cash management in public manufacturing enterprises of Nepal: a case study of Royal Drugs"* and studied by Sanju (2005). Overall, he concluded the poor cash Royal Drugs management practice of Royal Drugs limited.
He concluded that

i. Overall cash management practices has been found disappointing
ii. Overall liquidity position of the firm has been found moderately dissatisfactory
iii. Overall, yearly cash inflow and out flow in RDL is not properly managed. surplus cash hasn't been properly employed t o earn return but investing in short term investment opportunities
iv. Profitability has been found in very weak position.
v. Overall cash budgeting practice of RDL in very poor.

On this study payable deferral period, inventory conversion period and receivable collection period and there aggregate effect as cash management has not been identified i.e. cash conversion cycle of the company has been identified which helps to analysis overall status of collection of not cash in organization.

These studiers were not able to represent overall status no the companies. so that the effort has been make on the study of cash management in listed manufacturing companies with taking 5 companies as a sample. Identification of cash conversion cycle is the uniqueness of the study.

Finally, the study of cash management in manufacturing companies has not been done yet. So that the researcher has chosen this topics (A cash management of cash management system in listed manufacturing companies.

Raymajhi (2006), conducted a study under topic "*Cash management of Nepalese Commercial Banks."* Sample companies under study are NABIL Bank Ltd. and Himalayan Bank Ltd. The major objectives of the study are:

- To present overall cash management picture of the selected commercial banks in Nepal.
- To examine their demand of cash.
- To critically analyze the cash management techniques practiced by the commercial banks.

Secondary data are used for the research purpose. Various ratios and statistical used for data analysis purpose. Data from 2000/01 to 2004/05 are used. Major findings of the study are:
Analysis of cash turnover, share is no fixed trend (increasing/decreasing) of cash turnover for there banks during the study period.

Analysis of average collection period shows among five listed commercial banks SCBL and NABIL have less average collection days where as HBL and EBL have more average collections days in the study period.
Regression analysis revealed that there was little effect of the opportunity cost of holding cash on the cash balances help the banking sector. Neither interest rate nor the rate of inflation had any effect on the cash balance. Further there was very little evidence of the effect of economy of scale. On cash balance holding in most cases.
Recommendation of the study are:

- Cash planning and cash budget is need on a formal basis so as to project cash surplus or cash deficit for a period not exceeding one year and broken up into shorter intervals.
- Cash planning manager or experts should be appointed. The lack of knowledge of modern financial management tools and technique among existing employee in the banking sector is one of the causes of poor financial performance of the banks. Therefore, Commercial banks must ensure to upgrade the current financial management skill.

Kunwar, (2007) conducted a research on topic," *Cash management of manufacturing companies*." he has studied cash management of five manufacturing companies . Nepal Lever Ltd., Nepal Lube Oil Ltd., Bottler Nepal (Terai) Ltd, Nepal Banaspati Ghee Ltd. and Raghupati Jute Mill Ltd. Major objectives of the study are to identify the liquidity position, Relationship of cash with other influencing variables of cash and Analysis of cash conversion cycle. Mainly secondary data are used, for analysis ratio analysis like current ratio; cash turnover ratio etc and statistical tools like mean, standard deviation, coefficient of variation and correlation coefficient are used for data analysis purpose. Data forms 2002 to 2006 are used.

Major findings of the study are:

Listed manufacturing companies doesn't have any definite policy regarding how much cash balance to held in each period. Companies have not been able to trade of liquidity and profitability. The CR and NPM are found with insignificant correlation. Companies are not been able to collect cash in considerable time span. The average cash conversion cycle of manufacturing companies have been obtained to be 114 days. Due to the high inventory conversion period the result was seen not satisfactory.

Conclusion derived from this research are cash management being the major elements in financial function. It is said that main function of financial manager is to apply better technique to improve cash management in companies. There are other numerous aspects of finance involved in the overall financial performance addition of a firm. In addition to this, the overall performance of a firm counts for other managerial aspects such as human resources management, organizational structure marketing management etc. However, all down falling trend of the financial position is indication of the fact that listed manufacturing companies should immediately seek for drastic change in its managerial structure so far cash management is concerned the recommendations suggested above could to a greater extent, uplift the listed manufacturing companies cash management situation.

He recommends manufacturing companies should try to reduce cash conversion cycle: Cash conversion cycle of the companies has been found to be higher. However, RCP and PDP have been found to be considerable period. Inventory conversion period was too long. High level of inventory has affected to make CCC longer. It is recommended that the companies should

improve their inventory management system. Manufacturing companies should try to trade off liquidity and profitability in order to increase profit.

2.5 Research Gap

Most of the dissertation related to cash management has been reviewed. The previous researchers had conducted their research on Unilever Nepal Limited and Bottlers Nepal Limited only using financial tools. But this study tried to analyses the effectiveness of cash management of Unilever Nepal Ltd. and Bottlers Nepal Ltd. both financial as well as statistical tools. Already we know the cash management of commercial banks,

but it is rear to know the cash position of these two companies is fruitful to know about cash position and cash management of it. Researcher thinks the cash management of Unilever Nepal Ltd. and Bottlers Nepal Ltd. is different and process of liabilities management is also different.

CHAPTER -III

RESEARCH METHODOLOGY

Research Methodology

3.1 Introduction

"Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view." It is concerned with the various methods and techniques used in the process of research studies. Therefore, it is a systematic way to solve the research problem this chapter looks into the research design, population and sample nature and source of data, data collection procedure and tools and techniques of analysis.

From data collection to till data interpretation, researcher needs a proper path to solve the research problem. This is guided buy research methodology. This chapter tries to focus on different research methods, frameworks, tools and conditions that will be used while conducting the study.

The research study attempts to analyze the cash management techniques adopted by the manufacturing companies in Nepal. Hence, analytical and descriptive research is applied. Descriptive research is essentially a fact finding approach relative largely to present and abstracting generalization by the cross section study of the current situation. Analytical approach is followed to parametric and non parametric test of data. It is the process of micro analysis and appraisal to the data.

3.2 Research design

Research design is a broad plan for collecting and analyzing data. It includes methods that are used while collecting data, instruments that are used for doing research and the sampling plan that are used for follow up.

3.3 Population and Sample

The total numbers/ population of the manufacturing companies which are listed in Nepal Stock exchange of Nepal are 18, with different nature of production. Among them only two manufacturing companies are selected as a sample for the study. They are:

i. Bottlers Nepal ltd.
ii. Unliver Nepal limited.

While selecting these two companies, convenient and judgmental sampling technique have been used. The base logic behind this is that there two companies are in better performance and easy to get necessary information.

3.4 Nature and Sources of Data

Only secondary data are collected for the study. Financial statement, such as balance sheet and profit sheet and profit and loss account of the companies are major source of data.
The major sources of information collections are as follows:

- Annual reports of related companies and security board of Nepal.
- Financial statistics of listed companies, published by security board of Nepal.
- Journals, government and non-government publication other supportive books a mostly
- Website of the companies.
- Other related published and unpublished documents.

3.5 Methods of Data Analysis

Only financial and statistical tools are used for the analysis of data which is already stated in the limitation of the study. The producers of analyzing data are described as follows:

3.5.1 Financial Tools and Techniques

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exist between them. The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding the firm's position and performance. Financial analysis is the process of selection, relation and evolution.

A. Ratio Analysis
i) Liquidity Ratio

Analysis of Current Ratio

This ratio examines the short term solvency, i.e. liquidity position of the firm. The higher the current ratio, the larger is the amount of rupee available per rupee of current liability, the more is the firm's ability to meet current obligations and the greater is the safety of funds of short term creditors. The ideal current ratio is 2:1 lesser the ratio indicates the lower liquidity position of the firm.

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

Analysis of Quick Ratio/ Acid – Test Ratio

It is a measure of liquidity designed to overcome the defect of current ratio. It is often referred as a quick ratio because it is a measurement of a firm's ability to convert its current assets quickly in to cash in order to meet current liabilities. The ideal quick ratio is 1 : 1

$$\textit{Quick Ratio } X \frac{\textit{Quick Assets}}{\textit{Current Liabilities}}$$

Where,
Quick assets = Current assets – Inventory-Prepaid Expenses

Cash Position Analysis

Business needs cash for meeting its daily operating expenses and other cash obligations. Therefore cash position should be looked into separately to highlight this crucial business aspect. Cash means actual cash and bank balance extracted from balance sheet of annual report.

Current liabilities consists of account payable, current position of long term loan, other provision, pension fund and other short term liabilities. Total assets include net fixed assets, investments and current assets except deferred change.

Cash to current Assets Ratio measure the portion of a company's assets held in cash of marketable securities. Although a high ratio may indicate some degree of safety from a creditors viewpoint, excess amounts of cash may be viewed as inefficient.

$$Cash\ to\ Current\ \text{Assets Ratio X}\frac{Cash\ \Gamma\ Marketable\ Securities}{Current\ Assets}$$

High of increasing cash to current assets ratio is generally a positive sign, showing the company's liquid assets represent a larger portion of its total current assets. It also indicates the company may be better able to convert its non-liquid assets, such as inventory, into cash.

2. Cash to total Assets Ratio: Investment in money assets differs not only from the industry to another but it also varies from one company to another within the same company thus making cash management task is more difficult.

$$Cash\ to\ t\text{o total Assets Ratio X}\frac{Cash}{\text{Total } Assets}$$

3. Working Capital : Firms need cash to pay for all their day-to-day activities. They have to pay wages, pay for the raw material, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main source of working capital are the current assets these are the short-term assets that the firm can use to generate case. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal. Working capital management is the management of current assets and current liabilities of the firm. Current Assets means assets that normally get converted into cash within a year. A Current liabilities means liabilities that are normally payable within a year.

Net Working Capital= Current Assets-Current Liabilities

C. Actual Cash Flow Analysis

"Cash flow statement provides relevant information about the cash receipts and cash payment of an enterprise during a period. Information about enterprises cash flow is useful in assessing its liquidity, financial flexibility, profitability and risk. "(Fago, Subedi, Gyawali, 2003: 11.1)

In simplified term, cash flow statement shows the movement of cash in and out of business. It also finds the reason for changes in balances of cash in hand and at bank as on data to a next data, usually the accounting period. The main source of cash receipts and channels of payment are found out and recorded in the cash flow statement.

CHAPTER –IV

ANALYSIS AND PRESENTATION OF DATA

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

4.1 Analysis of data by Financial Tools

4.1.1 Liquidity Analysis

Liquidity ratios attempt to measure a firm's ability to pay off its short-term debt obligations. This is done by comparing a company's most liquid assets (or, those that can be easily converted to cash), its short term liabilities.

A. Current Ratio

The current ratio is a popular financial ratio used to test a firm's liquidity by deriving the proportion of current assets available to cover current liabilities. The concept behind this ratio is to ascertain whether a firm's short term assets are readily available to pay off its short-term liabilities. In theory, the higher the current ratio, better the company.

Inventory, sundry debtors, deferred tax assets, prepaid exp. loans, bank balance and cash is included in current assets.

Sundry creditiors, other liabilities and provisions is included in current liabilities.

Formula :

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

Table No. 4.1

Analysis of current Ratio of BOTTLERS NEPAL LTD. (BNL)

Fiscal Year	Total Current Assets	Total Current Liabilities	Ratio CA/CL	Standard Deviation
	BNL	BNL	BNL	BNL
2007/08	511,066,884	807,242,790	0.634	0.0302
2008/09	434,559,200	507,997,768	0.856	0.230
2009/10	505,092,652	594,872,936	0.850	0.176
2010/11	681,439,484	764,364,947	0.891	0.688
2011/12	857,273,445	1,058,641,186	0.809	1

Analysis of current Ratio of UNILEVER NEPAL LIMITED (UNL)

Fiscal Year	Total Current Assets	Total Current Liabilities	Ratio CA/CL	Standard Deviation
	UNL	UNL	UNL	UNL
2007/08	63,99,68,301	76,77,65,260	0.833	0.132
2008/09	74,43,04,521	79,74,90,980	0.934	0.069
2009/10	79,06,30,298	50,72,30,443	1.56	0.131
2010/11	75,89,69,976	55,21,20,540	1.375	0.031
2011/12	74,58,30,664	57,98,63,704	1.286	0.781

Source : BNL and UNL Annual Report (2007-2012)

During the first study period of two companies Bottlers Nepal Ltd. and Unilever Nepal Ltd. had 0.634 and 0.833 Rupees worth of current assets for every Rupees of liabilities. (please see Table No. 4.1) . In the year 2008/09 this ratios were increased and available current assets of both companies were 0.856 and 0.934 Rupees for every Rupees of liabilities. Decreasing/Increasing trends were shown on liquidities in this study period with increment in ratios in the year

2009/10, which are 0.850 and 1.56. The ratios further were increased/decreased and became 0.891 and 1.375 in the year 2010/11. In the year 2011/12 the current ratio of both companies were decreased to 0.809 and 1.286.Looking after theoretical aspect the minimum acceptable CR is 1. The ratio below 1 is the weak position of the company. Both companies supports its short-term debt from its current assets as rule says that the current ratio should be at least 2. Ratio satisfactory depends on the nature of the business and the characteristics of its current assets and liabilities.

The strong variation in cash to total current assets ratio explains that both companies have not been adopted specific policy for investment of cash in total assets. The ratio were seen in highly fluctuating trend during the study period. In comparison with both companies; however, UNL seems to more competent than of BNL on making payment of short term obligation, being the ratio greater.

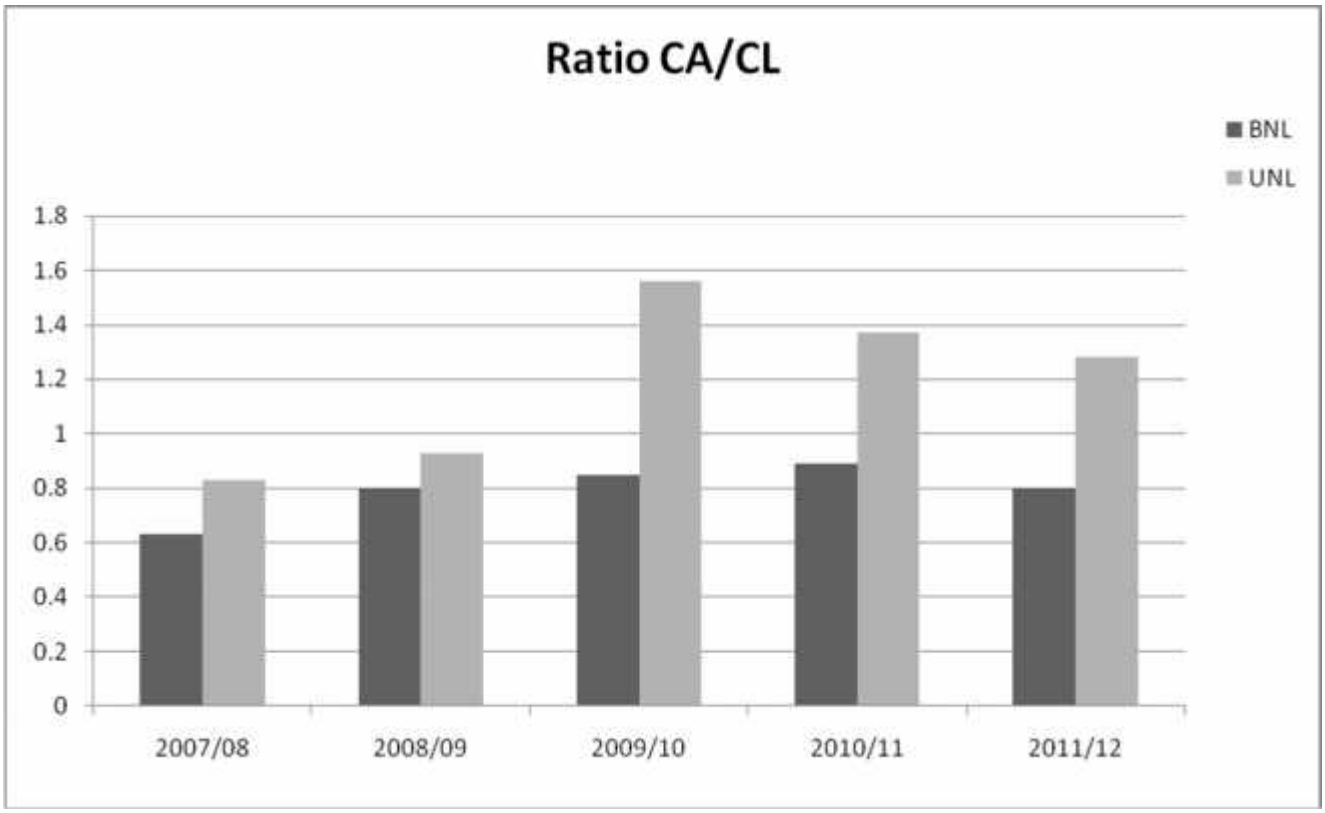


Figure No : 4.1

Current ratio

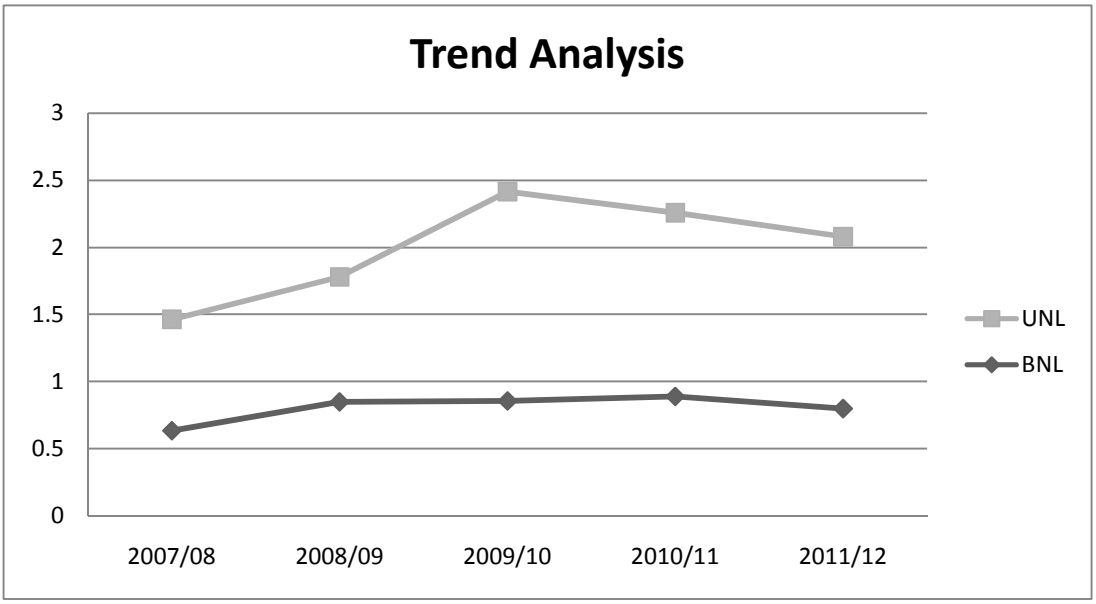


Fig No. 4.1

B. Quick Ratio

The quick ratio or the acid-test ratio is a liquidity indicator that further refines the current ratio by measuring the amount of the most liquid assets there are to cover current Liabilities. The quick ratio is more conservative than the current ratio because it excludies inventory and other current assets, which are more difficult to turn into cash. Therefore, a higher ratio means a more liquid current position.

Inventory and prepaid exp., Loans/Adv are deducted from current assets that is written in table No. 4.2.

$$\textit{Quick}\ \text{Ratio}\ \text{X} \frac{\text{Current Assets - Inventories - Prepaid Expenses}}{\text{Current Liabilities}}$$

Table No. 4.2

Analysis of Quick Ratio of BNL

Fiscal Year	Total Quick Assets	Total Current Liabilities	Ratio CA/CL	Standard Deviation
	BNL	BNL	BNL	BNL
2007/08	97651255	807242790	0.120	0.010
2008/09	85946355	507997768	0.169	0.022
2009/10	33862658	594872936	0.0569	0.140
2010/11	64167548	765364947	0.0839	0.415
2011/12	59790735	1058641186	0.0564	0.136

Analysis of Quick Ratio of UNL

Fiscal Year	Total Quick Assets	Total Current Liabilities	Ratio CA/CL	Standard Deviation
	UNL	UNL	UNL	UNL
2007/08	238052352	767765260	0.310	0.041
2008/09	247121633	797490980	0.309	0.040
2009/10	515917823	507230443	1.017	0.828
2010/11	291250787	552120540	0.527	0.176
2011/12	291341961	579863704	0.502	0.156

Source : BNL and UNL Annual Report (2007-2012)

Figure no. 4.2 shows the ratio between quick assets and current liabilities of two companies. Bottlers Nepal Ltd. (BNL) and Unilever Nepal Ltd. (UNL). This ratio will be lower than the current

ratio of two companies, but the difference between the two will indicate the extent to which current assets consist of stock. In the year 2007/08, quick Ratios were 0.120 and 0.310 but Ratios were slowly increased/decreased in the year 2008/09 to 0.1691/0.309. In the year 2009/10 Ratio of UNL increased to 1.17 but BNL decreased to 0.0569. During the year 2009/10 UNL has got strength liquidity position being quick ratio to 1.017 but the year 2010/11 both companies quick ratios were decreased. Here both companies were showing liquidity position but in comparison with both companies UNL had higher the standard ratio than BNL had slightly below the standard ratio.

Quick Ratio

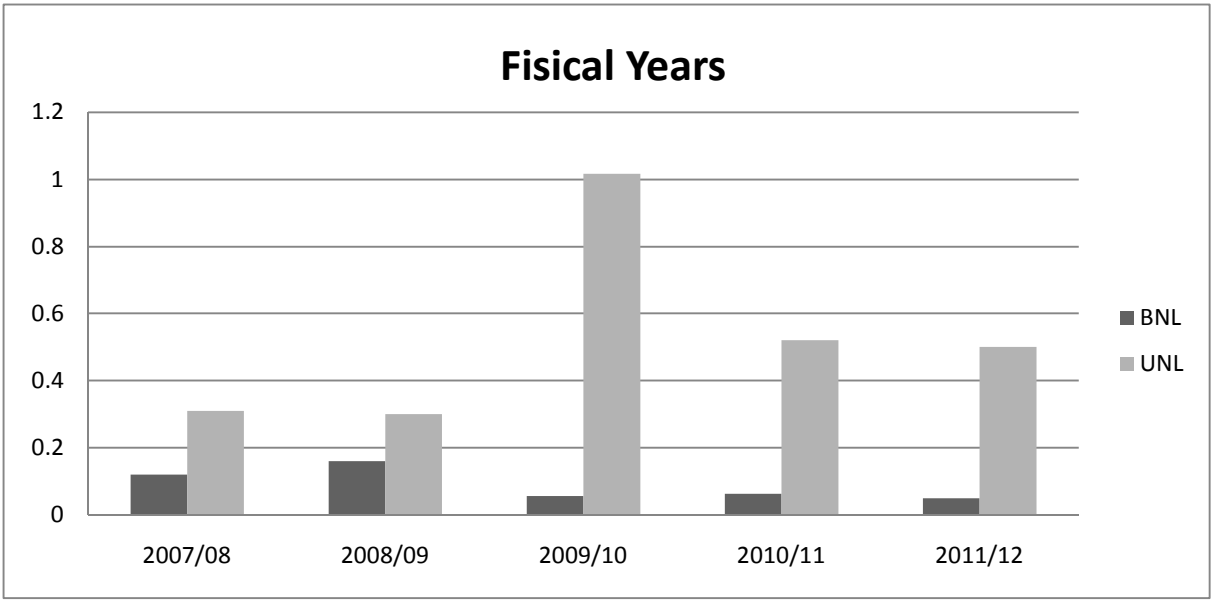


Fig No. 4.2

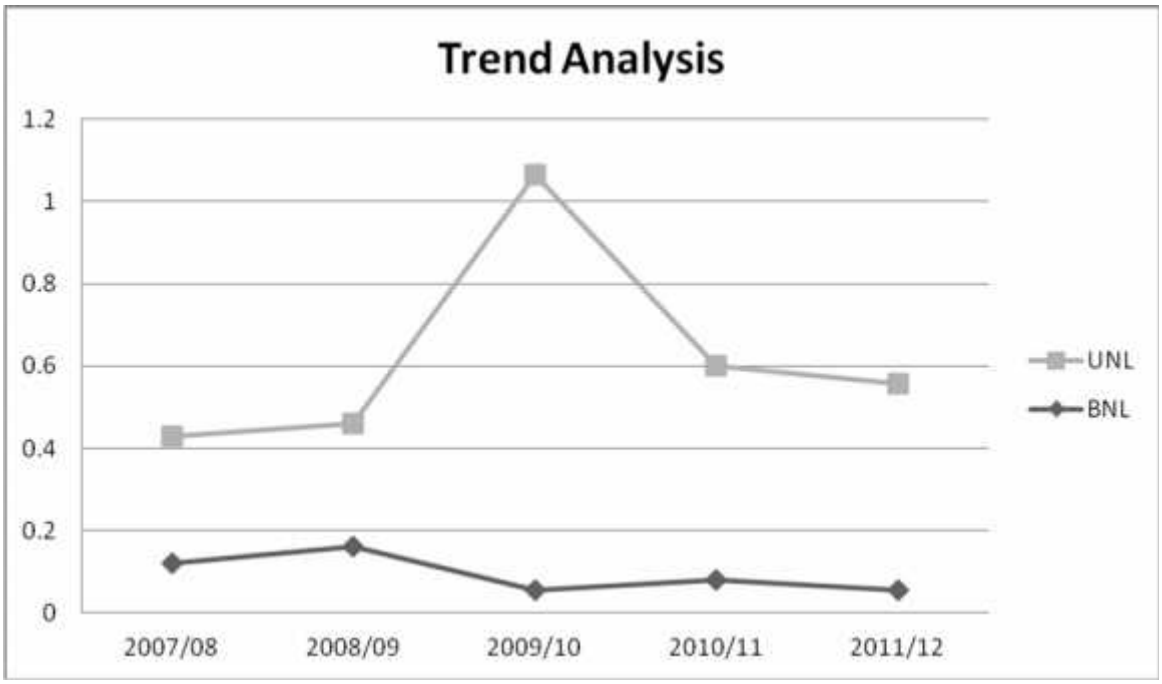


Fig No. 4.2

4.1.2 Cash Position Analysis

a) Cash to Current Assets Ratio

Table No. 4.3

Analysis of cash and bank balance to current assets ratios of BNL

Fiscal Year	(Cash+Bank) Balance	Current Assets	Ratio	Standard Deviation
	BNL	BNL	BNL	BNL
2007/08	3,464,144	5,11,066,884	0.0067	0.077
2008/09	2,427,935	4,34,559,200	0.0055	0.078
2009/10	3,658,064	505,092,652	0.0007	0.081
2010/11	28,780,479	681,439,484	0.0422	0.059
2011/12	14,426,219	857,273,445	0.0168	0.072

Analysis of cash and bank balance to current assets ratios of UNL

Fiscal Year	(Cash+Bank) Balance	Current Assets	Ratio	Standard Deviation
	UNL	UNL	UNL	UNL
2007/08	10,16,02,475	63,99,68,301	0.158	0.013
2008/09	9,89,88,795	74,43,04521	0.132	0.799
2009/10	38,20,49,195	790630298	0.483	0.193
2010/11	16,32,66,004	758969976	0.215	0.029
2011/12	5,70,38,448	745830664	0.0764	0.114

Source : BNL and UNL Annual Report (2007-2012)

Cash turnover Ratio

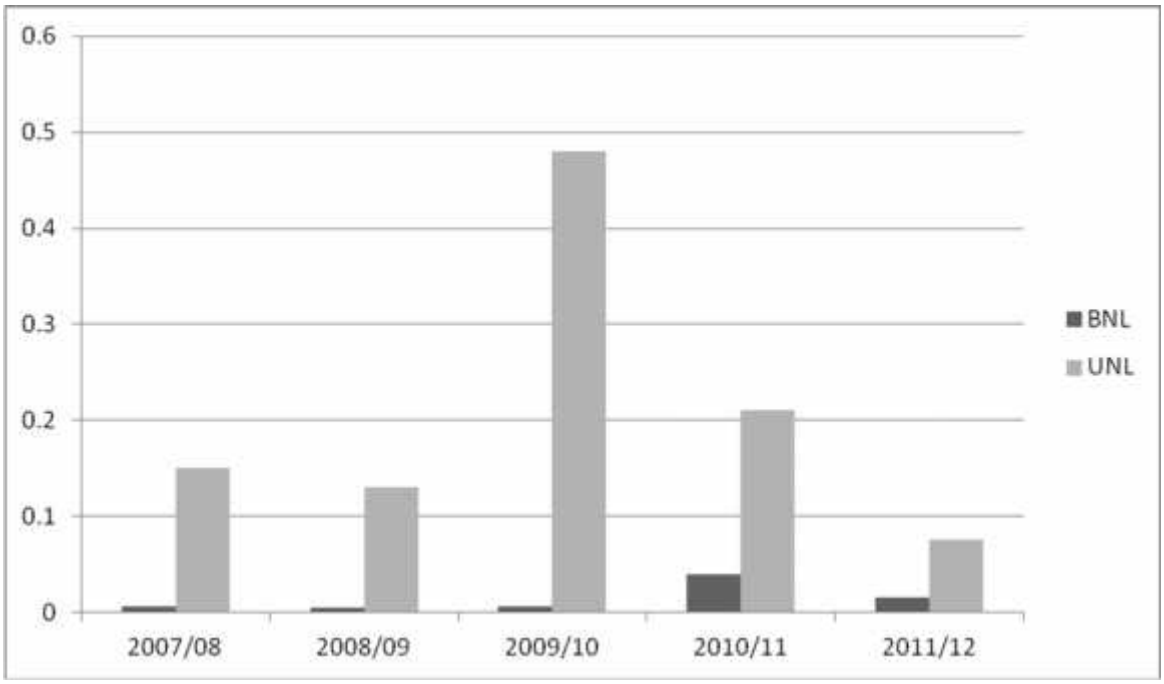


Fig No. 4.3

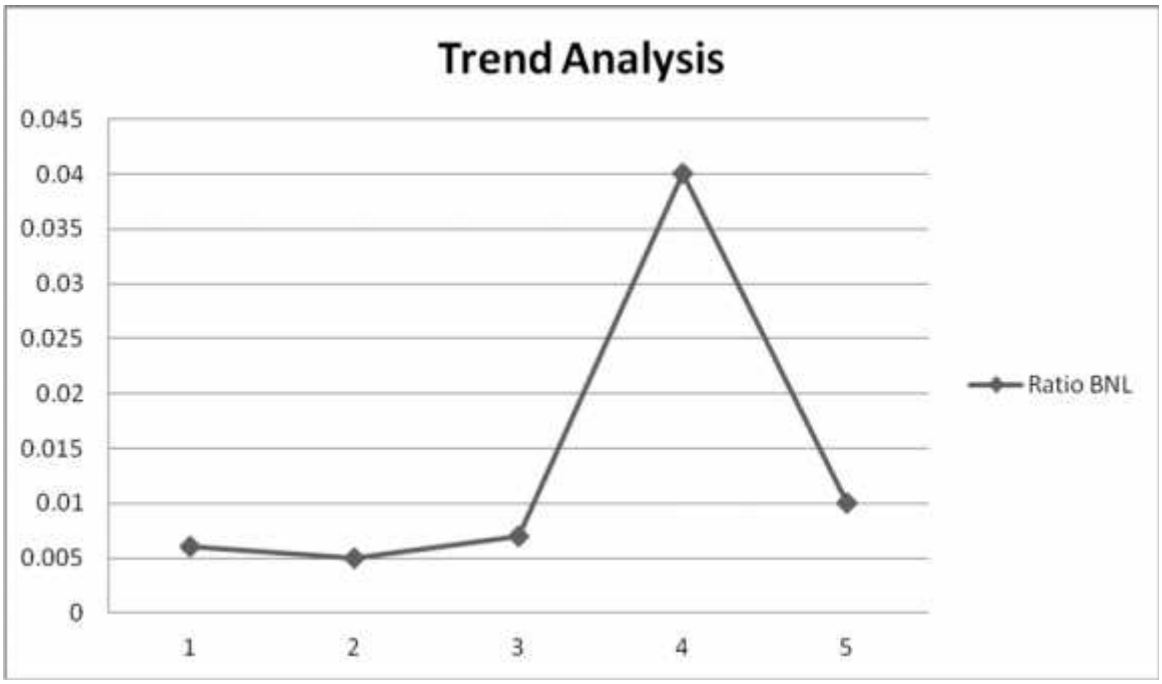


Fig No. 4.3

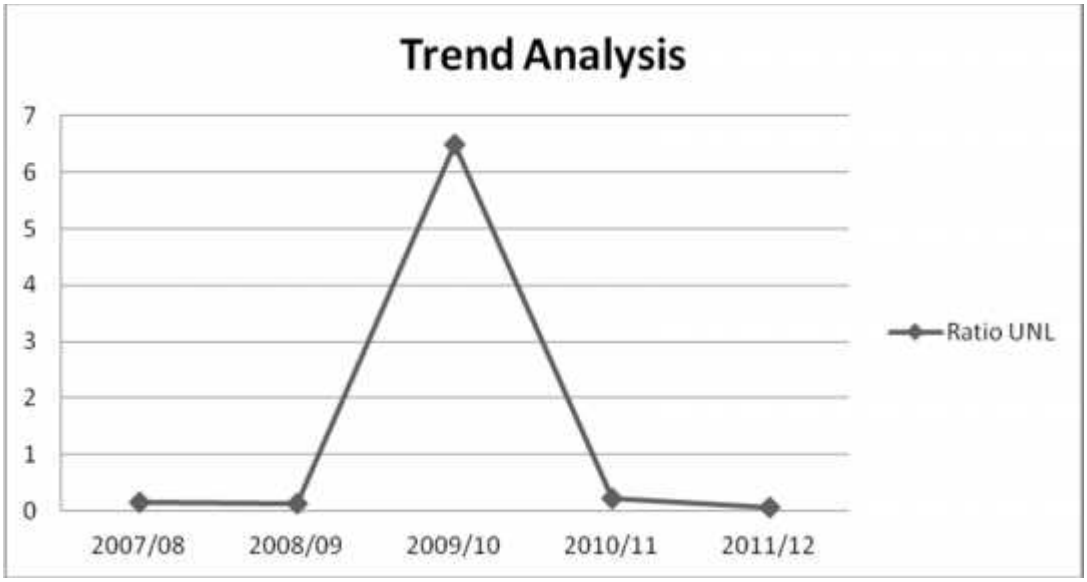


Fig No. 4.3

Cash is the liquid current assets and as such more the amount of cash balance in a company, more liquid the company, liquid the company in meeting the current obligation. However, bearing excess cash signifies cash balance being held idle without any motive.

Table no. 4.3 shows the cash to current assets of selected manufacturing companies over the study period. The average cash to current assets ratio had been observed in selected manufacturing companies in study period are 0.01428 and 0.2128 percent of BNL and UNL respectively. The ratio varied widely over the study period. Ratio of BNL varies highest of 0.0422 percent in the fiscal year 2010/11 and lowest 0.0007 in the fiscal year 2009/10. Similarly, ratio of UNL varies highest of 0.483 in the fiscal year 2009/10 to lowest 0.0764 in the fiscal year 2011/12.

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

b) Cash to total assets Ratio : Investment in money assets differs not only from the industry to another but it also varies from one company to another within the same company thus making cash management task is more difficult.

$$Cash\ to\ total\ Assets\ Ratio\ \mathrm{X}\frac{Cash}{Total\ Assets}$$

Where,

Total Assets = Current Assets + Fixed Asset

Statement showing cash to total Assets Ratio of BNL

Table No 4.4

Fiscal Year	Cash	Total Assets	$Ratio\ \mathrm{X}\frac{Cash}{Total\ Assets}$
2007/2008	3,464,144	1104934850	0.0031
2008/2009	2,427,935	993097141	0.0024
2009/2010	3,658,064	1119471124	0.0032
2010/2011	28,780,479	1324688391	0.0217
2011/2012	14,426,219	1677014831	0.0086

Statement showing cash to total Assets Ratio of UNL

Fiscal Year	Cash	Total Assets	$Ratio\ X \frac{Cash}{Total\ Assets}$
2007/2008	101602475	21,36,50,000	0.475
2008/2009	98988795	18,36,50,000	0.539
2009/2010	382049195	24,86,50,000	0.650
2010/2011	163266004	44,86,50,000	2.747
2011/2012	57038448	58,73,50,000	10.297

Cash to Total Assets Ratio

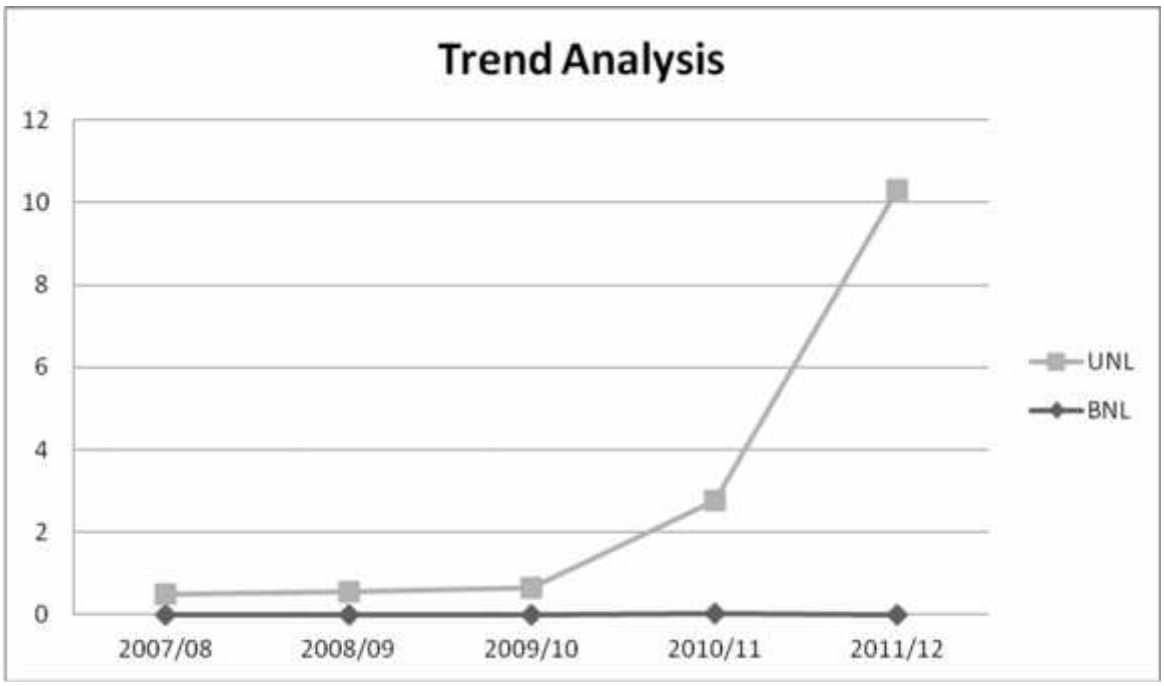


Fig No. 4.4

Figure No. 4.4 shows the cash to total assets ratio of selected manufacturing companies over the study period. The picture shows that both companies are in increasing trend. But with comparisons of both companies, UNL has better position than BNL.

3. Working Capital : Firms need cash to pay for all their day-to-day activities. They have to pay wages, pay for the raw material, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main source of working capital are the current assets these are the short-term assets that the firm can use to generate case. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal. Working capital management is the management of current assets and current liabilities of the firm. Current Assets means assets that normally get converted into cash within a year. A Current liabilities means liabilities that are normally payable within a year.

Net working capital = Current Assets - Current Liabilities

Statement showing Net Working Capital of BNL

Table No. 4.5

Fiscal Year	Current Assets (CA)	Current Liabilities (CL)	Net Working Capital=CA-CL
2007/2008	511,066,884	807,242,790	(296,175,906)
2008/2009	434,559,200	507,997,768	(73,438,567)
2009/2010	505,092,652	594,872,936	(89,780,285)
2010/2011	681,439,484	764,364,947	(82,925,463)
2011/2012	857,273,445	1,058,641,186	(201,367,741)

Statement showing Net Working Capital of UNL

Table No. 4.5

Fiscal Year	Current Assets (CA)	Current Liabilities (CL)	Net Working Capital=CA-CL
2007/2008	63,99,68,301	76,77,65,260	(2,77,96,959)
2008/2009	74,43,04,521	79,74,90,980	(186459)
2009/2010	79,06,30,298	50,72,30,443	283399855
2010/2011	75,89,69,976	55,21,20,540	206849436
2011/2012	74,58,30,664	57,98,63,704	165966960

Sources : Annual Report (2007-2012) BNL and UNL

Table No 4.5 represents the trend of networking capital with comparision of both companies, BNL has more negative value than UNL due to greater liabilities. So, UNL has better condition than BNL.

Relationship between holding cash and profitability of BNL

Table No. 4.6

Fiscal Year	Cash	Net Profit
2007/2008	3,464,144	30,307,349
2008/2009	2,427.935	33,414,638
2009/2010	3,658,064	20,530,646
2010/2011	28,780,479	177,502,150
2011/2012	14,426,219	241,559,427

Relationship between holding cash and profitability of UNL

Fiscal Year	Cash	Net Profit
2007/2008	101602475	26,30,64,838
2008/2009	98988795	33,51,21,739
2009/2010	382049195	44,40,42,761
2010/2011	163266004	57,65,34,001
2011/2012	57038448	60,98,85,439

Sources: Annual Report (2007-2012) BNL and UNL

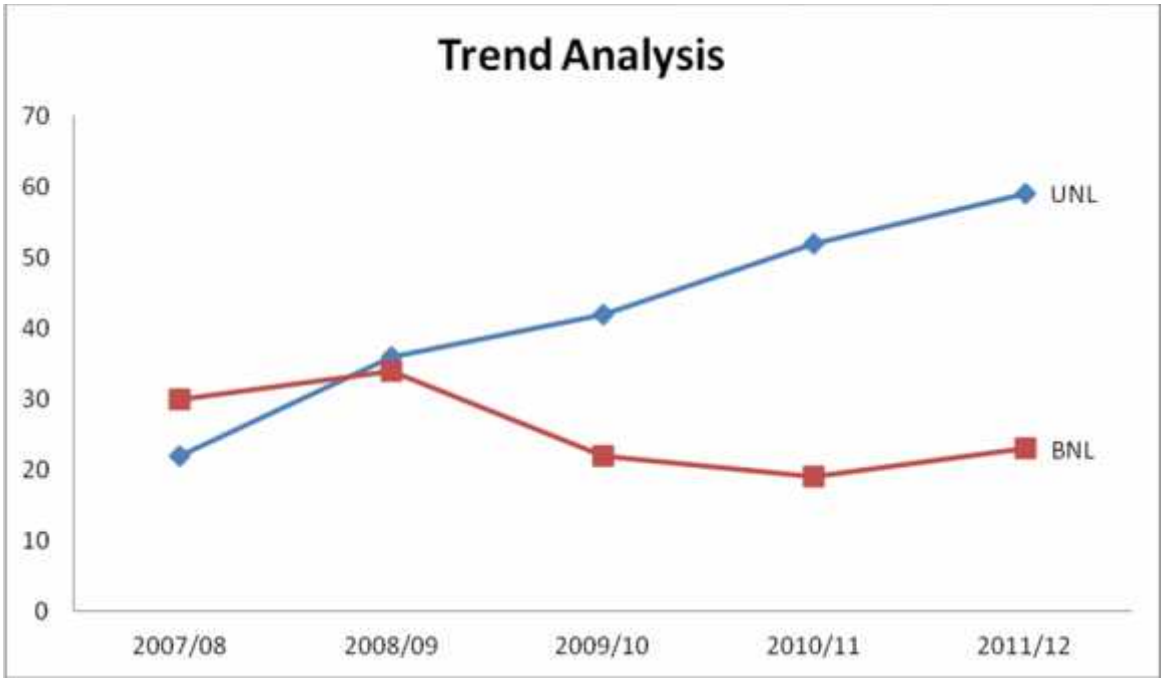


Fig No. 4.6

Figure No. 4.6 shows the relationship between holding cash and profitability of selected manufacturing companies over the study period. The picture shows that both companies are in increasing trend, but with comparison of both companies. UNL has better position than BNL.

4.1.3 Actual cash flow Analysis

Cash flow statement provides information about the cash receipts and payments of a firm for a given period. It provides information that compliments the profit and loss account and balance

sheet. The information about the cash flows of a firm is useful in providing users or financial statements with basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize these cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation. The statement deals with the provision of information about the historical changes in cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

Table No. 4.7

Cash flow from operating Investing and Financing activities for 2007/08 to 2011/12 (BNL)

Particular	2007/08 BNL	2008/09 BNL	2009/10 BNL	2010/11 BNL	2011/12 BNL
Cash flow from operating activities	1,73,525,007	111,347,917	92,714834	377521943	240531988
Cash flow from investing activities	(2,29,958,880)	(88513939)	(85129831)	(118155262)	(242626211)
Cash flow from financing activities	(7,20,00,000)	(24122005)	(66,668,000)	76,410,435	92444060

Cash flow from operating Investing and Financing activities for 2007/08 to 2011/12 (UNL)

Particular	**2007/08 UNL**	**2008/09 UNL**	**2009/10 UNL**	**2010/11 UNL**	**2011/12 UNL**
Cash flow from operating activities	291,984,784	64,95,34,929	22,44,00,290	397435777	51,53,29,175
Cash flow from investing activities	(128478800)	(6,97,99,204)	2,61,78,530	(201903967)	(10,59,64,731)
Cash flow from financial activities	49,793,623	(29,66,75,325)	(25,31,92,500)	41,43,15,000	51,55,92,000

Source: Annual Report (2007-2012) BNL and UNL

Table No. 4.4 represents the trend of net cash flow from operating investing and financing activities. Operating cash flow often referred to as working capital is the cash flow generated from internal operations. In Bottlers Nepal Ltd. (BNL) and Unilever Nepal Ltd. (UNL), cash from operating activities are generated form sales of the product services. Operating profit before working capital includes adjustment, depreciation, foreign exchange gain or loss provision for staff bonus, gratuity received and pension payment, provision for income tax, fixed assets written off, income from investment and bank deposit and expenses on loss of goods. BNL's net operation profit before tax is in decreasing trend since 2009/10 ie. Rs 173525007, 111,347,917 and 92714,834. Then, after it is in increasing trend since 2011/12. i.e. Rs. 377521,943 and 240531988. But UNL's net operating profit before tax is in increasing from the year 2007/08 to 2008/09. i.e. Rs. 291,984,784 and 649534929. Then after the coming year 2009/10 it is decreasing i.e. Rs. 224400290. But in the year 2010/11 and 2011/12 it is increasing i.e. Rs. 397435777 and 515329175.

Figure of cash flow from operating activities. (BNL and UNL)

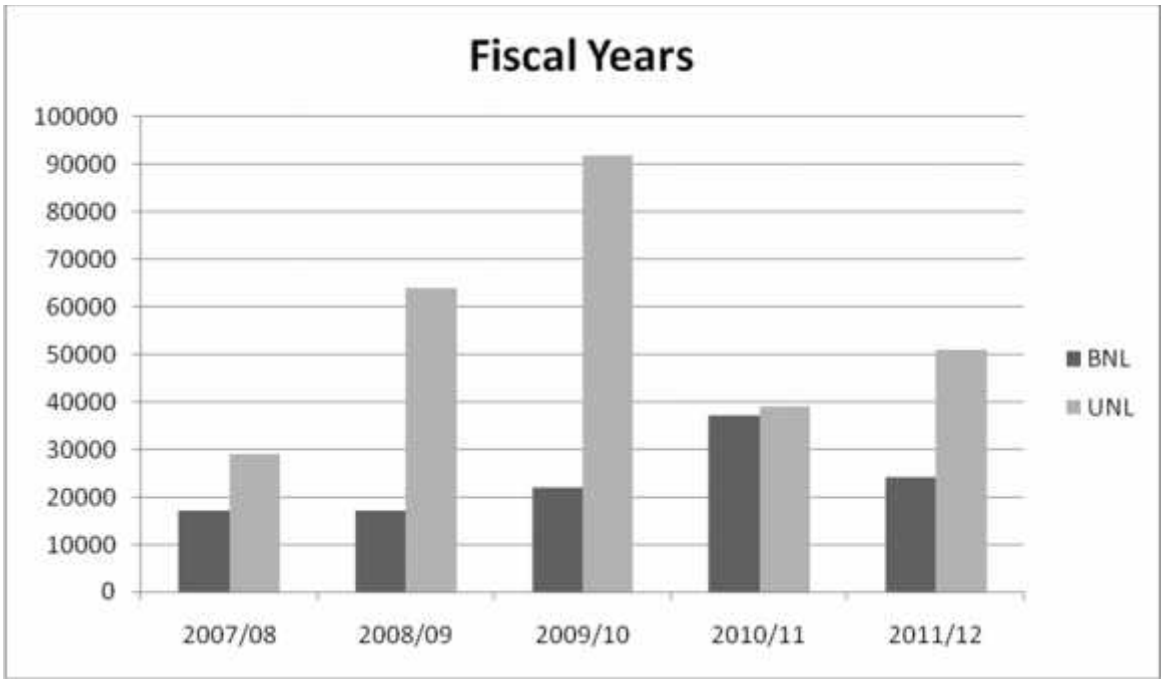


Fig No= 4.4

Adjustment of working capital includes increase in A/R, increase in stock, increase in CA, increase in advance, increase in payables and payment of last year dividend, bonus, incentive, royalty, pension and working capital changes. By adjusting net operating profit before tax, operating profit before working capital changes.

After the analysis, it can be concluded that the operating cash flow of both companies are increasing, which is good sign for both companies. In comparison with both companies BNL and UNL, UNL has better condition than BNL. Furthermore, BNL and UNL should monitor, analyze and adjust its cash flow. Similarly, the results of cash flow from investing activities are presented in below on figure.

Figure of Actual cash Flow investing activites

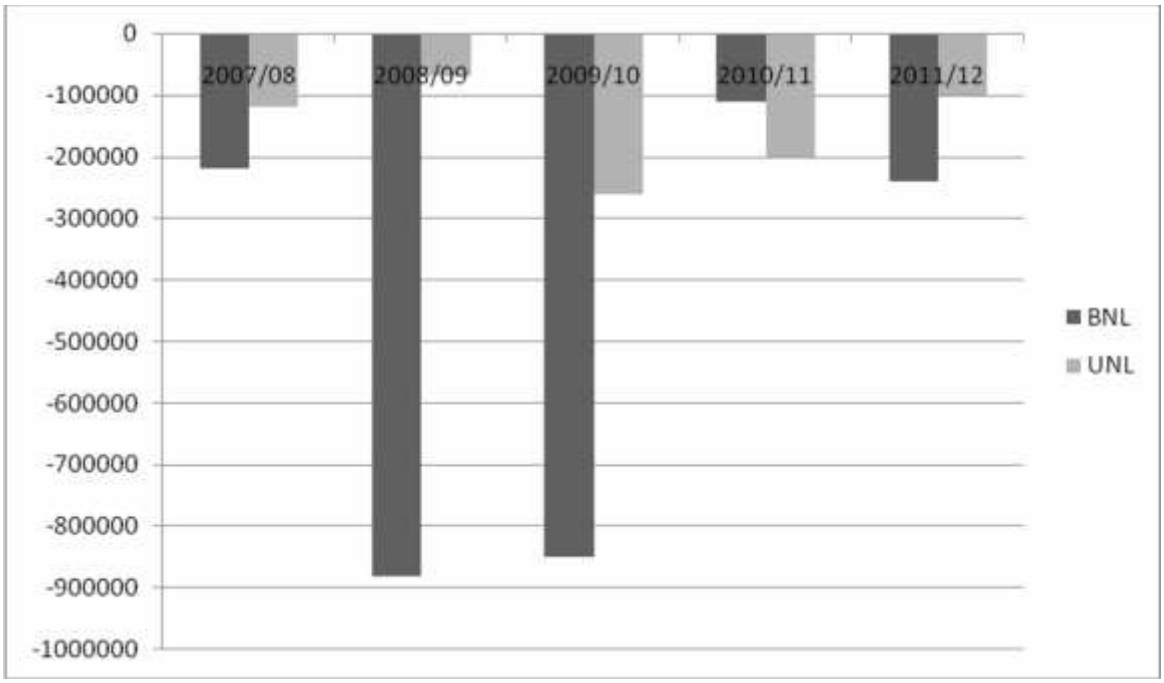


Fig No : 4.5

Fig No. 4.5 shows the cash flow from investing activities. Investing cash flow is generated internally from non-operating activities. This components includes investments in plant and equipment or other fixed assets, non recurring gain of losses, income from investment and bank deposit or other source used outside of normal operations.

Cash flow from investing activities were in increasing trend up to the year 2007/08, 2008/09 and 2009/10 and then were decreasing up to the last year of study period. CFIA were negative through the study period which shows that companies were purchased assets and invested in fixed assets on the middle of the year study period.

Figure of Actual Cash flow Financing Activities

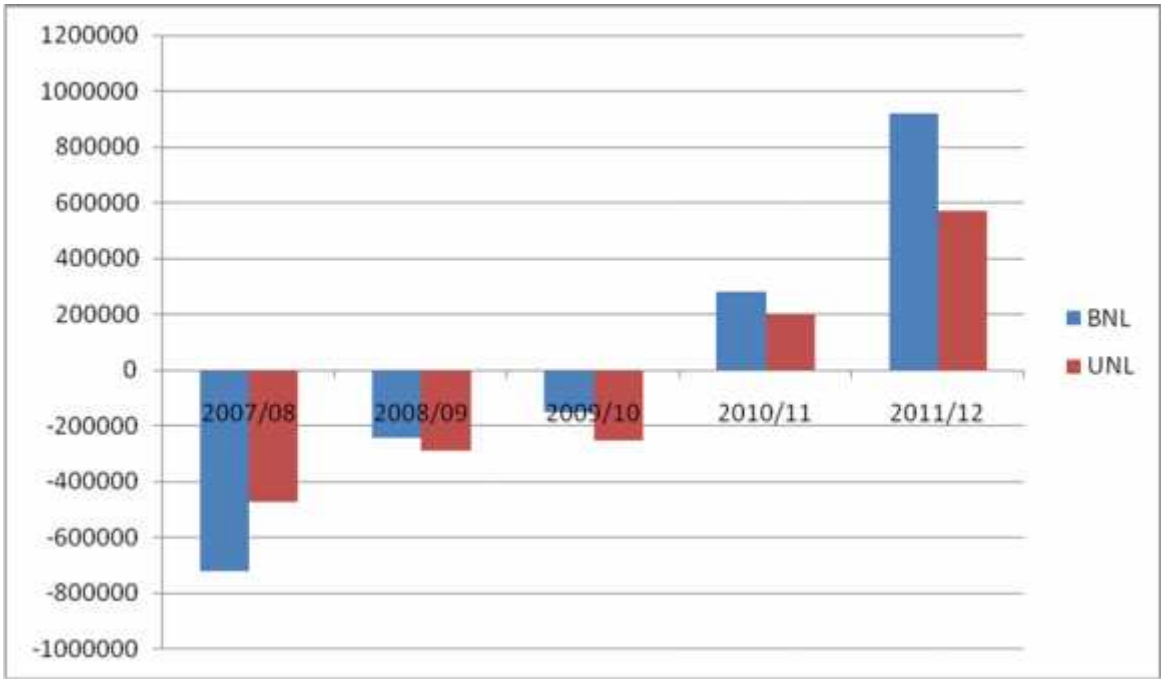


Fig. No: 4.6

Fig No. 4.6 shows figure cash flow from financing activities. It's CFFA also has negative cash flow. This means that both companies were paying its long term liabilities. During the study period, in the year 2007/08 BNL has negative CFFA which was Rs.-72,00,000 but UNL has positive which was Rs. 49,793,623. Then after in the year 2008/09 and 2009/10 both companies CFFA were negative. That means both companies were paying its long term liabilities. During the study period, CFFA were highest in the year 2011/12 of both companies cash flow is more on the last year of the study period due to the dividend paid. It does not need financing from other external sources.

Table no 4.8

Calculation of actual cash flow of BNL

Particular	2007/08	2008/09	2009/10	2010/11	2011/12
CFOA	173525007	111347917	92714834	377521943	240531988
CFIA	(229958880)	(88513939)	(85129831)	(118155262)	0242626211
CFFA	(72000000)	(24122005)	(66668000)	76410435	92444060
Net increment in cash (a+b+c)	(128433873)	(1288027)	(60379357)	182,956,246	(94538282)
Cash at the beginning of the year	35925490	(92508383)	(93796410)	(154175767)	28780479
Cash at the end of the year	(92508383)	93796410	(154175767)	28780479	(65757804)

Calculation of actual cash flow of UNL

Particular	2007/08	2008/09	2009/10	2010/11	2011/12
CFoA	291,984,784	64,95,34,929	22,44,00,290	39,74,35,777	51,53,29,175
CFIA	(128,478,800)	(6,97,99,204)	2,61,78,530	(20,19,03,967)	(10,59,64,731)
CFFA	(49,793,623)	(29,66,75,325)	(25,31,92,500)	(41,43,15,000)	(51,55,92,000)
Net increment in cash (a+b+c)	113,712,362	28,30,60,400	(26,13,680)	(21,87,83,191)	(10,62,27,556)
Cash at the beginning of the year	(65,757,804)	9,89,88,795	10,16,02,475	38,20,49,195	16,32,66,004
Cash at the end of the year	47,954,558	38,20,49,195	9,89,88,795	16,32,66,004	5,70,38,448

Source : BNL and UNL, Annual Report (2007-2012)

Table No. 4.5 shows the actual cash flow of BNL and UNL. The net cash flow from operating activities cash flow from investing activities and cash flow form financing activities.

By adding operating, investing and financing cash we can get net increment in cash. After adjustment of beginning cash with net increment in cash, we can reach on the classing cash balance, which is the cash position of both companies BNL and UNL.

Table No. 4.5 shows the actual cash flow of BNL and UNL. Here, after closing cash balance, the cash position of BNL has not sufficient cash for its operation because it has negative value during the year 2007/08, 2009/10 and the year 2011/12. Same as UNL, after closing cash balance the cash position of UNL has sufficient cash for its operation because it is in increasing trend and positive value than BNL.

Trend showing cash flow position from various activities of (BNL and UNL)

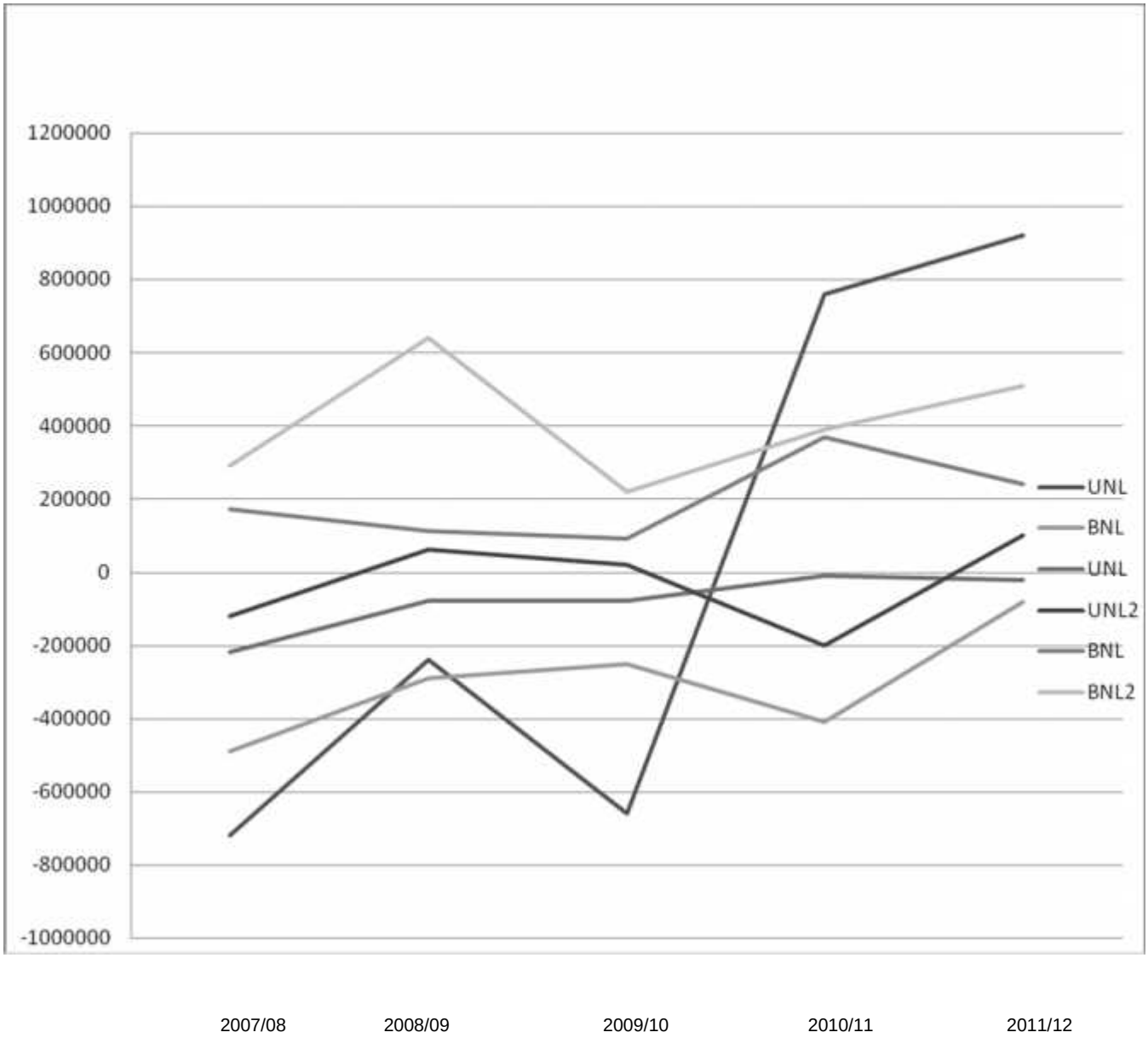


Fig No. 4.7

4.3 Major Finding

In the research mainly secondary data are used and the analysis is computed with the help of different financial tools. Usually, the overall results of cash flow do not come in negative. The reason why the result of this study is negative is because of the data provided by the companies. This research study has fully depended on the publicly available data and analyses the data using the standard data analysis techniques. In financial tools, ratio analysis has been used. This chapter focuses on major finding from analysis of secondary information of BNL and UNL.

Finding on current ratio:

Current ratio of Bottlers Nepal Ltd. (BNL) through out the study period is in increasing trend. From 2007/08 to 2010/11 then during the year 2011/12, it is in decreasing trend. The current ratio of Unilever Nepal Ltd. (UNL) throughout the study period is also in increasing trend from 2007/08 to 2010/11. During the year 2011/12 it is in decreasing trend than the Previous year. With comparison of both companies, BNL has failed to maintain adequate proportion of cash on its current assets, while UNL has maintained high cash to current assets. Relationship between cash to current assets of BNL is low positive and UNL has high degree positive. Level of significance of BNL in terms of cash to current assets is not significant where as UNL has significant.

Finding on quick ratio:

Quick ratio of Bottlers Nepal Ltd. (BNL) is 0.0972 on in average during the study period. The ratio is in increasing trend since the year 2008/09, then it is in decreasing trend.

It is not uncommon for a quick ratio to be 0.097. A ration lower this might indicated that company is running short on its available cash, which could create problems soon after the purchase. Here, is no shortage of cash but cash may remain idle. (The quick ratio of Unilever Nepal Ltd. (UNL) is 0.533 in average during the study period. The quick ratio of UNL is fluctuating year by year. It is in decreasing order in the year 2007/08 and 2008/09. It is in rapidly increasing order in the year 2009/10. Then again it is decreasing in the years 2010/11 and 2011/12. Comparing the quick ratio of both companies, UNL has better position than BNL. UNL seem to be able to maintain the adequate proportion of quick ratio

Finding on cash turnover ratio:

Cash turnover ratio explains how quickly cash is received from sales. Overall cash turnover of BNL is 0.01428 on in average. The decreasing trend is going on from 2007/08 to 2011/12. So, as UNL cash turnover is 0.2128 in average. The decreasing trend is going on from 2007/08 to

2011/12. Infact, the higher cash turnover ratio of cash indicates the sound liquidity position of company and vice versa. Average cash turnover ratio of BNL and UNL are 0.01428 and 0.2128 respectively. However, the cash turnover ratios were found to be highly fluctuated. BNL has low positive and UNL has high degree positive relationship.

Find on cash to total Assets Ratio :

Cash to Total Assets Ratio find out the cash management of the companies. Here, UNL has better position than BNL.

Finding on working Capital:

Working capital is generated from current assets and current liabilities. Working capital management is the management of current assets and current liabilities. Due to greater liabilities than assets, net working capital of BNL is also negative. It was a similar cash with UNL in the year 2007/08 and 2008/09. Here, working capital of UNL has a better position than BNL. If working capital is positive, the company has efficient cash to pay for all of their day to day activities.

Finding on cash flow from operating activities:

Operating cash flow is generated from internal operations. Both in BNL and UNL, cash from operating activities are generated from sales of product and service. Operating cash flow of BNL is 173525007 in the year 2007/08. In the year 2008/09 it is in decreasing i.e.111,347,917. After the year 2009/10 to 2011/12 it is an increasing trend i.e. 92714834, 377,521943 and 240531988 respectively which is the good sign of business of BNL. The UNL operating cash flow is in a decreasing trend in the study period during the year 2007/08. Then in an increasing trend, i.e. 291,984,784, 649,534,929, 224,400,290, 397,435,777 and 515,329,175 respectively, which is the sound operating cash position of UNL. Comparing both companies, UNL has better condition than BNL in operating cash flow.

Finding on cash flow from investing activities:

Investing Cash flow is generated internally from non operating activities. ***(Cash flow from financing activities have negative cash flow due to the payment of long term liabilities).*** During the study period CFFA of BNL from 2007/08 to 2011/12 are in increasing trend, i.e. -229958880, -88513939, -85129831, -1181552662 and -242626211 respectively. Investing cash flow of UNL from 2007/08 to 2008/09 is also decreasing, i.e. -128478800, -6,97,99,204. Comparing the investing activities of both companies, UNL is going on with on ability to maintain adequate position than BNL .

Finding on cash flow from financing activities:

Cash flow from financing activities have negative cash flow due to the payment of long term liabilities. During the first year of the study period, i.e. 2007/08, CFFA of BNL is 72,000,00. In the years 2008/09 to 2011/12 it is in a decreasing trend, i.e. 24122005, -66,668,000, -76,410,435 and 92444060. Financing cash flow of UNL in 2007/08 is 49,793,623 then after the year 2008/09 to 2011/12 it is in decreasing trend, i.e. 29,66,75,325, -25,31,92,500, 41,43,15,000 and 51,55,92,000. The increasing trend in both companies is going on in the last remaining year- CFFA is highest in the last year of the study period due to the payment of dividend.

Finding on holding cash and profitability

Holding cash and profitability shows the actual profitability of selected manufacturing companies. comparing the holding cash and profitability of both companies, UNL has strong position than BNL.

CHAPTER –V

SUMMARY AND CONCLUSION RECOMMENDATIONS

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter highlights some selected summary conclusions and recommendation on the basis of the major findings of the study derived from the analysis of Bottlers Nepal Ltd. (BNL) and Unilever Nepal Ltd. (UNL). The study has covered 5 years' data from the year 2007/08 to 2011/12. The major findings of the study are based on liquidity and financial analysis in chapter -4 of this report. In order to carry out this study, mainly secondary data are used. The analysis of the data is carried out with the help of various financial tools. The finding of the study are summarized and conclusion and some recommendation drawn as below.

5.1 Summary

The study focuses on the cash management of the selected manufacturing companies. As stated in earlier, cash management refers to the management of cash, receivable and in inventory. Likewise, as stated in the introduction section, the objectives of the study are: to identify the liquidity position of the companies, to study the relationship of cash with other influencing variables of cash management on the basis of analysis.

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

Hence, an effort has been made in this chapter to present the major finding on overall cash management practices in selected manufacturing companies recommendation and make conclusions.

5.2 Conclusion

On the basis of entire research study some conclusion can be drawn. This study particularly deals with the following.

In conclusion, it can be stated that cash management system in selected manufacturing companies found to be satisfactory. Cash management was found to be kept traditional way where as no plan and policy has been made for the efficiency of cash management. So, the companies have low liquidity position. The companies have not been able to trade of liquidity and profitability so that the profit was found to be in low position. Analysis of current ratio

showed that BNL has low position than UNL. During the study period, the highest ratio of BNL is 0.891 same as UNL is 1.56. This means that BNL will not be able fully meet its short term obligation than UNL.

Analysis of quick ratio showed that the average quick ratio of BNL is 0.0972 and UNL is 0.533. This means that both companies have little cash to pay current obligation of the firm.

Analysis of cash to total assets ratio showed that both companies are in increasing trend but UNL has better position than BNL.

Analysis of working capital showed that due to greater liabilities than current assets, BNL has negative working capital all the year same a UNL in the year 2007/08 and 2008/09. But UNL has available short term cash than BNL.

Cash and bank balance with respect to current assets has been in increasing trend. On an average the ratio of BNL is 0.01428 and of UNL is 0.2128, which shows that UNL has greater safety of founds of short term creditors than BNL.

Cash flow statement of both companies BNL and UNL showed that these companies were able to collect more cash from different sources. It shows good position of actual cash collection of the companies. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year. If companies could have managed these surpluses in the productive sector then it could have yielded more returns to company.

5.3 Recommendations

Cash management is one of the important elements of overall management area which is interrelated and integrated with economic planning and controlling of management. Financial efficiency is important for achieving the goal of any business enterprise.

Financial efficiency is one of the key elements to achieve the goal of any business enterprise. The major findings of the study show that the selected manufacturing companies have not followed any specific and appropriate financial principles and financial techniques. Following recommendations are given for better financial performance and good cash management of the companies on the basis of the findings of the study.

- Cash Planning and cash budget is needed on a formal basis so as to project cash surplus or cash deficit for a period not exceeding one year and broken up into shorter period.
- Maintaining optimum cash balance every year. The study has identified that selected manufacturing companies have not been maintaining optimum cash balance. The

balances held are at a time too high and too low in other time, without any definite purpose as to why the firm has held excess or deficit balance of cash. Holding of optimum cash as per its sales, profit and other influencing variable are recommended.

- The main objectives of managing cash are to trade off liquidity and profitability in order to increase profit. By maintaining considerable liquidity position of the company they should try to increase net profit.
- The Companies should prepare cash budget, cash planning, and cash budgeting on a formal basis so as to project cash surplus and cash deficit for a period not exceeding one year and broken up in to shorter intervals, cash budget should be prepared considering the influencing variables on cash management.
- Surplus cash should be invested in profitable opportunities. Companies should manage their cash in such a way as to keep cash balance at a minimum level for daily operating purpose and invest surplus cash in profitable opportunities. The idle cash increases opportunity cost and profit decreases.
- Cash planning manager or experts should be appointed. The lack of knowledge of modern financial management tools and techniques among existing employees in the manufacturing sector is one of the causes of poor financial performance of the manufacturing companies.
- Companies should try to maintain considerable liquidity position. So that companies may be able to meet current obligations.
- Revised the strict provisions regarding cash: Company is should adopt practical procedure and practices for handling cash management and managing working capital work. To deal financial and cash matter, responsibilities, authority and accountability should be delegated, making process more practical and flexible. It encourages for prompt decision by responsible person. It helps to implement the budget timely.

References:

BOOKS

- Baumol, W.J. (1972). Economic Theory and Operation Analysis, New Delhi:

  Prentice-Half of India Private Limited

- Fago; G. Subedi, D.& Gyawali, A. (2003). A compiled solution of Management Accounting, Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd

- Gupta, S.P. (1989), Statistical Methods. New Delhi : Sultan Chand & Sons

  Khan, M.Y. & Jain, P.K. (2003). Financial Management, Tata Mc Graw-Hill Publishing Company Ltd. New Delhi:

- Orgler, Y.E. (1970). Cash Management Method and Model. California: Wands worth Publishing Company

  Pradhan, R.S. (2004). Financial Management, Kathmandu: Buddha Academic Publishers and distributor Pvt. Ltd

- Pradhan, S. (2002). Basics of Financial Management, Kathmandu: Educational Enterprise Pvt. Ltd.

- PK Sharma, AK Chaudhary (2005) Statistical Method. Kathmandu, Khanal Books & Stationary Publishes.

- Saksena, R.M. (1974). Towards More Efficient Cash Management. Kathmandu: Nepal Journal of Management, quarterly no.5

- Sthapit, A.B. Gautam, H. Joshi, P.R. & Dangol, P.M. (2003). Statistical Methods. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd

- Van H., & james, C. (2003). Fundamentals of Financial Management . USA: Prentice Hall Inc.

Journals and Articles

- Friedom, M (1959). The demand for Money: Some Theoretical Empirical Results.
- The Journal of Political Economy. VOL LXVII.pp. 327-351

Miller, M.H. & Orr. D.A. (1996). A Model of the Demand for Money in firms.

- Quarterly Journal of Economic, LXX pg. 413-435

Thesis

- Bajracharya, S.L. (1990). Cash Management in Nepalese Public Enterprises. New Delhi: An unpublished PHD. Thesis submitted to University of Delhi
- Bhatt, L.R. (2006). Revenue Planning and Cash Management of Public Utility of Nepal (A case study of Nepal Telecom. An unpublished Master Degree Thesis, submitted to faculty of management, Tribhuvan University
- Chalise, P. (2006). Cash Management of Nepal Telecommunication. An unpublished Master Degree Thesis, submitted to faculty of management, Tribhuvan University
- Chataut, B.R. (2008). A study on Cash Management in Nepal Telecom. An unpublished Master Degree Thesis, submitted to faculty of management, Tribhuvan University
- Gajurel (2010), Cash Management Analysis of Nepal Water Supply Corporation.

Shanker Dev Campus, Tribhuvan University

- Rayamajhi, D. (2006). Cash Management of Nepalese Commercial Banks. An unpublished Master Degree. Thesis, submitted to faculty of management, Tribhuvan University
- Schabacker, J.C. (1989). A Study of Cash Planning in Small Manufacturing Companies. Loss Angeles : An unpublished dissertation completed at the University of California.
- Manandhar (2009) "A Study on Cash Management of Nepal Telecom" An unpublished Master Degree Thesis, submitted to faculty of management, Tribhuvan University

WEBSITES

www.allbusiness.com/accounting-reporting/cash-flow-managenent-cash-statement/737-1.html

www.answer.com/topic/cash-management?cat=big.fin

www.books.google.com/books

www.jstor.org

www.referenceforbusiness.com

www.sbinfocanada.about.com/cs/management/g/cashflowmgt/g/cashflowmgt.htm

www.stat.lsa.umich.edu/-faraway/book/

www.studyfinance.com/lessons/workcap/index.mv?page=01

www.survevsystem.com/correlation.htm

www.tscpa.com

www.oopapers.com

www.articalsbase.com

Balance Sheet last 5 year of UNL

Particulars	2011/12	2010/11	2009/10	2008/09	2007/08
Capital & Liabilities					
Share Capital	9,20,70,000	9,20,70,000	9,20,70,000	9,20,70,000	9,20,70,000
Reserves & Retained Earning	83,25,91,205	73,82,97,765	59,57,95,318	18,84,10,900	14,27,17,141
Grand Total	92,46,61,205	83,03,67,765	68,78,65,318	28,04,80,900	23,47,87,141
Non-Current Assets					
Fixed Assets Gross Block	41,55,79,206	40,12,92,717	36,10,63,202	36,46,25,902	33,69,71,880
Less: Depreciation	(26,70,90,614)	(24,82,96,760)	(23,94,26,460)	(22,97,36,119)	(20,90,85,226)
Net Block	14,84,88,592	15,29,95,957	12,16,36,742	13,48,89,783	12,78,86,654
Capital Work-in-Progress	85,89,833	78,50,206	50,31,621	53,28,055	2,10,47,446
Non-Current Assets Held for Sale	–	–	1,74,77,367	–	–
Total	**15,70,78,425**	**16,08,46,163**	**14,41,45,730**	**14,02,17,838**	**14,89,34,100**
Investments					
Fixed Deposit	58,73,50,000	44,86,50,000	24,86,50,000	18,36,50,000	21,36,50,000
Total	58,73,50,000	44,86,50,000	24,86,50,000	18,36,50,000	21,36,50,000
Deferred Tax-Assets	1,42,65,820	1,40,22,167	1,16,69,733	97,99,521	–
Total	58,73,50,000	44,86,50,000	24,86,50,000	18,36,50,000	21,36,50,000
Current Assets					
Inventories	42,97,48,842	44,31,78,201	24,57,50,307	41,01,16,557	32,16,24,869
Trade and Other Recivables	23,43,03,513	12,79,84,783	13,38,68,628	14,81,32,838	13,64,49,877
Cash & Bank Balance	5,70,38,448	16,32,66,004	38,20,49,195	9,89,88,795	10,16,02,475
Prepaid Expenses, Loans,	2,47,39,861	2,45,40,988	2,89,62,168	8,70,66,331	8,02,91,080

Advance & Deposits					
Total Current Assets	**74,58,30,664**	**75,89,69,976**	**79,06,30,298**	**74,43,04,521**	**63,99,68,301**
Less: Current Liabilities & Provisions					
Trade and Other Paybles	**18,77,26,903**	**19,26,75,404**	**19,05,65,694**	**29,91,47,948**	**38,57,82,027**
Provisions	39,21,36,801	35,94,45,136	31,66,64,748	49,83,43,032	38,19,83,233
Total Current Liabilities	**57,98,63,704**	**55,21,20,540**	**50,72,30,443**	**79,74,90,980**	**76,77,65,260**
Net Current Assets	16,59,66,960	20,68,49,436	28,33,99,855	(5,31,86,459)	(12,77,96,959)
Grand Total	92,46,61,205	83,03,67,765	68,78,65,318	28,04,80,900	23,47,87,141

BOTTLERS NEPAL LIMITED
Cash Flow Statement for the year (2007 and 2008)

	Current Year Rs. 2008	Previous Year Rs. 2007
A. CASH FLOWS FROM OPERATING ACTIVITIES		
1. Profit/ (Loss) before taxation	**30,272,129**	**(27,277,331)**
Adjustment		
Add		
Depreciation	65,414,572	60,227,418
Amortization	1,030,864	531,622
Interest expenses	20,789,989	8,875,422
Provision for Bonus & Staff Quarter	5,133,870	-
Provision for Gratuity	7,022,290	-
Other non-cash expenditures	-	3,989,013
Loss/ (Profit) on sale of fixed Assets	10,070,535	(385,302)
2. Cash flows from operation before working capital changes	**139,734,249**	**45,960,842**
Decrease/ (Increase) in current assets(*)	82,143,715	(63,199,834)
Increase/ (Decrease) in current liabilities	(85,933,594)	205,820,353
Interest paid	(14,963,996)	(8,814,422)
Payment of Gratuity	(2,910,719)	(437,812)
Payment of Bonus and staff quarter	-	(4,427,280)
Prior period Expenses	(3,762,660)	-
Taxes paid in respect of earlier years	(2,959,078)	(1,376,840)
Net cash flows from operating activities	**111,347,917**	**173,525,007**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/ (purchase) of fixed assets/ investments	(2,128,305)	(25,755,360)
Proceeds from sale of Fixed Assets	499,854	-
Addition of Fixed Assets	(1,418,432)	-
Addition of CWIP		

	(85,467,057)	(204,203,520)
Others (capitalization of deferred expenses on bottles & crates)	-	-
Net cash flows from investing activities	**(88,513,939)**	**(229,958,880)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing/(repayment) of bank loan	200,000,000	(72,000,000)
Dividend paid	(224,122,005)	-
Net cash flows from financing activities	**(24,122,005)**	**(72,000,000)**
Net increase/ (decrease) in cash (A+B+C)	**(1,288,027)**	**(128,433,873)**
Cash and cash equivalents at the beginning of the year	(92,508,383)	35,925,490
Cash and cash equivalents at the end of the year	**(93,796,410)**	**(92,508,383)**

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

Significant Accounting Policies and Notes to the Accounts **17**
Schedules 1 to 16 forms an integral part of this Cash Flow Statement

BOTTLERS NEPAL LIMITED

Balance Sheet

	As at 2008	As at 2007
Capital and liabilities		
Capital and Reserves		
Share capital	194,888,700	194,888,700
Reserves and retained earnings	287,288,120	253,873,482
Long term liabilities		
Bank Loan	200,000,000	-
Grand Total	**682,176,820**	**448,762,182**
Assets		
Fixed assets	558,537,941	593,867,966
Capital Work in progress	84,426,230	38,195,677
Investments	112,627,648	112,627,648
Current assets		
Inventories	144,004,094	189,256,239
Trade and other receivables	36,802,988	52,823,249
Cash and bank balances	2,427,935	3,464,144
Prepaid, advances, loans and deposits	204,608,751	224,159,390
Deferred Tax Assets	46,715,433	41,363,862
Total current assets	**434,559,200**	**511,066,884**
Less: Current liabilities and provisions		
Current liabilities	432,637,964	743,337,489
Provisions	75,359,804	63,905,301

Total current liabilities and provisons	**507,997,768**	**807,242,790**
Net current assets	**(73,438,567)**	**(296,175,906)**
Deferred Expenses (To the extent not written off)	23,568	246,796
Grand Total	**682,176,820**	**448,762,182**

Contingent liabilities

Significant Accounting Policies and Notes to the Accounts

Schedules 1 to 12, 16 &17 forms an integral part of this Balance Sheet

BOTTLERS NEPAL LIMITED -

Income Statement

for the year July 17, 2007 to July 15, 2008

(Shrawan 1, 2064 to Ashadh 31, 2065)

	Schedule	Current Year	Previous Year (Re-stated)
	No.	**Rs**	**Rs**
Sales		746,581,607	634,189,583
Cost of sales	**13**	455,134,052	389,258,445
Gross profit		**291,447,556**	**244,931,138**
Other income	**14**	**1,317,254**	**1,092,417**
Business expenses			
Distribution expenses		25,972,087	21,178,947
Administrative expenses	**15**	217,564,636	186,635,438
Profit from operation		**49,228,087**	**38,209,169**
Interest		20,789,989	8,875,422
Depreciation		65,414,572	60,227,418
Impairment		-	37,672,142
Amortization		1,030,864	531,622
Dividend from Bottlers Nepal (Terai) Ltd, a Subsidiary Company		(83,483,872)	-
(Profit)/ Loss on sale of fixed assets		10,070,535	(385,302)
Provision for staff quarter		1,770,300	-
Provision for bonus		3,363,570	-
Profit before tax		**30,272,129**	**(68,712,133)**
Income tax		2,209,062	2,959,078
Deferred Tax		(5,351,571)	(41,363,862)

Net Profit after tax	**17.1455**	**33,414,638**	**(30,307,349)**
Balance brought forward		86,786,462	342,592,657
Dividend Tax in respect of Dividend from Earlier Years		-	1,376,840
Profit available for appropriation		**120,201,100**	**310,908,467**
Proposed dividend		-	224,122,005
Balance of profit transferred to balance sheet		**120,201,100**	**86,786,462**

Contingent Liabilities	**16**
Significant Accounting Policies and Notes to the Accounts	**17**

Schedules 13 to 17 forms an integral part of this income statement

BOTTLERS NEPAL LIMITED

Cash Flow Statement for the year (2009 and 2010)

	Current Year 2010	Previous Year 2009
A. CASH FLOWS FROM OPERATING ACTIVITIES		
1. Profit/ (Loss) before taxation	**228,438,985**	**30,459,832**
Adjustment		
Add		
Depreciation	71,740,948.23	67,871,841
Amortization	6,889,327	2,570,691
Write offs	21,895,724	4,423,673
Interest expenses	20,392,656	26,193,016
Provision for Bonus & Staff Quarter	36,069,313	4,809,447
Provision for Gratuity	4,139,887	9,128,868
Loss/ (Profit) on sale of fixed Assets	28,143,049	(9,972)
Loss/Gain on Foreign Exchange	2,989,805	(1,296,360)
Income Taxes		
2. Cash flows from operation before working capital changes	**420,699,693**	**145,447,396**
Decrease/ (Increase) in current assets(*)	41,809,414	(27,407,466)
Increase/ (Decrease) in current liabilities	(12,461,367)	92,861,840
Interest paid	(20,089,279)	(25,304,264)
Payment of Gratuity	(979,588)	(931,480)
Payment of Bonus and staff quarter	(5,701,196)	(3,363,570)
Taxes paid in respect of earlier years	(10,555,734)	-
Advance Income Tax	(35,200,000)	(88,587,623)
		-

	Net cash flows from operating activities	**377,521,943**	**92,714,834**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
	Sale/ (purchase) of fixed assets/ investments	(117,925,311)	(45,992,255)
	Proceeds from Sale of Fixed Assets	357,549	148,000
	Addition to capital work in progress		(17,120,403)
	Purchase of Software	(587,500)	(22,165,173)
	Net cash flows from investing activities	**(118,155,262)**	**(85,129,831)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
	Borrowing/(Repayment) of long-term loan	(66,666,000)	(66,668,000)
	Dividend paid	(9,744,435)	-
	Net cash flows from financing activities	**(76,410,435)**	**(66,668,000)**
	Net increase/ (decrease) in cash (A+B+C)	182,956,246	(60,379,357)
	Cash and cash equivalents at the beginning of the year	(154,175,767)	(93,796,410)
	Cash and cash equivalents at the end of the year	**28,780,479**	**(154,175,767)**

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

Significant Accounting Policies and Notes to the Accounts **17**

Schedules 1 to 16 forms an integral part of this Cash Flow Statement

BOTTLERS NEPAL LIMITED

Income Statement

for the year July 16, 2009 to July 16, 2010

(Shrawan 1, 2066 to Ashadh 32, 2067)

	Schedule No.	Current Year Rs	Previous Year Rs
Sales		1,588,149,524	1,002,720,181
Cost of goods sold	**13**	887,111,747	621,893,624
Gross profit		**701,037,777**	**380,826,558**
Other income	**14**	(1,983,895)	(30,701,457)
Business expenses			
Distribution expenses		49,726,644	34,822,854
Administrative expenses	**15**	292,927,203	244,810,306
Profit from operation		**360,367,826**	**131,894,855**
Interest		20,392,656	26,193,016
Depreciation	**4**	71,740,948	67,871,841
Amortization	**12**	6,889,327	2,570,691
Dividend from Bottlers Nepal (Terai) Ltd, a Subsidiary Company		(31,306,452)	-
(Profit)/ Loss on disposal of fixed assets		28,143,049	(9,972)
Provision for staff quarter		13,225,415	1,763,464
Provision for bonus		22,843,898	3,045,983
Profit before tax		**228,438,985**	**30,459,832**
Income tax		55,025,012	716,990
Deferred Tax Income		(4,088,177)	9,212,196
Net Profit after tax		**177,502,150**	**20,530,646**
Balance brought forward		177,840,357	167,054,147

Profit available for appropriation		**355,342,507**	**187,584,792**
Proposed Dividend for the year		77,955,480	9,744,435
Previous year tax expenses		10,555,734	-
Capital Reserve Transferred		(2,000,000)	-
Balance of profit transferred to balance sheet		**268,831,293**	**177,840,357**
Significant Accounting Policies and Notes to the Accounts	**17**		
Schedules 13 to 15 & 17 forms an integral part of this income statement			

BOTTLERS NEPAL LIMITED

Balance Sheet

As at July 16, 2010 (Ashadh 32, 2067)

	Schedule No.	As at 2010 Rs.	As at 2009 Rs.
Capital and liabilities			
Capital and Reserves			
Share capital	**1**	194,888,700	194,888,700
Reserves and retained earnings	**2**	433,918,313	344,927,377
Long term liabilities			
Bank Loan	**3**	66,666,000	133,332,000
Deferred Tax Liabilities		3,252,238	7,340,415
Deferred Income		10,041,306	
Grand Total		**708,766,558**	**680,488,492**
Assets			
Fixed assets net of depreciation and impairment	**4**	643,248,907	614,378,472
Capital Work in progress		22,499,241	23,644,606
Investments	**5**	112,627,648	112,627,648
Current assets			
Inventories	**6**	304,120,602	208,777,459
Trade and other receivables	**7**	35,387,070	30,204,594
Cash and bank balances	**8**	28,780,479	3,658,064
Prepaid, advances, loans and deposits	**9**	313,151,334	262,452,535
			-
Total current assets		**681,439,484**	**505,092,652**
Less: Current liabilities and provisions			
Current liabilities	**10**	513,125,686	501,178,742
Provisions	**11**	251,239,261	93,694,195
Total current liabilities and provisions		**764,364,947**	**594,872,936**
Net current assets		**(82,925,463)**	**(89,780,285)**
Deferred Expenses (To the extent not written off)	**12**	13,316,224	19,618,051
Grand Total		**708,766,558**	**680,488,492**
Contingent liabilities	**16**	359,006,116	352,533,561
Significant Accounting Policies and Notes to the Accounts	**17**		

Schedules 1 to 12, 16 &17 forms an integral part of
this Balance Sheet

BOTTLERS NEPAL LIMITED

Cash Flow Statement for the year 2011

		Previous Year
		Rs.
A.	CASH FLOWS FROM OPERATING ACTIVITIES	
	1. Profit/ (Loss) before taxation	**280,039,298**
	Adjustment	
	Add	
	Depreciation	80,192,580
	Amortization	6,906,722
	Write offs	4,578,559
	Interest expenses	15,228,301
	Provision for Bonus & Staff Quarter	44,216,731
	Provision for Gratuity	14,428,305
	Other Retirement Provision	7,967,779
	Loss/ (Profit) on sale of fixed Assets	6,782,653
	Loss/Gain on Foreign Exchange	345,229
	Less:	
	Deffered Income Written back	(2,085,989)
	Dividend Income	(52,177,420)
	2. Cash flows from operation before working capital changes	**406,422,749**
	Decrease/ (Increase) in current assets(*)	(172,558,496)
	Increase/ (Decrease) in current liabilities	93,807,827
	Interest paid	(14,910,407)
	Payment of Gratuity	(4,660,969)
	Payment of Retirement Benefits	

	Payment of Bonus and staff quarter	(36,069,313)
	Taxes paid in respect of earlier years	(8,945,891)
	Advance Income Tax Payment	(22,553,512)
	Net cash flows from operating activities	**240,531,988**
B.	CASH FLOWS FROM INVESTING ACTIVITIES	
	Sale/ (purchase) of fixed assets/ investments	(244,611,578)
	Proceeds from Sale of Fixed Assets	1,985,368
	Purchase of Software	-
	Net cash flows from investing activities	**(242,626,211)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES	
	Borrowing/(Repayment) of long-term loan	(66,666,000)
	Dividend Received	52,177,420
	Dividend paid	(77,955,480)
	Net cash flows from financing activities	**(92,444,060)**
	Net increase/ (decrease) in cash (A+B+C)	(94,538,282)
	Cash and cash equivalents at the beginning of the year	28,780,479
	Cash and cash equivalents at the end of the year	**(65,757,804)**

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

BOTTLERS NEPAL LIMITED

Cash Flow Statement for the year 2011

		Current Year	Previous Year
		Rs.	**Rs.**
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
	1. Profit/ (Loss) before taxation	**334,780,623**	**280,039,298**
	Adjustment		
	Add		
	Depreciation	104,224,344	80,192,580
	Amortization		

	4,699,689	6,906,722
Write offs	2,607,507	4,578,559
Interest expenses	2,388,743	15,228,301
Provision for Bonus & Staff Quarter	52,860,098	44,216,731
Provision for Gratuity	10,208,074	14,428,305
Other Retirement Provision	9,022,191	7,967,779
Loss/ (Profit) on sale of fixed Assets	(5,024,836)	6,782,653
Loss/Gain on Foreign Exchange	(5,338,960)	345,229
Less:		
Deffered Income Written back	(935,408)	(2,085,989)
Dividend Income	(57,395,162)	(52,177,420)
2. Cash flows from operation before working capital changes	**452,096,903**	**406,422,749**
Decrease/ (Increase) in current assets(*)	(44,407,891)	(172,558,496)
Increase/ (Decrease) in current liabilities	(8,483,431)	93,807,827
Interest paid	(2,857,753)	(14,910,407)
Payment of Gratuity	(3,205,021)	(4,660,969)
Payment of Retirement Benefits	(3,898,708)	
Payment of Bonus and staff quarter	(44,216,731)	(36,069,313)
Taxes paid in respect of earlier years	(4,542,584)	(8,945,891)
Advance Income Tax Payment	(48,500,000)	(22,553,512)
Net cash flows from operating activities	**291,984,784**	**240,531,988**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/ (purchase) of fixed assets/ investments	(135,354,800)	(244,611,578)
Proceeds from Sale of Fixed Assets	6,876,001	1,985,368
Purchase of Software	-	-
Net cash flows from investing activities	**(128,478,800)**	**(242,626,211)**

C. CASH FLOWS FROM FINANCING ACTIVITIES

Borrowing/(Repayment) of long-term loan	-	(66,666,000)
Dividend Received	57,395,162	52,177,420
Dividend paid	(107,188,785)	(77,955,480)
Net cash flows from financing activities	**(49,793,623)**	**(92,444,060)**
Net increase/ (decrease) in cash (A+B+C)	113,712,362	(94,538,282)
Cash and cash equivalents at the beginning of the year	(65,757,804)	28,780,479
Cash and cash equivalents at the end of the year	**47,954,558**	**(65,757,804)**

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

BOTTLERS NEPAL LIMITED

Income Statement
For the year July 17, 2011 to July 15, 2012
(Shrawan 1, 2068 to Ashadh 31, 2069)

	Schedule No.	Current Year Rs	Previous Year Rs
Sales		2,370,659,718	1,852,039,938
Cost of goods sold	**13**	1,360,987,259	1,048,185,400
Gross profit		**1,009,672,459**	**803,854,538**
Selling and Distribution Expenses			
Distribution expenses		87,289,422	62,069,764
Sales and Promotion Expenses		50,897,355	48,872,097
Discount		164,251,821	68,691,709
Business expenses (Income)			
Other income	**14**	(11,753,158)	(6,860,127)
Administrative expenses	**15**	317,607,043	276,557,373
Depreciation (Refer Note 2.7)	**4**	69,070,820	53,527,437
Amortization	**12**	4,699,689	6,906,722
Profit from operation		**327,609,468**	**294,089,564**
Interest		2,388,743	15,228,301
Dividend from Bottlers Nepal (Terai) Ltd, a Subsidiary Company		(57,395,162)	(52,177,420)
(Profit)/ Loss on disposal of fixed assets		(5,024,836)	6,782,653
Provision for staff quarter		19,382,036	16,212,801
Provision for bonus		33,478,062	28,003,930
Profit before tax		**334,780,623**	**280,039,298**

Income tax		47,724,580	41,951,890
Deferred Tax Expense (Income)		7,108,986	(3,472,019)
Net Profit after tax		**279,947,057**	**241,559,427**
Balance brought forward		371,357,279	245,932,527
Profit available for appropriation		**651,304,336**	**487,491,955**
Proposed Dividend			107,188,785
Previous year tax expenses		4,542,584	8,945,891
Capital Reserve Transferred			
Balance of profit transferred to balance sheet		**646,761,752**	**371,357,279**
Significant Accounting Policies and Notes to the Accounts	**17**		

Schedules 13 to 15 & 17 forms an integral part of this income statement

BOTTLERS NEPAL LIMITED

Balance Sheet

	As at 2011 Rs.
Capital and liabilities	
Capital and Reserves	
Share capital	194,888,700
Reserves and retained earnings	536,444,299
Long term liabilities	
Bank Loan	-
Deferred Tax Liabilities	-
Deferred Income	7,955,317
Total	**739,288,316**
Assets	
Fixed assets net of depreciation and impairment	819,741,386
Capital work in progress	1,657,740
Investments	112,627,648
Current assets	
Inventories	337,039,500
Trade and other receivables	45,364,515
Cash and bank balances	14,426,219
Prepaid, advances, loans and deposits	460,443,210
Total current assets	**857,273,445**
Less: Current liabilities and provisions	
Current liabilities	687,435,430
	371,205,756
Total current liabilities and provisions	**1,058,641,186**
Net current assets	**(201,367,741)**
Deferred Expenses (To the extent not written off)	6,409,502
Defferred Tax Assets	219,781
Total	**739,288,316**
Contingent liabilities	435,895,738
Significant Accounting Policies and Notes to the Accounts	

Schedules 1 to 12, 16 &17 forms an integral part of this Balance Sheet

INCOME STATEMENT-LAST YEAR

Particulars	2011/12	2010/11	2009/10	2008/09	2007/08
Sales income	3,55,66,62,385	3,05,50,70,869	2,62,58,26,798	2,14,45,89,477	1,81,85,27,500
Less: Cost of Sales	(2,27,50,98,320)	(1,81,28,52,522)	(1,69,66,94,509)	(1,36,22,72,164)	(1,28,16,20,007)
Gross Profit	**1,28,15,64,065**	**1,24,22,18,347**	**92,91,32,289**	**78,23,17,313**	**53,69,07,493**
Distribution Cost					
Administrative Expenses	(8,51,51,106)	(7,38,12,280)	(6,32,20,518)	(4,82,05,399)	(3,75,36,753)
	(10,67,49,394)	(8,36,25,387)	(6,32,65,085	(6,07,50,035)	(4,36,39,605)
Promotional Expenses	(43,28,47,203)	(44,49,19,087)	(26,99,79,234)	(25,11,88,507)	(15,73,88,895)
Operating Profit	**65,68,16,362**	**63,98,61,593**	**53,26,67,452**	**42,21,73,372**	**29,83,42,240**
Other Income	5,77,83,313	4,21,28,027	2,04,30,279	1,50,85,725	3,34,68,221
Profit/Loss on Sale of non-current assets held for sale	–	80,33,443	–	–	–
Service Charges on Elida Sales	12,63,52,081	10,85,05,965	6,69,68,946	3,93,03,871	5,43,11,091
Interest Expenses	(16,50,791)	(16,19,543)	(26,738)	(1,29,055)	(10,59,458)
Profit/(Loss) on sale of Fixed Assets	–	(3,09,762)	(50,735)	–	(49,40,773)
Provision for fixed assets written off	(20,45,000)	–	–	–	–
Provision for staff Bonus	(7,61,14,179)	(7,24,18,156)	(5,63,62,655)	(4,33,12,174)	(3,45,56,484)

Operating Profit Before Tax	**76,11,41,786**	**72,41,81,567**	**56,36.26,549**	**43,31,21,739**	**34,55,64,838**
Income Tax	(15,12,56,347)	(14,76,47,566)	(11,95,83,788)	(9,80,00,000)	(8,25,00,000)
Current Tax Expense	(15,15,00,000)	(15,00,00,000)	(12,14,54,000)	(9,80,00,000)	(8,25,00,000)
Deferred Tax Income	2,43,653	23,52,434	18,70,212	–	–
Net Profit for the Year	**60,98,85,439**	**57,65,34,001**	**44,40,42,761**	**33,51,21,739**	**26,30,64,838**
Previous Year's Balance	73,82,97,765	59,57,95,318	18,84,10,900	14,27,17,140	13,28,44,802
Income Tax Provision for the Year	–	–	(3,66,58,343)	–	–
Housing Fund Adjustment	–	(1,97,16,554)		–	–
Deferred Tax Adj	–	–		97,99,521	–
Total Profit Available for Appropriation	1,34,81,83,205	1,15,26,12,765	59,57,95,318	48,76,38,400	39,59,09,641
Last Year's Divided Paid	(51,55,92,000)	(41,43,15,000)	–	(29,92,27,500)	(25,31,92,500)
Total Transferred to Reserve & Retained Earning	83,25,91,205	73,82,97,765	59,57,95,318	18,84,10,900	14,27,17,141

Annex

Cash Flow Statement form the Year 2007/08 to 2011/12 of UNL

Particular	2007/08	2008/09	2009/10	2010/11	2011/12
A. Cash flow from operation activities					
1. Profit (Loss) before taxation	334,780,623	44,40,42,761	33,51,21,739	57,65,34,001	60,98,85,440
Add: Depreciation	104,224,344	1,26,69,079	2,06,50,892	1,36,71,942	1,87,93,854
Interest	2,388,743	26,738	1,29,055	16,19,543	16,50,791
Provision for income taxes	52,860,098	11,95,83,788	-	14,76,47,566	15,12,56,347
Increase in other provisions	9,022,191	1,68,26,382	10,42,42,933	4,49,77,349	4,15,80,217
LOSS in sale/written off of fixed Assets	(5,024,836)	50,735	-	3,09,762	(4,77,61,380)
Interest received Profit on sale of non	(5,338,960)	(1,18,48,502)	(81,13,161)	(2,86,97,330)	-
Current assets held for sale write offs	2,607,507	-	-	(80,33,434)	
Amortization	4,699,689				
Differed Income written back	(935,408)				
Divided Income	(57,395,162)				
Provision for gratuity cash flows from operation before working capital	10,208,074				

changes					
	452,096,903	58,13,50,981	45,20,31,458	74,80,29,399	77,54,05,263
Decrease/(Increase) in cash	(44,407,891)	23,51,67,623	(12,40,31,516)	(18,71,22,869)	(9,30,88,244)
Increase/(Decrease) in CL	(8,483,431)	(3,24,46,752)	(16,70,597)	21,09,710	(49,48,501)
Interest Paid	(2,857,753)	(26,738)	(1,29,055)	(16,19,543)	(16,50,791)
Payment of Gratuity	(3,205,021)	-			
Payment of Retirement benefits	(44,216,731)	-			
Payment of Bonus	(3,898,708)	-			
Taxes Paid	(4,542,584)				
Advance Income Tax Payment	(48,500,000)	(13,45,10,185)	(10,18,00,000)	(16,39,60,920)	(16,03,88,552)
Net Cash flow from operating activities	**29,19,84,784**	**64,95,34,929**	**22,44,00,290**	**39,74,35,777**	**51,53,29.175**
B) Cash flows from Investing Activities					
Sale/(Purchase) of fixed assets/investment	(1,35,354,800)	(1,66,47,706)	(1,19,34,631)	(4,87,78,674)	(1,50,26,117)
Proceeds from sale of Fixed Assets	6,876,001	(6,50,00,000)	3,00,00,000	(20,00,00,000)	(13,87,00,000)
Sale of Govt. Securities		-			
Interest/Dividend Received		1,18,48,502	81,13,161	2,86,97,330	4,77,61,386
Sale of FM car				7,00,000	

Sale proceeds of non-current				1,74,77,377	
Assets held for sale					
Net Cash flow from investing Activities	**(1,28,478,800)**	**(6,97,99,204)**	**2,61,78,530**	**(20,19,03,967)**	**(10,59,64,731)**
C. Cash flows from financing Activities					
Divided received	57,395,162				
Divided Paid	(1,07,188,785)	(29,66,75,325)	(25,31,92,500)	(41,43,15,000)	(51,55,92,00)
Net Cash Flow from Financing Activities	**(49,793,623)**	**(29,66,75,325)**	**(25,31,92,500)**	**(41,43,15,000)**	**(51,55,92,00)**
Net increase/(decrease) in cash (A+B+C)	113,712,362	28,30,60,400	(26,13,680)	(21,87,83,191)	(10,62,27,556)
Cash and cash equivalent at the beginning of the year	(65,757,804)	9,89,88,795	10,16,02,475	38,20,49,195	16,32,66,004
Cash and cash equivalents at the end of the year	47,954,558	38,20,49,195	9,89,88,795	16,32,66,004	5,70,38,448