CHAPTER – I

INTRODUCTION

1.1 Background of the study

In the contest of Nepal, it is one of the poorest countries of the world. More than 80% of the people live on low income level. Their income is only sufficient to fulfill their basic needs but not their safety needs. In this contest industrialization is necessary and it is possible only with the support to financial institution. To develop well established economic activities of any country can hardly be carried forward without the assistance and support of financial institution. It collects scattered financial resources from the mass and invests them among those engaged commercial and economic activities of the country.

The underdeveloped and land locked mountainous country Nepal lies on lap of highest mountain range of the Himalayas having very low cultivated lands, High growth rate of population and limited resources of the world with low per capita income of U.S. $ 253. The various factors which are responsible for the slow development of the nation such as major obstruction land locked position, poor resources endowment, Institutional weakness and lack of appropriate economics policies due to political instability events.

Nepal being the poorest country and the lowest per capita income in the world, industrialization has multiplier significant to up sift the economic standard of people create more employment opportunities earn foreign exchange through export promotion and reduce the dependency on import.

Industrial development is the back bone of the nation. It plays an important role in the economy. It makes higher living standard and comfortable life by increasing wealth of nation and it provides essential and luxurious goods and services. We cannot imagine the real world in the absence of industrial development. So, it is the lifeblood of the nation. Nepal is a small, poor, landlocked country. It is lies between China and India. India is surrounded from east, west and south and China is surrounded from north.

Today, we are running in the mouth of scientific age. It was developed from the previous Stone Age after discovering or innovating new thing for new problems. Every movement of time, it will bring change for anything. Today, market is out homogenous, it is heterogonous. Different people have different response and behavior. One kind of goods of services may or may not be taken long market. So that different shorts of goods or services have to be provided to run our business firms.

The economic survey of 2004-2005 published by HMG Ministry of finance, the economic growth rate of the world was 5.1% in 2004 and 4.3% in 2005. The newly industrialized economics of Asian remarkably improve to 6.5%. At present 10th plan is running but due to poor performance negative return, Lack of efficiency, inefficient in management, government has emphasized on privation. So that public enterprises could be competitive, efficient, and profitable. By the help of private companies the government will reduce it's investment in public sector. Which are incurring continuously at loss. So a total of 24 public enterprises have been privatized under different modalities in three phases. More enterprises are in the pipeline for privatization in the government policy and programs.[1]

Public enterprises in a institution operating a service of an economic character on behalf of the government but as an independent legal entity, largely autonomous in its management. Though responsible to the public

[1] Ministry of Finance, " Economic Survey Report 2004-2005. P.N. 14-15

through government and parliament and subject to some direction by the government. According to Laxmi Narayan, public enterprises are autonomous bodies which are owned and managed by the government and which provide goods and services for a price the ownership with the government should be 51% or more to make entity public enterprises.

Manufacturing means any industries that make products form raw materials by the use of manual labor or machinery and that is usually carried out systematically with a division of labor. In a more limited sense manufacturing denotes the fabrication or assembly of components into finished productive enterprises or organization that produces or supplies goods, services, or sources of income.

The research sector is trading companies, trading signifies a market and a means by which the exchange of goods and services take place as a result of buyers and sellers being in contact with each other, either directly or through mediating agents or institutions. Thus, the regarding means the flow of goods and services from producer and consumers. The role of manufacturing industries and trading companies is marginal for the economic growth rate of the nation. The developing nation will remain associated with various farms of backwardness. Unless they tackle the problems of economic backwardness through industrialization.[2] In other wards, industrialization helps to create a country's economic in fracture and gives a path of diversification into a new area of activity. One of the merits of industrialization is that it makes it possible for countries to satisfy their own requirement to a greater degree.[3] It is ~~ahte~~ate major instrument of progress, modernization and social changes in

[2] Eskstein Alexander, "china's Economic Development (Michigan: The university of Michigan press. 1976. p.p. 62-63

[3] United Nations. "Industrialization for New Development Needs." (New york 1674) P.I

development countries[4]. Maximum utilization of human, capital and other natural resources of the country could take benefit from the formation of industries. Increasing the job opportunities, it will increase the income of the people. It also facilitates the agricultural development by reducing the pressure on land and creating demand for agricultural raw materials. The reason for emphasizing industrialization is that industrial development would absorb rural under employed persons to these field of production where higher productivity is possible without reducing agricultural outputs.

Trading companies play a vital role for the development of the manufacturing industries. It supplies the necessary items like raw materials, human resources, advance technology and many more things to industries. And distribute product items to the required consumers in the appropriate markets.

Recently, Nepal has also been affected indirectly by economic crisis. Nepal prepares its budget consulting with the IMF (International Monetary Fund), world Bank , Asian Development Bank and many other donor countries for the necessary Loans, grants and assistance, this reflects Nepal's economy is not satisfactory due to the Lack of sound economic basis business sectors.

Trade policy 1992 is established to enhance the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere. Emphasis will be given on modernizing management and technology on promoting market and attracting direct ~~forign~~foreign investment in order to ~~indentigy~~identity and develop new products, as well as to raise the production and quality of the traditional products.

[4] Ibid

1.1.1 **Historical Background of Salt Trading Corporation.**

Salt trading corporation Limited is one of the organization which was established in 1963 A.D. (2020 B.S.) with 14 individuals under the Nepal company act with the joint efforts of HMG/Nepal and the private sector to ensure proper supply and distribution of essential consumer item; throughout the country. It is one of the pioneer trading organizations occupying 41 years of history working in multiple capacities of rendering bettor services and providing quality goods to the public its first task was to make edible salt promptly available. But the distribution system during the passage of time ~~discordered~~disordered and became unreliable. However, attempts were made to reduce irregularity through the organized supply and delivery systems. The organization gradually improved its ability not only meet the demand but also to maintain quality. Late~~e~~r, the corporation started to provide iodized salt to prevent goiter when the organization assigned the responsibility of implementing the Nepal-India goiter control project in 1972.

The establishment of STCL has taken place with joint participation of private and Government sector of Nepal. So, it is also called a "best combination of the both World private and public." The head office of STCL is in Kathmandu. Branch offices of STCL are spread all over Nepal. It has all together 93 zonal office, Branch office, Depots and contact offices through out Nepal. Thus the salt Trading corporation Ltd. has developed a lot since its establishment. It is apparent from its name STCL that what it is doing of course it deals initially with only the~~ the~~ trading of salt but no longer had it remained limited with a product. It expanded its trading with the passage of time and distribution of assorted product like salt, sugar, honey, Banaspati ghee and oil, Maida, suji flour, choker, tyres, tubes, flap, agriculture tools, pesticides, fertilizer cement and others.

STCL has almost monopoly in the trade of salt. STCL also does social works. It sometime organize social welfare program. It also provides scholarship to ~~bonafide~~bonfire students of the country. STCL has ~~extablished~~established salt trading agriculture development center for the country's more ~~thean~~than 80 percent agriculture dependent people. STCL has also started to export vegetables and fruits to the gulf countries which in result may increase income of farmers of the country. In this way STCL is serving people with both goods and service.

Salt Trading Corporation Ltd is managing~~g~~ by board of directors. Mr. Kamalmani Dixit is the president of STCL. Mr. Parmeshwar Mahaseth is the CEO of STCL. Beside these there are several personalities doing the management work for STCL.

The authorixed capitalof STCL is Rs. 1000000000. (10000000 shares @ Rs. 100 each) The issued capital is Rs. 1000000000 (10000000 shares @ Rs. 100 each). The paid up capital is Rs. 24777700 (82574 ordinary shares @ Rs. 100 each and 165203 Bonus shares Rs. 100 each).

Establishment of Industries/ organizations.

After corporation has ~~extablished~~established it is necessary goods it helps in the economy development of country by establishing several industrial corporations and has become able to keep its position in a group of industrial enterprises, after the corporation has established STCL in industrial sector, it has invested its money in finance and insurance sector to improve economic condition.

By observing the strong management of corporation, our government of Nepal has transferred the management of different organization of this corporation (STCL).

Family group of Salt Trading Corporation Ltd.

- Salt Trading Corporation LTD. Kalimati, Kathmandu.
- Khadya Udhyog Ltd. Industrial Area, Hetauda.
- Sagarmatha Insurance Company Ltd. Kathmandu.
- Nepal vegetables Ghee Inndustray Ltd. Industrial Area, hetauda.
- Gorkhali Rubber Udhyog Ltd. Anbook Khaireni, Gorkha.
- National Finance company Ltd. Basantapur, Kathmandu.
- Hitkari Guthi, Kalimati, Kathmandu.
- Suwarna Pharmeceuticals Ltd. Kathmandu.
- EXIM International, Kathmandu.
- Nepal Coal Limited, Birgunj.

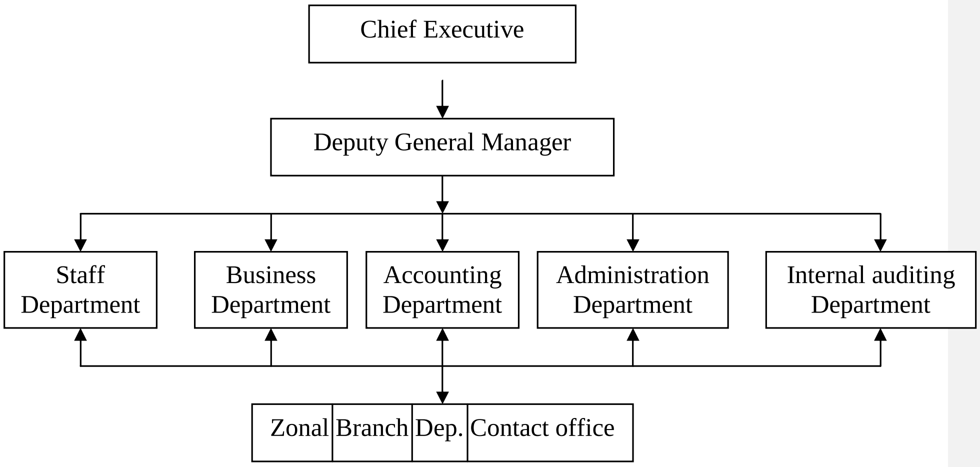
But some years ago Nepal Banaspati Ghee Udhyog limited was privatized by the corporation.

The main reason of difference form other commercial group is the corporation is able to supply qualitative groups which are essentials through out the country whole a years and is capable for managing goods through out the country.

Thirty seven years of dedication and services to the nation and people has to day made Salt Trading Corporation Ltd. a major catalyst in bringing about the desired economic changes and growth in Nepal ? Therefore, the present study has reference to salt, ~~particulary~~particularly the focuses area.

The active participation of government excitement of private sector is mainly the reason success of STCL.

Organizational Structure of the Corporation



1.1.2 Conceptual Framework of Working capital

Working capital management is the most important aspects of any organization. Organization may successor fail because of its working capital management. In this regard, how gar Nepalese organization is able to manage working capital is essential to study. National income is sum total of the contribution made by various sectors of the economy including agriculture, manufacturing, tourism, hotel and restaurant, construction, financial institution and communication etc. The working capital is compared as life blood of companies. It is a controlling nerve of business. Hence, the success and fail of any company depends on working capital management. The inefficient management of working capital leads to loss of profit in the short-run but it ultimately leads to the dawn fall of the organization in the long-run.

"Working capital management is concerned with the problems that arise in ~~attemting~~attempting to manage the current assets, current liabilities and inter relationship between them."

Working capital management practices in Nepalese manufacturing enterprises provide totally a different picture. The past trend of many manufacturing and trading companies had given emphasis in fixed assets. So, they are facing financial problem all the time. The government policy to ~~concerntrate~~concentrate more in fixed assets has overlooked the financing of working capital. So in order to create the culture of risk ~~bering~~bearing ability through commercial prudence and professionalism, the aspect of working capital should be treated in the same way as fixed capital. While deciding the structure of the manufacturing and trading companies, recently short term financial decision has never received much attention in the literature of finance. Because of earlier emphasis of financial management was more Long-term financial decision. Which led to growth and development of many useful theories concerning these decisions as compared to short-term financial decision? [5]

In most Nepalese enterprises the management of working capital has been misunderstood as the "Management of Money" and the managers are found over conscious about the working of money rather than its efficient utilization.[6] At the same time they never think of the source of working capital and usually depend on HMG for some of PES have used depreciation fund and utilized surpluses to overcome the scarcity of working capital. Thus the existing problems are i~~I~~n the management of working capital rather than in any other area.

Working capital is lifeblood of enterprises. The inefficient management of working capital will lead to loss of profits in the short-run but it will lead to down fall of the enterprises in the long-run. A deeper understanding of the importance of working capital and its satisfactory provision can lead not only

[5] Pradhan, Radhe shyam "Management of working capital" (New Delhi, Nation book organization, 1986)
[6] Acharya, Dr. K. " The management of working capital in PES of Nepal" (Nepalese Dev. Studies. 1988)

to material saving as well as economic use of capital but can also assert in furthering the ultimate aim of business.

So, maintaining the optimal level of working capital is crux problem as its strongly related to the trade off between risk and return. The aspect of determine appropriate proportion of working capital in the structure of total assets comes under the preview of working capital policy. The unnecessary blocking of working capital. Administrative negligence in day-to-day operation and serious liquidity problem are the main causes to failure of any companies of Nepal. Most of Nepalese companies are operating in loss through they are following aggressive ~~opproach~~approach of working capital management.

1.2 Focus of the study

This study focuses how the Nepal salt Trading Corporation utilized the available working capital funds very well. No business can operate successfully and effectively without effective management of working capital. Organizations were established with the objective of rapid socioeconomic development of the country by utilizing the resources available because the private sector could not set up al the basic and feasible industries capable of fulfilling national goals and objectives due to unattractive profit, necessity of huge investment, high-risk involved and long gestation period.

Working capital in the business is comparable to the blood of the human body. Like blood, it gives strength and life i.e. profit and solvency to the business organization. Working capital is a organization's investment in current assets such as cash, marketable security, inventory, accounts receivable and also administration of current liabilities.[7]

Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities, and interrelationship between them.[8] The basic total of working capital management is to manage the current assets and current liabilities of a firm in such a way that the satisfactory several of working capital is maintained i.e. these are neither inadequate nor excessive.

Working capital increases in two conditions, by increasing on current assets or decreasing current liabilities. So it is assumed that the greater the amount of net working capital. Less risky the firm is. By increasing the working capital, the firm will be more liquidity position. The chances of insolvent will be low in that case. In same ways if the working capital ~~decresses~~decreases. The risk increase and side-by-side these will be more chance of insolvent. The immediate effect of inadequate working capital may be:

i) Low Liquidity
ii) Low profitability
iii) High interest charge
iv) Credit worthiness
v) Goodwill
vi) Solvency position.

The main focus of the present study is, therefore, to evaluate the size and efficiency with which each component of current assets is being utilized in

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7 Sherlakar, S.A. and V.S sherlekar, Modern Business organization and Management system approach", Himalayayn puplishing House, 1990, p.7.45

8 Smith, op. cit., K.U. (1994), pg.5

the Nepal Salt Trading Corporation Ltd. to judge its liquidity position both the con~~m~~cepts of the working capital i.e. gross working capital and net working capital have been considered in the study. It therefore, examines the current assets as well as the liquidity position of the salt Trading Corporation Ltd.

1.3 Statement of the Problem

Working capital is the circulation capital, which is compared as life blood of the human beings for the organization. As working capital is the size of investment each type of current assets each of these current assets should be managed efficiently and effectively. It is because decision regarding working capital not only affects profitability of the organization in the short-run but also affects the survival in the long-run.

Many firm's in the event of the ~~failer~~frailer of a business the shortage or working capital funds is given out on its root cause. But, in the ultimate analysis it may be the mismanagement of working capital funds of the business that could have converted as otherwise successful business into an unsuccessful one. We know that we management became difficult in Nepalese organization. Here, we are trying to find out why communication sector organization are not able to manage the working capital of the company and they have not followed good approach of the working capital management working capital management decision is a significant managerial decision Various factors affects the working capital management of the business organization. If the firm wants to maintain sound financial position, it should maintain optimal level of working capital.

Though, most of the communication organization in Nepal have well recognized the importance of proper management, they are still facing the problem of working capital management due to the various factors related to it.

Managers still focus their attention on the procurement aspect of working capital but not on the efficient utilization of fund. The deficiency we practices, administrative negligence's in day to day operations, liquidity problem, lower turnover of asses, negative rate of return and poor collection and payable policy are the major problem facing in Nepalese organization.

As we know that investors want to earn return from their investment. Therefore any organization should make profit for investors but profit is not only the indicator of proper management of financing. So basically, this study has tried to find out the issue of working capital management in Nepal Salt Trading Corporation Ltd. The research study has tried to find out the answer to the following questions.

1. Is the investment of Nepal Salt Trading Corporation Ltd in current assets appropriate to its total assets level?
2. What is the structure of working capital in Nepal Salt Trading Corporation? Are there proper investments in working capital?
3. Is the working capital policy appropriately followed by Nepal Salt Trading Corporation Ltd?
4. Are their sound liquidity positions in Nepal salt Trading Corporation?
5. Is the Nepal salt Trading Corporation ~~beingable~~being able to utilize their current assets properly? What is the nature of working capital utilization?
6. Is overall profitability of this organization satisfactory?

A general observation of their past performance and form the latest available computed comparative balance sheet and profit and loss account out show the working capital policy is not effective and to find out major bleeps and suggestive recommendation to solve the working capital management that selected corporation's objective can be achieved At last one of the major problems of that these selected company are facing ill management of working capital.

1.4 Objective of the Study

Working capital generally refers the current assets and net working capital refers the difference between current assets and current liabilities. The balanced working capital is most important for every organization. The excess and inadequate working capital ~~–~~is very harmful. The success and failer of organization depends upon the amount of working capital. The working capital management refers to maintaining a balanced working capital. The main objective of this study is to examine the overall working capital management of STCL.

Each and every research study is conducted with a view of achieving some objectives. The major objective of this study is to evaluate the working capital position of Nepal salt Trading Corporation. The other objectives of this study are to throw light on the ~~importace~~importance of the proper management of working capital and to make suggestion about how to manage working capital of Nepal salt Trading Corporation from the long-range view point. The specific objectives are as follows:

1. To calculate the liquidity, profitability and turnover ratios of the company.
2. To find out the need to control investment in each type of current assets over the study period.
3. To analyze the effect of working capital on liquidity and profitability.
4. To suggest and recommend for the improvement in working capital management of trading company.
5. To show how working capital determines the strength and weakness of the organization.

1.5 Significance of the Study

The need for working capital to run day-to-day business activities operations can not be overemphasized. "Working capital management has been looked upon as driving seat of finance manager."[9] Efficient management of working capital not only maintains proper liquidity but also increase profitability. Management of working capital is perhaps more important than even management of profit. Proper management and development of working capital are important aspect of financial management of the companies. Since they have significant bearing on the optimization of the rate of investment, besides it is high time that greater attention is given to the working capital management in the Nepal salt Trading Corporation.

This study will also help as a literature for the future study about the relating topic, apart from this corporation can also follow the suggestion of this study to make their policy and strategy more practical and scientific.

In conclusion it can be said that this has most importance. Some of them are as follows:

1. A large proportion of the financial manager's time is allocated to working capital management.
2. More than half of the total assets are typically invested in current assets.
3. The relation between sales growth and the need to invest in current assets.
4. This study is also expected to help the teachers and students for further study of relating sector as literature.

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[9] Kulkarn, P.V., "financial Management." Himalaya publishing House, India, 1983, pg. 393

1.6 Limitation of the Study

The study attempts to compare the working capital management of STCL. There are some limitations, which weaken the generalization e.g. inadequate coverage of industries, time period taken, reliability of statistical tools used and other variation.

None of the study can go beyond the boundary of limitations and this study is also not an exception. This study is mainly based on secondary data, which have been collected from books, financial statements, and reports of the relevant companies and web sites.

No can be free from constraints such as economic resources time etc. The present study of working capital management has the following assumption and limitations.

1. Due to time constraint, not all the related areas are possible to cover in depth.
2. The data published in the annual reports have been assumed to be correct and true.
3. Oral interview given by the officers of the firm is assumed to be correct and true.
4. This study is limited to working capital management of STCL.
5. Basically, the data and financial statement provided is secondary in nature.
6. The study is only for the partial fulfillment of MBS.
7. This study is only suggestive rather than directive.

1.7 Organization of the Study

The whole study on is divided into five main chapters:

Chapter 1. Introduction

Chapter one deals with the general background of the study with the subject matter of the study. This chapter consists of following topics:

- General background of the study
- Focus of the study
- Statement of the problem
- Objectives of the study
- Significance of the study
- Limitations of the study
- Organization of the study

Chapter 2. Review of Literature

This chapter deals with the review of different books, reports, dissertation and journal, articles related to the topic of the study.

Chapter 3. Research Methodology

This chapter deals with research design, research methods, sources of data, data collection techniques and data analysis tools to be used and methods of analysis are included.

Chapter 4. Presentation and Data Analysis

This chapter deals the required for the study will be presented, analyzed and interpreted by using various tools and techniques to present the result relating to the study.

Chapter 5. Summary, Conclusion and Recommendation

The fifth chapter will be the final chapter the study that contain summary of the research this chapter. This chapter will try to fetch out a conclusion from the finding of the study and will attempt to offer analytical and critical view on performance of the stock selected company and present various suggestions and recommendation for present and prospective investors.

Bibliography abbreviations, appendix and a vita sheet have been also presented at end of the study.

1.8 Terminology Used in the Study

The following terms are used in this research report.

1. current Assets: The assets which can be converted into cash within an accounting year or within the operating cycle of the business is current assets, current assets include cash and those assets, which can be converted into cash within a year, such as marketable securities, debtors and stock, prepaid expenses should also be included in current assets.
2. Current Liabilities: Liabilities, which are to be repaid with in one year of the data of balance sheet, are known as current liabilities. It represents the obligation of the business and arises in the ordinary course of operating business. Sundry creditors, bills payable, bank overdraft, accrued expenses, received in advance, cash credit etc. are example of current liabilities.
3. Fixed Assets: It represents tangible physical properties, which have and anticipated working life of more than one year in the regular operations of

the business. Examples of fixed assets are land and building, Plant and machinery, equipment, furniture and fixtures, loose tools, vehicles etc.

4. Total Assets: It is total sum of current and fixed assets.

5. Net Working Capital: The difference between current assets and current liabilities is called net working capital.

6. Working Capital: The term working capital here refers to the gross working capital. It includes the total volume of current assets.

7. Inventory: Inventory is the most important assets of the firm. It keeps to meet its requirement of production and sales. It includes the inventory of raw materials, chemicals and finished goods inventory.

8. Quick Assets: Quick assets represent the current assets minus inventory of the firm. It is part of current assets, which are considered as highly liquid.

9. Receivables: It includes the sales debtors and other debtors only.

10. Cash and Bank balance: It includes the cash in hand and cash at bank.

11. Fiscal year: Fiscal year is the period of 12 months from 1^{st} shrawan to 31^{st} Ashad.

12. Total Fund: Total fund refers the total of long-term debt as well as short-term debt.

13. Income Statement: It is a summary of firm's revenue and expenses over specific period.

14. Balance sheet: Balance sheet may be defined as a statement prepared with view to measure the exact financial position of a business firm on a certain fixed date.

CHAPTER – II

REVIEW OF LITERATURE

~~2.4.~~2.1 Concept of Working Capital:

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A business firm needs not only fixed capital but also the working capital for day-to-day operation of the concern, it finances in some of the assets of short-term nature like inventories, accounts receivable (sundry debtors), cash and marketable securities etc. when all these short-term assets are put together it is called working capital. This working capital and total current assets are synonymous. It is therefore, said that working capital is related with short-term financing.

The assets such as cash; marketable securities, accounts receivables and inventories which are known as current assets are required to be maintained at a certain level depending upon the volume of production and sales. The cash and marketable securities are respectively considered as purely liquid and near liquid assets where as the accounts receivable and inventories are not. However they can be liquidated as and when necessary with a period of less tan one year. The capital invested on these assets is known as working capital. In short, the working capital is the sources of financing current assets and it includes short as well as long term financing "working capital refers to a firm investment in short-term securities. Account receivable and inventories"[10]

[10] Hampton, Johan J., as quoted by Dongol, R.M., Parajuli, K.P. "Accounts of financial analysis and planning."

The use of the term working capital indicates that its flow is circular in nature. Because of the circular nature of current assets Working capital is sometimes called circulating capital.

There are two major concepts of working capital net working capital and gross working capital when accountants use the term of working capital, they are generally referred to net working capital. When is the dollar difference between current assets and current liabilities. This is one measure of the extent to which is the firm protected from liquidity problems. From the management view point. It however makes little sense to take about trying to actively manage a net difference between current assets and current liabilities, particularly when that difference is continuously changing.

Financial analysis, on the other hand, means current assets when they speak working capital. Therefore their focus is on gross working capital.

Since it makes sense for the financial manager to be involved with providing the current of current assets for the firm at all time. We will adopt the concept of gross working capital. As the discussion of working capital management unfolds our will be to consider the administration of the firm's current assets, cash and marketable securities, receivable and inventory and the financing (current liabilities) needed to support current assets.

The term current assets refers to those assets, which can be converted into cash within an accounting year or operating cycle, and include cash, short-term securities, debtors, bills receivable, inventory and prepaid expenses. Current liabilities are those claims outsiders which are expected to mature for payment within an accounting year and include an account payable, creditors, bills payable, bank overdraft, and outstanding expenses. "Each of current assets must be managed efficiently in order to maintain to liquidity for the firm by not keeping to high level of any one of them. The interaction between current assets and current liabilities is, therefore the main theme of the theory of working capital management."[11]

"Working capital has a volatile nature. The nature presents some problems and constrains in financing working capital need. The volatile nature of working capital refers to the change in total current assets."[12]

Working capital is essentially circulating in nature. It can be compared with a river, in which water level is constantly changing. Thus, the nature of working capital is not fixed; it is changeable at different times on the basis of transaction of goods.

The working capital is the capital needed to conduct day-to-day operations of business. Working capital is therefore a broader term and chances of misunderstanding it. If business enterprises manager clear cut concept of working capital, liquidity crisis could have been avoided. Deficiency of knowledge about working capital concepts has often brought a lot of liquidity crises. In fact, there are two concepts of working capital.

(i) Gross concept

(ii) Net concept

2.1.1 <u>Gross Concept of Working Capital</u> :-

The gross concept of working capital refers to total current assets; current assets are those assets, which in ordinary course of business can be converted into cash within short period of morally one accounting year.

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11 Khan, M.Y. and P.K. Jain, op. cit. P.613

12 1bid. p. 48

R.S. Pradhan and K.D. Koirala express their view about gross concept of working capital as "If all the expenses needed to run the day-to-day operation of business such as amount to be invested in the form of cash, finished goods, receivable etc, are put together it is called working capital. This working capital and total current assets are synonymous."[13]

"The gross working capital concept focuses on two aspect of current assets management:

i. Optimum investment in current assets.
ii. Financing of current assets.

The consideration of the level of investment should avoid two danger points excessive and inadequate investment in current assets should be just adequate, not more not loss, to the need of business firm…another aspect of gross working capital points to the need of arranging funds to finance current assets."[14]

Current assets included:-

i. Cash in hand
ii. Cash at bank
iii. Bills receivable
iv. Sundry debtors (less provision for bad debts)
v. Inventories or stock as
   Raw Material
   Work in progress
   Stores and Spares
   Finished goods

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[13] Pradhan, R.S., and Korirala, K.D., some reflection on working capital Management in Nepalese corporation Management Dynamics, vol. 3 No. 1

[14] Pandey, I.M., Financial Management, Vikash publishing House PVt. Ltd., New Delhi, Third reprint July 1992, p.800.

vi. Temporary invest of surplus founds

vii. Prepaid Expenses

viii. Accrued income

Supporters of this concept argue that the real working operation of public enterprise solely rely on current assets. Moreover, there is a logical reasoning that explains if fixed assets imply fixed capital, than current assets imply on working capital. As working capital is evaluated in terms of utilization of current assets, it is naturally on current assets only. Current liabilities are not entered into picture. While judging the turnover of current assets. But reformer of this is a concept incomplete in itself, the management of working capital gives erroneous result if public enterprises do not consider current liabilities. Again, it they rely on this concept, the true financial position of the enterprise does not disclose.

2.1.2 <u>Net Concept of Working Capital :-</u>

Net working capital is commonly defined as the difference between current assets and current liabilities. "The term net working capital can be defined in two capitals can be defined in two ways'.

i. The most common definition of net working capital is the difference between current assets and current liabilities.
ii. And Alliterative definition of working capital is that portion of firm's current assets, which is financed with long-term funds. Current liabilities are those liabilities which are intended to be paid in the ordinary course of business with in a short period of normally one accounting year out of current assets or the income of the business.

Current liabilities Included:

i. Bills payable

ii. Sundry creditors

iii. Accounts payable

iv. Accrued outstanding expenses

v. Short-term loan, Advantages and deposit

vi. Dividend policy

vii. Bank overdraft

The gross concept is a financial or going concern where as net working capital concept is as accounting concept of working capital.

These two concepts emphasis that excessive investment in current assets affects profitability as idle investment yield nothing. Similarly inadequate investment in current assets intakes in difficult~~l~~e of carrying out day-to-day operations of business smoothly

The net working capital, being the difference between current assets and current liabilities, indicates the liquidity position and suggest the extent to which working capital needs may be financed by the permanent source of funds.Net working capital can be negative or positive. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

The need for net concept of working capital arises due to the fact that short-term creditors want an enterprise to maintain current assets at a higher level as compared to current liabilities. It shows the extent of protection provided to short-term liabilities.

"In fact, the choice of particular concept depends upon the purpose in view. Thus, of the two concepts, the net is more useful, if the purpose is to find out the liquidity position of an enterprise. If on the other hand, the interest lies in finding out where the total current assets of an enterprise are being put to maximum use, the gross concept is preferable.[15]

2.2 Nature of Working Capital:-

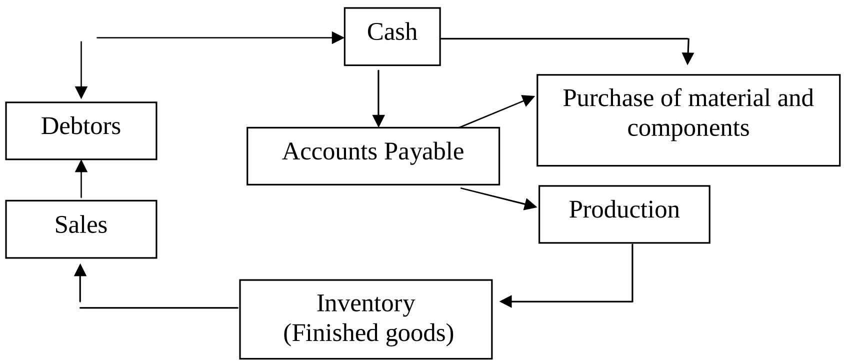
Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the relationship that exist between them.5 The nature of working capital is described with the help of nature of cash cycle or operation cycle of them firm. Current assets are usually converted into cash within an accounting year (operation cycle). Conversion of current assets into cash in the subject matter of cash cycle. The process of cash starts when a firm uses cash to purchase raw material and pay for other manufacturing cost of produce goods. These goods are carried as inventory for sometime till they are sold. These goods are either sold on cash or accounts receivable are created. Account receivable is collected from debtor which brings cash into the firm. In this way cash cycle is complete and new process of cash cycle starts again. The major current assets are cash, marketable securities, accounts receivable, inventories etc. Current liabilities are those liabilities which are expected to nature for payment within an accounting year. The basic current liabilities are account payable, creditors, bills payable, ban~~d~~k overdraft and outstanding expenses.[16]

Nature and interrelationship of working capital can be best understood by operating cycle of the firm. A firm begins with cash that is used for purchase of raw materials and bought in components. Materials and other operating supplies can also be purchased on credit that in turn generates accounts payable. Further cash is extended to pay the labor and other manufacturing costs and further trade credit obtained to enable production of

[15] Saly, S.M., financial Management of public enterprises. Hand and company Ltd., New Delhi, 1984. p. -90
[16] Jain, P.K., and Khan, M.Y., Financial Management, Tax and problem Tata Mc Graw Hill publishing Ltd. New Delhi.

finished goods; which are eventually sold on credit giving rise to account receivables. The collection of receivables brings cash into the firm and creditors are paid. The average time, which elapses between the acquisitions of materials or services entering into cash, realization constitutes on operating cycle. The operating cycle can be depicted as given below.

Working Capital Cycle



In order to reduce the requirement of working capital, the management should buy to reduce the period of the operating cycle. This underlines erecting working capital so as to get the optimal result. This leads use to the discussion of structure of working capital.

2.3 Needs and Objectives of Working Capital:

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Working capital is the lifeblood of nerve system of every business concern. It is needed to run the day to day business activities. Working capital must be still at a certain level for the daily business operation. The needs for working capital arise due to the time gap between production and realization of cash from sales. Business organization has an aim to maximize the share holder's investment. In order to accomplish this objective, the business organization should earn sufficient return for its operations. Earring a steady amount of profit requires successful sales activity. "sales do not convert into cash instantly; there is invariably a time-lag between the sales of goods and receipt of cash There is therefore, a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate realization of cash against goods sold."[17] Thus, sufficient working capital is necessary to sustain sales activity. It is also necessary to solve the problems or to pay for liabilities like creditors, short-term loan etc.

Each and every firm needs sufficient volume of working capital in order to run the business smoothly. We will hardly find a business firm which does not require any amount of working capital. Firms differ in their requirement of the working capital.

Needs and objectives of working capital can be listed as follows:

i. To provide credit facilities to the customers.
ii. To pay wages and salaries.
iii. For the purchase of raw materials, components and spares.
iv. To maintain day-to-day expenses and overhead cost such as fuel, power, and office expenses.
v. To meet the selling expenses as packing, advertising etc.
vi. To maintain the inventory of raw materials, work-in-progress, stores, spares and finished stock etc.
vii. To pay the short-term debt and bank loan in time.
viii. To keep the business in solvency position.
ix. To face for the economic depression and emergencies.
x. To grab the opportunity.
xi. To get regular return and to make the shareholders intension well towards the organization.

[17] Khan, M.Y., and Jain, P.K., Financial Management, Op. cit. p. 621

2.4. **Principle of Working Capital:-**

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The following are the general principles of sound working capital management:18

i. Principle of risk variation.
ii. Principle of cost of capital.
iii. Principle of maturity of payments.
iv. Principle of equity position.

The first principle refers to the risk associated with the amount working capital employed. The second principle is concerned with the problems of determining the ideal levels of working capital. The third principle is concerned with the risk directly repeated to the type of capital used for financing working capital requirements and debt equity ratio and the fourth principle is concerned with maturity dates relatively more import and for risk of insolvency.

2.5. **Importance of Working Capital:-**

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~~2.5. Importance of Working capital:-~~

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Every business needs capital for two purpose i.e. long-term and short-term purpose. To operate business a firm needs capital or working capital. Firms can't be sustained without cash. Working capital is very essential t maintain smooth operation of business. No business can run successfully without sufficient and adequate amount of working capital. In this 21st century competition arises rapidly, day-to-day competition grew up so business sector is very complex. Now a days so working capital play the vital role to run/operate the business smoothly.

Every business firms keeps their objectives either maximum their wealth or shareholder return or higher profit. To maximize their target goals, they have to invest their capital different profiles to minimized risk and to maximized return. So that working capital is required to be studied. Working capital is important for this reason:-

i. A large proportion of financial manager's time is allocated to working capital.
ii. More than the half of the total assets is typically invested in current asset is close and direct.
iii. The relationship between sales growth and need to invest in current assets is close and direct.
iv. Investment is fixed assets may be reduced by renting or leasing but investment in inventories and receivable is usually available.
v. Small firm may be minimized their investment in fixed assets by teasing but they can't avoid investment in cash receivable and inventories.

Working capital is important due to:-

i. Adequacy of working capital creates a felling of securities and continuous confidence.
ii. Adequacy of working capital is a must for maintain solvency and continuing production.

iii. Creation of sound goodwill.
iv. Facility of off-season purchasing.
v. Regular supply of off-season purchasing.
vi. General rise in management moral.
vii. Easy availability of cash discount.
viii. Easy loan from bank.
ix. Quick and steady return to the investor.

The firm has to pay wages, pay for the raw materials, pay bills and so on. To maintain day to day expenses and overhead, cost such as power and office expenses and provide credit facility to the customer working capital is useful.

2.6 Determinations of Working Capital:-

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~~**Determinations of working capital:-**~~

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Working capital is a wide concept to management. It is a part of management accounting. Working capital plays an important role in a business. To maintain a particular level of operation, the working capital must be analyzed sufficiently. But it is not easy to determining or estimate the required amount of working capital. Both over and under working capital are dangerous for the business concern.

There are no set rules or formulate to determine the working capital requirements of the firm. A most number of factors influence the working capital necessary of the firm. Working capital requirement must be sufficient to achieve maximum profit and the successful run of the business enterprises. So that it must be inadequate volume. To determinate total working capital requirement a wide variety of factors into existence. However, the following factors are to determinate working capital.

i. Nature and size of business: - Working capital requirements of the firm are basically affected by the nature and size of its business. Greater the size of the business will be the working capital need. Trading and financial firms have a very less investment in fixed assets but requires a large amount of working capital. Public utilities comparatively limited need for working capital and have to invest abundantly fixed assets. The working capital needs must of the manufacturing concerns between the 2 extreme of trading firms and public utilities. So, the size of business has an important impact on its working capital needs. Size may be measured in terms of the scale of operations. A firm with large scale of operation will need more working capital than a small one.
ii. Manufacturing cycle: - Longer the manufacturing cycle large will be the firm's working capital requirements.
iii. Business Fluctuation:- Business fluctuation leads to ~~cycical~~cyclical and seasonal changes which in turn, cause a shift in the working capital position, particularly for temporary working capital requirement, naturally the recession need more working capital than in the period of boom.
iv. Growth and expansion activities: - Larger amount of working capital is needed if the firm is in growth phase and expanding itself.
v. Credit policy: - Liberal credit policy tends to increase in working capital requirements more than the strict policy does.
vi. Price level changes: - Generally, rising price levels will require a firm to maintain higher amount of working capital. The same level of current assets will need increased investment when price are increasing.

However the product praises with rising price levels won't face a serve working capital problem.

vii. Credit market situation:- Credit market situation also plays vital role in determining working capital need of a company. Easy accessibility sound and favorable creditors market relatively as we need a firm.

viii. If the supplies are available regularly less amount of working capital will be needed. But if supplies are irregular the business is required to have large Quantities of stock in order to ensure uninterrupted flow of production. This will require more amount of working capital.

ix. Rising price level will require a firm to maintain higher amount of working capital.

x. If the firm is looking forward growth in naturally cost more working capital will need.

xi. There are also other factors as dividend policy profit level, ~~financy~~finance change etc.

The quantum of working capital is also determined by the management attitude towards risk. If the management perceives risk, current assets are not sufficiently maintained to match current liabilities during maturity and enhance the desired level of sales, greater the management adheres to risk the lesser becomes the need for holding large size of working capital.

Thus for the effective and efficient management of working capital, finance manager should pay particular attention to major determining factors as state above.

2.7 Classification of Working Capital:-

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~~**Classification of Working Capital:-**~~

Working capital can be classified into 2 ways they are:- on the basis of concept and on the basis of time. The 1st classification is relasted with gross working capital and net working capital which 2 concepts discussed earlier on the basis of time working capital can be divided into 2 ways.

i. On the basis of concept.
ii. On the basis of time.

i. On the basis of concept:-

This classification is concerned with gross working capital and net working capital discussed earlier. This classification is important since it categories the various area of financial responsibilities. For example, funds invested in cash, inventories and receivables require careful planning and control if the company is to maximize its return on investment. But this classification does not take into account on time element. It is important in the procurement policies.

ii. On the basis of time:-

This classification can be divided into two parts:

a. Permanent or Fixed working capital.
b. Variable or Temporary or Fluctuation working capital.

a. Permanent or fixed Working Capital:-

Permanent working capital is that kind of working capital which is required to maintain as current assets for the successful operation of the business activities. It is the amount of fund required for production of goods and services to satisfy the demand. Permanent working capital is the portion of working capital, which remains in the same Level of the business forever. "A

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Formatted: Indent: First line: 0.5", Line spacing: 1.5 lines firm's permanent working capital is the amount of current assets is continuously required by the firm to meet long-term minimum needs."

The operating cycle is a continuous process an therefore the current assets are felt constantly. But the magnitude of current assets needed is not always same: it is increase and decrease over time.

There is always minimum level of working capital, which continuously required by a firm in order to maintain its activities. Every firm has to maintain a minimum level of inventories cash and other current assets which are needed to conduct a business even during the dullest season of the year. The minimum level of working capital is called permanent capital. It is permanent in the same way as the firms fixed assets. Depending upon the changes in production and sales, the need for working capital over and above permanent. Working capital will fluctuate. For example, extra inventory of finished goods will have to be maintained to support the peak periods of sale and investment in debtors may also increase during such periods. On the other hand, investment in raw materials, work in progress, and finished goods will fall if the market is slack.

"Permanent working capital also knows as Hard core working capital. Hard care working capital is the minimum working capital through, out the year to support the normal operation of the business." (Van Horn and Wachiwiz, 1997:204).

b. Variable or Temporary and Fluctuation Working Capital:-

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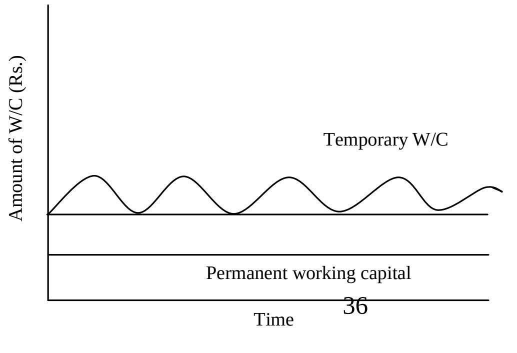
Working capital, which is convertible as per sales volume of business is termed as temporary working capital. In each and every business unit, temporary working capital is also provisioned side by side with permanent working capital. Temporary working capital is required for short period to meet some special exigencies and seasonal demand. Variable working capital represents the certain amount of fluctuations in current assets within a short period. Temporary working capital changes its form from cash to inventory and inventory to receivables and then to cash; business, which one of seasonal nature required more temporary working capital. This will working capital changes its form from cash to inventory and inventory to receivables and then to cash: business which one of seasonal nature require more temporary working capital. This will increase the turnover of investment resulting inefficient use of capital.

Variable working capital represents additional assets required at certain times during the year. Added inventory must be maintained to support peak selling periods; receivables will increase and must be financed after a period of high sales. Extra cash may be needed to pay for increased supplies preceding high activity.

Any amount of working capital over and above the permanent level of working capital is temporary or variable working capital is temporary or variable working capital. It is required for short period and cannot be permanently employed gainfully is the business.

Working capital is required in order to meet the requirements arising out of fluctuation in sales and this additional amount is known as temporary of variable working capital. The amount of working capital arises at the time of busy or brisk season and goes down at the slack season. It also called seasonal working capital.



Permanent working capital is stable over time or fairly constant while temporary working capital is fluctuating. Sometimes increasing and sometime decreasing. However, the permanent capital line need not be horizontal if the firm's requirement for permanent capital is increasing or decreasing over a period.

2.8 Structure of Working Capital:-

Structure of working capital includes a study of the elements of current assets and current liabilities. The important elements of current assets are inventory, receivables, cash and bank balance and short-term investment other the trade investment. Current liabilities usually includes trade creditor, bank borrowing, accrued expenses, accrued tax and up paid decides.

The detail descriptions of three major components; as cash, marketable securities, inventory and receivables.

i. Cash:-

"Cash is the crucial components of the working capital of concern cash like blood streams in the human body give strength to business units. Without it the firm in notable to pounce the other resource that it needs to continue the operation of business unit to a stem still. Management has a duty.

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Therefore to see that the firms it manage sufficient cash balance at all times to meet its day-to-day requirements."[18]

Cash is one of the most important factors for the business organization. Without the procurement and proper management of cash on business organization has the outflow and inflow of cash. The inflow of cash increase the liquidity and outflow the decrease it .The main source of cash inflow for a business organization are sale of goods and service, interest in advance etc and the outflow is necessary for the payment of trade creditors; administrative expansions wages, interest, creation installment of loans, different types of cash purchase selling and distribution expenses etc. So, there should be proper balance between cash inflow and cash outflow. In other words, there should be an adequate amount of cash in the firm but not excess cash them requirement is not profitable for business firm.

The important objective in managing cash should be trade off liquidity and profitability must be balanced in such a way that the organization retains its liquidity and at the same time maximize is profitability.

ii. Receivables.

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Generally receivables mean amount due from customers is known as receivables. Sales made on credit involve the creation of receivable. Sales made on credit the creation of receivables that must be converted to cash. Since the cash isn't firmly in hand until the money is collected. Receivable represents an exposure that must be analyzed and managed. Receivable is an important component of working capital management. Account receivables play a major role in the conduct of business for most firms. To meet the competition the receivable are very important. Account receivable are known

[18] Sharma, R.K., and Gupta, S.K. Management Accounting, Kalyani publisher, New Delhi.

as account receivable, trade receivable, customers receivable, sundry debtors, trade debtors, book debt, bills receivable etc.

To increase the profit the company has to increase the sales. To increase the sales the goods are to be sold in credit. The credit management refers to how much credit create should be allowed to customers and soon. To take such type of decision in a big company there is a separate credit department the decision is taken by company cost and benefits.

The greater the level of sales and longer the term of credit given to customers the more will be the quantum of investment in receivable. If the firm has a relatively liberal credit policy it will have a still higher quantum of investment in receivable than a firm which has followed a stricter credit policy. A liberal credit policy encourage customer to delay statement of their cost.

~~i.~~iii. **Marketable Securities:-**

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"Marketable securities are short-term money market instruments like treasury bills, quoted, corporate share, debenture etc. that can easily be converted into cash when the cash is needed in the business."[19]

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Now-a-days it has become a practice with business concern to invest their surplus cash in marketable securities. Marketable securities usually given

[19] Jain, S.P., and Narang; K.L., op. cit. P-b-182

lower yield them firm's operating assets. There are two reasons for making investment in these securities.

a. There serve as a substitute for larger cash balance liquidation part of securities to increase the cash balance when cash outflows exceed. Cash inflows.

b. Their also used as temporary investments to meet known financial requirement of the firm in near future.

iv. Inventory:-

Inventory represents a major current assets investment in most manufacturing firms ranging from perhaps 25 to 75 percent of their current assets depending upon the magnitude of the firm and the types of industry.

Inventories management involves planning of the optimum level of materials and cost control of material cost supported by an appropriate organization structure. An inventory is the stock of any idle item or resources in a firm for future use. In manufacturing organizations, typically have inventories of raw materials, components, sub-assembles-tools and equipment, semi-finished goods, finished goods etc.

"Inventory may consist of raw material, work-in-progress and finished goods awaiting sale and shipment."[20]

In this way next concepts of inventory is "Adequate inventories facilitate smooth production activities and help to provide off shelf delivery to customers on other hand, excessive inventory is idea resource of the firm and can prove costly because it lies up working capital unnecessarily which could

[20] Brealy, R.A., and Myers, S.C., principle of corporate Finance. Tata Mc Grow Hill publishing co. Ltd. New Delhi. 4th ed. 1996. page 63

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Formatted: Font: Bold, Condensed by 0.1 pt have been better used it has been utilized for some other purpose. The major problem of inventory management therefore should be to arrive at an optimal balance between too much inventory and too little inventory. The optimum level if inventory is decided keeping in view the costs associated with holding inventories. There are two types of these cost, ordering cost and carrying cost. A system for effective management of inventories involves there sub system economic order quantity record point and stock level."

2.9 Adequacy of Working Capital:-

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The firm should maintain a sound working capital position. It should have adequate working capital to run its business operation. Both excessive as well as inadequate working capital positions are dangerous from the firm's point of view. Excessive working capital means idle funds which earn no profits for the firm. Paucity of working capital not only impairs firm's profitability but also results in production interruptions and inefficiencies.

The dangers of excessive working capital are as follows:

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i. It results in unnecessary accumulation of inventories. Thus, chances of inventory mishandling, waste, theft, and losses increase.
ii. It is an indication of defective credit policy and slack collection period. Consequently, higher incidence of bad debts result which adversely affects profits.
iii. Excessive working capital makes management compliment which degenerates into managerial inefficiency.

iv. Tendencies of accumulating inventories to make speculative profits grow. This may tend to make dividend policy liberal and difficult to cope with in future when the firm is unable to make speculative profits.

Inadequate working capital is also bad and has the following dangers:

i. It stagnate growth: it becomes difficult for the undertake profitable projects for non-availability of working capital funds.
ii. It becomes difficult to implement operating plans and achieve the firm's profit target.
iii. Operating inefficiencies creep in when it becomes difficult even to meet day-to-day commitments.
iv. Fixed assets are not efficiently utilized for the lack of working capital funds. Thus, the firm profitability would deteriorate.
v. Paucity of working capital funds renders the firm unable to avail attractive credit opportunities etc.
vi. The firm loses its reputation when it is not in position to honors its short-term obligation. As a result, the firms tight credit terms.

An enlightened management should, therefore, maintain a tight amount of working capital on a continuous basis. A firm's net working capital on a continuous basis. A firm's net working capital position is not only important as index of liquidity but it is also used as a measure of the firm's risk. Risk in this regard means chances of the firm being unable to meet its obligations on due date. Lender considers a positive net working as a measure of safety. All other things equal, the more the net working a firm has, the less likely that it will default in meeting its current financial obligations. Lenders such as commercial banks insist that the firm should maintain a minimum net working capital position.

2.10 Financing of Working Capital:-

The firm working capital assets policy is never set in a vacuum it is always established in conjunction with the firm working capital financing policy. Firm can adopt different financing policies in relation to current assets, three types of financing may mainly be identified, that are long-term, short-term and spontaneous financing. Long-term financing includes share debenture. Preference share and retained earning and long term debt from financing institutions etc.

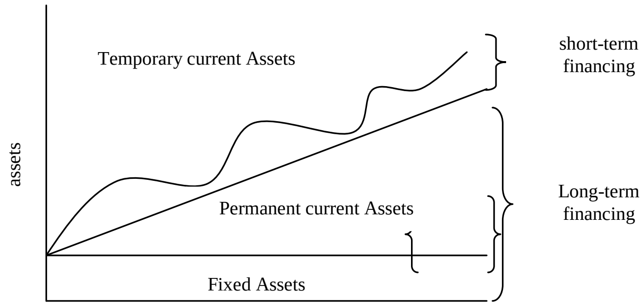
The real choice of financing current assets in between short-term and long-term sources which are different regarding the cost and flexibility. So, far as financing mix of these two sources is concerned there are three approaches, viz. hedging or matching approach, conservative approach and aggressive approach.

i. Hedging (Matching) Approach.
ii. Conservation Approach.
iii. Aggressive Approach.

i. Hedging (Matching) Approach:-

Under this approach, a firm uses long-term financing to finance fixed assets and permanent current assets and short term financing to finance temporary or variable assets. In other words, with reference to an appropriate financing mix, the term hedging can be said to refer to a process of matching maturities of debt with the maturities of financial need.

The Justification for the exact matching is that since the purpose of financing is to pay for assets, the financing should be relinquished when the assets is expected to be relinquished when the assets is expected to be relinquished using long-term financing, for short-term assets is expensive as the funds will not be utilized for the full period. Similarly, financing long-term assets with long-term financing is costly as well as inconvenient as arrangement for the new short-term financing will have to be made as a continuing for the new short-term financing will have to make as a continuing basis. Thus, when the firm follows matching approach long-term financing will be used to finance fixed assets and permanent assets and short-term financing to finance temporary or variable current assets. But this situation may not be realized due to the uncertainty about the expected lives of assets. So, this approach is not practical.



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Financing under matching plan
(Source:IM. pandey)

ii. Conservative Approach:-

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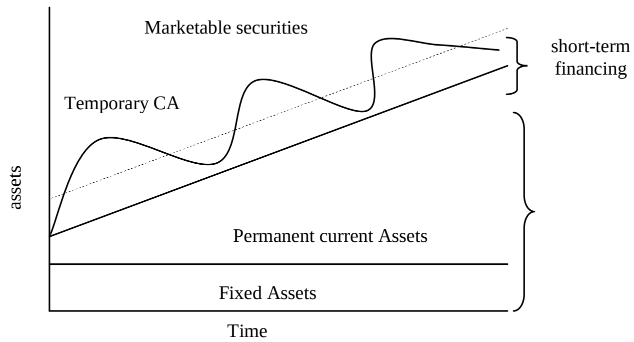
This approach suggests that the estimated requirement of total funds should be met from long-run sources, the use of short-term funds should be restricted to only emergency situation, or when there is an unexpected outflow of funds. Under a conservative plan, the firm finances its permanents with long-term financing. This, in periods when the firms have not temporary current assets; it stores liquidity by investing surplus funds into marketable securities. The conservative plan relies heavily on long-term financing and therefore, is less risky.



Conservative Finance
(Source: I.M. Pandey)

iii. Aggressive Approach:-

Under an aggressive policy, the firm finances a part of its permanent current assets with short-term financing. The greater the portion of the permanent fund requirement finances with short-term debt, the more aggressive the financing is said to be as there is more risky. The aggressive financing policy is illustrated below:

Working capital management involves deciding upon the amount and composition of current assets low to finance these assets. These decisions involve trade off between risk and profitability. The greater the relative proportions of liquid assets the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately, also will be loss. The longer the composite maturity schedules of securities risk of the cash insolvency, all other things being equal. Again the profits of the firm are likely to be les. Resolution of the trade off between risk, and profitability with respect to those decisions depends upon the risk preference of management.

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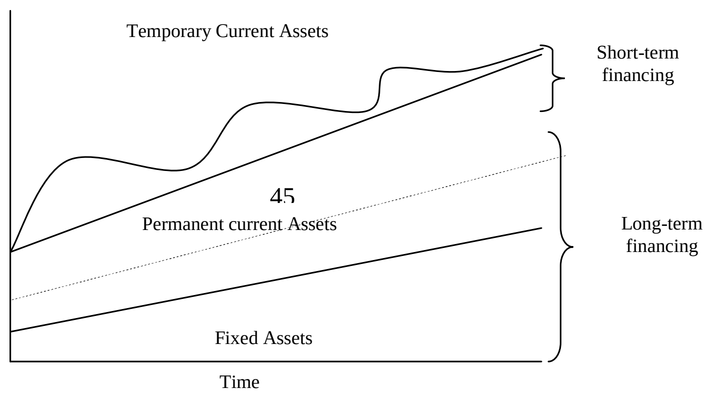

Aggressive Financing
(Source: I.M. pandey)

2.11 Review of Literature:-

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Review of literature means reviewing research studies in the related area of study. Studies cover the topic review of related research studies, their conclusion and deficiencies may be known and further research can be conducted.

Working capital is the effective life blood and controlling nerve center of any business. Hence, the management of working capital plays a vital role for the success and failer of any enterprise. So, far as the management of working capital in Nepalese enterprise is concerned, different management experts and students of MBS describing the working capital management of various enterprises have under taken a number of studies. The purpose of this chapter is to provide an insight into working capital management and give a bird's eye view of different experts thought regarding the theory of working capital. This chapter aimed is to review the available literature on working capital management.

2.11.2 Review of Books

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In this section, different view expressed by different person, authors, professors, executive etc. in their publication and working capital management for making the easier to the researcher. In the study researcher receive some theoretical concept on the working capital from Van Horne. "Working capital management usually is considered to involved the administration of current assets namely cash, marketable securities, receivable and inventories and administration of current liabilities."[21]

Indian famous professor I.M. pandey has described some conceptual frame works, which are bases on his various researchers. We can learn various lessons from it and also helpful for this study; indeed. He has described various aspects of working capital management into five chapters. The first chapter deals with the concept determinate of working capital, dimension of working capital, need of working capital management. In second chapter he has described the management of cash and marketable securities, where he has deals with facts of cash management, motives for holding cash, cash planning investment in marketable securities. In the third chapter he has described the management of receivable in which he has dealt with the goals of credit management, optimum credit policy. In the fourth chapter, on inventory management he has described need to hold inventories, objective of inventories management, inventory management techniques, selective inventories control, he has described the commercial recommendation on the fifth chapter with reference to the above problems and findings they recommended the need to control investment in working capital as a whole for manufacturing co-operation has been trying to control investment in cash and inventory. But manufacturing co-operation should pay sufficient to control the investment in inventory.

Professor Weston and Brigham have given some theoretical insights into working capital management after their various research studies on it. Conceptual finding of their studies provides sound knowledgeable and

[21] Horne, Van, C, James, and Watchowic2, J.M. Fundamental of Financial Management (9th edition), prentice hall of India Pvt. Ltd, New Delhi. 1996

guidance for the future. On the field of management of working capital in any guidance for the study as well. They explain the importance of working capital, financial of working capital the use of short-term vs. long-term debt, relationship current assets to fixed assets. They have explained the major source and the firm of short-term financing such trade credit, loan from commercial bank, commercial papers.

Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiency circulated. To have adequate, healthy, and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed.

Surendra pradhan, in this book "Basic of Financial Management", has shed light financing of working capital as, "There are two ways of financing working capital requirements i.e. internal and external sources. Internal source includes use of retained earning, depreciation fund and share capital. External source includes trade credit, advances from customer, short-term government loan etc."[22] Generally sources or a combination of various sources of financing to be used depend on the type of current assets (permanent and variable) to maintain. The long-term sources such as stock issues, debts and bonds are appropriate to use for the permanent type of current assets only if the spontaneous type of short-term sources are not enough to not available to cover the required of permanent current assets.

2.11.3 Review of Journals/Articles:-

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[22] Pradhan, (Dr.) Surendra, Basic of Financial Management; Tata Mc Grow Hill publishing co. Ltd. New Delhi, 2nd edition 1993

Articles, Journals, and bulletins are great significances for thesis writing, so various published articles by different management export, and journals bulletins relating to working capital management have been considered.

Dr. Radhe S.Pradhan conducted a research named by "working capital management" with special reference to 10 Nepalese public enterprises. Some major conclusions drawn by the research are mentioned below.

i. Most of the selected enterprise have been achieving a trade-off bellowed risk and return there by a following neither aggressive nor conservative approach.
ii. Almost all selected enterprises have a positive net working capital the negative net working capital has been observed in few cases.
iii. When quick assets are compared with current liabilities it is revealed that the former are in sufficient to cover current liabilities on many occasions.
iv. The standard current ratio is to be taken as 2:1 most of selected enterprises have current ratio of greater then two.
v. The low level of current and quick ratio need not indicate poor liquidity position. They may still be considered good if the enterprises can generate cash flow sufficient to pay their current debt therefore the liquidity measure that consider cash flow have been employed in the study for all their enterprises for which current ratio are greater than current assets and quick assets. The measure however showed a poor liquidity position of the enterprises. The poor liquidity position has been noticed of the enterprise have either negative cash flow or negative earning before tax or the excessive net current debts which can't be paid with in year.

The Nepalese manufacturing public enterprise has on an average half of their total assets in the firm of current assets on an average in largest followed by receivables, and cash in most of selected enterprises. Since inventory occupies a major share in current assets and its hare has increase overtime. Nepalese public enterprises should be pay more attention to management of inventories. The study of the turnover ratio computed over a period of time shows that there has been an improvement in utilization of current assets by the majority of manufacturing public enterprises of Nepal but this is not the case with net working capital utilization.

The pooled regression result of this study contradicts unitary of more then unitary sales elasticity hypothesis of firmed man. Meltzer whalesn. DeAllessi and Vogel and Moddala with respect to the demand for cash by Nepalese enterprises. The presence of economics of scale in cash holding is to same extent consists with the conclusion of Baurm. Tobin, Frager, Nadiri and coates. The regression result also show that the level of working capital and its components an enterprises desire to hold depend not only on sale but on holding as it's also. The capital cost co-efficient is all statistically significant with the theoretically correcting. The adjustment speed of actual to desired balance has been observed as highest for cash followed by inventories net working capital receivables and gross working capital.

"A comparative study of problem and impediment in the management of working capital of Nepalese enterprise."[23] 24 has conducted Dr. K Acharya state that is most of enterprise the management of working capital has been misunderstood as the management money rather than is efficient utilization. Thus the existing problems in the finance are mostly directed towards the management of working capital rather than increase. In his number of studies it has been repeatedly fund that the gross inefficient exist in the operation of enterprises. He has stressed on high cost of production which have left these manufacturing concern is less reduced position. Thus he further added the cost

[23] Acharya, Khangendra, working capital Management of Manufacturing pubic Enterprises in Nepal with special reference to NTDC" unpublished Ph.D. thesis submitted to Allhabad University, 1986, as Quoted in the thesis of Nischal subedi

reduction program is highly associate with the optimization of working capital. He has focused some operational and organization problem of Nepalese public enterprises like aggregate corrected liabilities which is increased quickly than their current assets public enterprises not following traditional norms 2:1 between their current assets (C/A) and current liabilities (C/L) low rate. of inventory turn over change in W/C in relation to fixed capital has very low impact over the profitability debt equity as 1:1 then transmutation of capital perforation information tools and techniques and working capital management has never been consider a managerial job. The overall adequateness of inventory in NTDC discloses that the growth of W/C and inventory in the corporation are negatively corrected. NIDC is expected to improve its prevalent system of inventory management regarding the planning and purchasing of spare parts manures insecticides, fuels etc.

The credit policy which is not clean in its self has not been followed by the corporation which collecting the over due account. Receivables are growing rapidly than the corresponding growth as sales volume. Monitoring the propone funding working capital management has never been induced in the managerial job all the related PEs with no exception to NTDC during the study period. The break even analysis of NTDC reveals that due to insufficient W/C the corporation has been selling its product as for below rate than it's Break even. Dr. A.K. Mukharjee had W/C management of public enterprise in Indian 1988. This study cover 20 manufacturing public sector undertaking owned wholly or partly by the control government. The scope of this study was limited to manufacturing of public enterprises and the period was limited to 5 years.

2.11.4 Review of Research Works:-

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Under this section, an effort is being made to scrutinize some of the research outcomes performed under the heading working capital management.

Dr. Khagendra Acharya had studied the working capital management of manufacturing public enterprises. Some major out-comes of this study are mentioned here.

- Inventory constitutes the most important and larger element of W/C in NTDC. The overall adequacy of inventory in NTDC discloses that the growth of W/C and inventory in the corporate are negative correlated.
- Receivables are growing rapidly than the corresponding growth on sales volume.
- The break even analysis of NTDC reveals that due to insufficient working capital, the corporation has been selling its products at a far below rate than its breakeven.
- Monitoring the proper functioning of W/C management has been included in the managerial job in all the selected PEs, with not exception to NTDC during the study period.
- NTDC is expected to improve its prevalent system of inventory management regarding the planning and purchasing of spare parts manures, insecticides, fuels etc.
- There should be closed liaison between the production unites of different estates and central materials management department.
- The corporation while collecting the overdue accounts has not followed the credit policy, which is not clear in it.
- Dr. Puspa Raj Sharma, reader of T.U., conducted a research named by' W/C management in BRT jute Mill and Raghupati Jute Mill Limited.' He had under taken all together 10 years starting from fiscal year 2026/27 to

2035/36 some of his important conclusions and recommendations are as follows.[24]

- The nature of management of current assts in both the mills is almost same. However the management stocks and debtors in biratnagar jute Mills seems better and cash management seem better in Raghupati Jute Mills.
- The nature of management of inventory in both the mills is same. The turnover ratios are relatively lower in the later years of the study.
- The management of cash in Raghupati Jute Mills is compared to Biratnagar Jute Mills is efficient in utilizing its cash and bank balance but not effective in maintains its liquidity.
- The indice of total current liabilities of both Biratnagar Jute Mills and Raghupati Jute Mills indicated that they had rather an increasing.
- Both the Jute has faced an acute shortage of liquidity in the later year.
- Both the jute Mills make their selling effective so that heavy stocks of finished goods would be minimum for this; both the mills should make their selling units efficient.
- Inventory management should be given highest priority by the top management of both mills.
- The debt collection efficiency of both mills should be improved. Greater attention should be given to collect the debts from institution.

[24] Sharma, Puspa Raj, working capital Management in BRT Jute Mill and Raghupati Jute Mill Limited, unpublished thesis,

CHAPTER – III
RESEARCH METHODOLOGY

3. Research Methodology

In previous chapter, we have discussed on working capital and review of related literature concerned with the working capital management. In this chapter, we discussed and highlight population and sample size, research design, research method, sources of data and collection strategy, analysis of data and tools used and methods of data analysis.

3.1 **Introduction:-**

After completion of introduction and review of literature chapters, it is now to deal with Research Methodology. In this chapter, various sequential steps are being adopted while studying a problem with certain objective in view. Research Methodology deals with the methods and process applied in the entire aspect of the study.

The basic objectives of this study are to evaluate the working capital position of STCL the study covers a period of 5 years. To fulfill the objectives following methodology has been adopted. The main objectives of this study are to analyze, examine highlights, and interpret the working capital position of STCL. Over the years and recommend suggestions improvements. So the purpose of this chapter is to analyze and fulfill the state objectives. The methodology for obtaining above objectives consists of source of data, data collection procedure, and tools and techniques of analysis.

3.2 **Research Design:-**

The research design provides the framework to a study. Actually, it is the outline of a plan to test the hypothesis and the research design is a also known as the conceptual structure within which research is conducted.

Research design is an organized approach for the collection and analysis of data, which guides the researcher in formulating, implementing, and controlling the study. Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance.

To answer the research questions i.e. to fulfill the research objectives, descriptive research and analytical research designs have been used, and based mainly on the disk research to extract more pertinent information. Descriptive research have been used to portray the facts of collection data, its classification and correlated data to describe the exist, even though it does not predict and explain the phenomena behave as they do entire process of planning and carrying out a research study. The research design asks what approach the problem should be taken. What methods will be used? What strategies will be most effective? Identification, selection, and formulation of a research problem may be considered as the planning stage of a research. The remaining activity refers to the designs, operation, and completion of the research study.

The research design is the strategy for conducting research. It describes the general framework for collecting, analyzing, and evaluating data after identifying. (i) What the researcher wants to know and (ii) what has to be deal with in order to obtain required in formation.

Research design is plan, structure and strategy of investigation conceives so as to obtain answers to research questions and to control the variance. The plan is the overall scheme or program of the research. It includes on outline of what the investigation will do from writing the hypothesis and there operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme and the paradigm that outline the variables and their relation; we build structural schemes for accomplishing operational research process. Strategy, as used here, is also more specific than plan. In other words, strategy how the research objective will be researched and how the problems. Encountered in the research will be tackled.

The research design has basically two purposes that the first one is to answer the research question or test the research hypothesis and next one is to control the variance. There are many types of research design such as historical research, descriptive research, case study research, field study research, correlation research, departmental research etc.

This research study is considered to analysis the working capital management of salt trading corporation. Under this, historical research design is applied because historical research design is concerned with past phenomena. It is a process of collecting, evaluating, verifying, and synthesizing past evidence systematically and objectively to research a conclusion.

Analytical research had been applied to examine facts that had adopted by using some statistical and accounting tools.

3.3 **Population and Sample:-**

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

Population is a total unit about which we are going to study or research where as sample is the number of representatives about of total population. It is difficult to analyze all the published financial statement of the population financial year from 2020 to 2065 of salt trading corporation. A sample has been chosen for the study which will represent the total population. The research has taken only 5 years data from 2061 to 2065 fiscal year are very important for the study.

3.4 <u>Nature and Sources of Data</u>

This study is based upon secondary data, which are published by the salt trading corporation limited. For this study more than five years balance sheet, profit and loss accounting, related appendix and auditor's reports have been collected. Other related information has been collected through the direct interview and question arises with company's account officer. These data are essential and important for the study at the time of research. This study is primary based upon secondary data. Which are publishing by the company during the fiscal year 2061 to 2065.

3.5 <u>Data Collections Procedure</u>:-

Collection data is the connecting line to the word of reality for the researcher. The data collection actively and consists of taking ordered information form reality and transferring it in to some recording system so that it can later be examined and analyzed for partners. Research as a media can be interpreted as having a content of data and process of methodology.

3.6 <u>Data Gathering Instruments</u>:-

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

The published data relating to the working capital management position of STCL have been obtained from account department. The balance sheet and profit and loss account and other related documents, which are secondary nature, are directly collected form the corporation account department.

3.7 Use of Statistical and Analytical Tools:-

It helps to analyze the financial strength and weakness of a firm. Tools like ratio analysis are used for financial analysis. Even though there are many ratios to analyze and interpret the financial statement. Only those ratios that are related to the investment operation of the corporation have been covered in the study. Financial ratios are the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision. Among the various tools and techniques ratio analysis is one. Which helps both the investor as well as management to predict the firm future earnings and dividends. According to investor financial statement analysis is useful both as way to anticipate future condition and more important as starting point for planning actions that will influence the future course of events.

Ratio analysis shows the relationship between two figures of different terms of balance sheet or Income statement. It indicates the quotient of various accounting data. It is a powerful tool of financial analysis and has been used in this study to find out its prolonged objectives. In financial analysis, ratio is used as an index of yardstick for evaluating the financial position and performance of the firm. It is a technique of analysis and interpreting of financial statements. it helps to make decision as it helps to establish to relationship between various ratios and interpret there on.

According to Kohlar, "a ratio is relationship of on amount to another. Expressed as the ratio of as a simple fraction, integar, decimal fraction or percentage. The use of ratio as a tool of financial analysis involves their comparison. For a single ratio, like absolute figure fails to reveal the true position. Under the analysis of ratio, there are only taken as profitability ratio and activity ratio. etc.

3.7.1.2 **<u>Comparison of Working Capital</u>:-**

Our main focus of the research is about the working capital management. Thus we have to discuss about the management of funds and relationship between them. Their relation can be analyzing by the comparison of various individual assets to total assets and total current liabilities. The comparison of individual assets to current assets and fixed assets as follow.

i. Current assets to total current assets (CATA):-

Current assets to total current assets expressed the relationship between the total assets and total current assets. This ratio is calculated by:

$$\text{Current assets to total current assets} = \frac{\text{Total current assets}}{\text{Total assets}} \times 100\%$$

If this ratio increase, the risk and profitability of the firm would decrease and decreasing ratios indicate the higher risk and profitability.

ii. Current assets to fixed assets (CAFA):-

The ratio between current assets to fixed assets determines the relationship between current assets and fixed assets, which can be calculated by:

$$\text{Current assets to fixed assets} = \frac{\text{Current assets}}{\text{Fixed assets}} \times 100\%$$

iii. Cash and Bank balance to current assets:-

The ratio of cash and bank balance to current assets shows the relationship between cash and bank balance (liquid assets) to current assets. The small ratio of its show the sound management and vice-versa. Thus, the working capital is directly affected by it. It is calculated by:

$$\text{Cash and Bank balance to current assets: } = \frac{\text{Cash and Bank balance}}{\text{Current assets}} \times 100\%$$

Higher of this ratio indicates, idle cash is collected in the firm. So, higher of this ratio implies the poor cash management of the firm.

iv. <u>Cash and bank balance to total assets</u>:-

The ratio of cash and bank balance to total assets shows the relationship between cash and bank balance to total assets. So, it indicates that what percentage of total assets is invested in cash and bank balance. It is calculated by:

$$\text{Cash and Bank balance to Total assets: } = \frac{\text{Cash and Bank balance}}{\text{Total assets}} \times 100\%$$

If the ratio increases, risk and profitability would decrease. If it is increased, the working capital would also increase.

v. <u>Receivable to current assets</u>:-

The receivable to current assets shows the relationship between receivable and current assets. It is calculated by:

$$\text{Receivable to current assets} = \frac{\text{Receivable}}{\text{Current assets}} \times 100\%$$

Increases in the ratio shows the inability of the firm to collect the receivables quickly and decreasing ratio is preferable which shows the ability of the firm to collect receivables quickly.

vi. Receivable to Total assets:-

The ratio shows the relationship between receivables and total assets. It indicates how volume of assets should be maintained to how volume of receivables. It is calculated by:

$$\text{Receivable to Total assets} = \frac{\text{Receivable}}{\text{Total assets}} \times 100\%$$

Increasing ratio implies the liberal credit policy and decreasing ratio implies the tight credit policy.

vii. Inventory to current assets:-

Inventory is an inseparable part of working capital which represents the share of inventory on current assets. It is calculated by:

$$\text{Inventory to current assets} = \frac{\text{Inventory}}{\text{Current assets}} \times 100\%$$

Higher of this ratio indicates the liberal inventory policy followed by the firm and lower ratio indicates the tight inventory policy followed by the firm.

viii. Inventory to Total assets:-

The ratio of inventory to total assets shows the relationship between inventories to total assets. On the other hand it shows the relation between

$$\text{Inventory to Total assets} = \frac{\text{Inventory}}{\text{Total assets}} \times 100\%$$

how volume of inventory must be kept to how volume of total assets. It is calculated by:

If this ratio increases, the working capital is also increase and decreasing ratios indicates the decreasing working capital. Increasing ratio indicates the blockage of materials in the factory and implies that the factory (firm) uses the liberal inventory policy.

ix. <u>Networking capital financing</u>:-

Net working capital financing indicates the amount of networking capital, which can be invested in other aspects. Networking capital indicates total current assets less total current liabilities.

Networking capital financing = Total current assets - Total current liabilities

Higher the Networking capital, higher will be the possibility of idle amount for financing. Financing is a good opportunity will be profitable for the firm.

3.7.1.2.1 <u>Liquidity Ratio</u>:-

Liquidity ratio measures the short-term solvency of the firm. Under these, two ratios are computed.

I. <u>Current Ratio</u>:-

It is the test of liquidity and it shows the ability of the firm to meet its short-term obligations.

$$\text{Current assets} \quad \frac{\text{Current assets}}{\text{Current Liabilities}} \times \text{Times}$$

Its standard is 2:1

II. <u>Liquid/Quick/Acid test Ratio</u>:-

Liquid ratio measures the short-term liquidity of the firm but it emphasis by instant debts paying capacity of the firm. Liquid assets include current assets less prepaid expenses.

$$\text{Liquid Ratio} = \frac{\text{Liquid assets}}{\text{Current Liabilities}} \times \text{Times}$$

Its standard is 1:1 for the better position.

3.7.1.3 <u>Profitability Ratio</u>:-

This ratio shows the end result of business activities. The overall efficiency of business concerned profitability, if main factor to measure how effectively firm is operated and have managed. Under this the following ratio should be analyzed.

i. <u>Gross profit Margin</u>:-

Gross profit margin ratio expresses the relationship between gross profit and sales. It is worked out as follows:-

$$\text{Gross profit Margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100\% = \ldots..\%$$

High gross profit ratio to sale is a sign of good management that implies the cost of production is lower.

ii. <u>Net profit margin</u>:-

This ratio measures the overall profitability of the firm by establishing the relationship between net profit and total sales. it is calculated by:

$$\text{Net profit Margin} = \frac{\text{Net profit}}{\text{Sales}} \times 100 = \ldots..\%$$

A high profit margin would enable the form to withstand adverse economic condition and a low margin will have opposite implication.

iii. <u>Return on Total Assets</u>:-

This ratio measures the productivity of the assets, which measures the relationship between net profit and assets.

$$\text{Return on Total Assets} = \frac{\text{Net profit after tax}}{\text{Total assets}} \times 100 = \ldots..\%$$

Higher ratio shows the higher returns on assets use in the business there by indicating effective use of the resources available and vice versa.

iv. <u>Return on current Assets</u>:-

Return on current assets indicates the relationship between net profit after tax and current assets. it measures the profit of the firm with respect to its total current assets. So, it measures the effectiveness of the utilization of current assets. It can be calculated by:

$$\text{Return on current Assets} = \frac{\text{Net profit after tax}}{\text{Total current assets}} \times 100 = \ldots..\%$$

Increasing ratio indicates the effective utilization of working capital to capital to earn profit.

3.7.1.4 **Activity Ratio:-**

Activity ratio is including the following ratios.

i) Inventory Turnover Ratio:-

Inventory turnover ratio explains whether investments in inventories are within proper limits or not. It indicates marketability of inventory and reasonableness of quality of hand.

$$\text{Inventory turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}} = \ldots\ldots\%$$

A high inventory turnover ratio indicates efficient management of inventory because more frequently the stocks are sold the lesser amount of capital is required to finance the inventory.

ii) Receivable Turnover Ratio:-

This ratio indicates the velocity of debt collection of a firm. In other words, it indicates the number of times average debtors are turned over during a year. It is calculated by:

$$\text{Receivable Turnover ratio} = \frac{\text{Debtors (Receivables)}}{\text{Total sales}} = \ldots\ldots\%$$

Higher the volume of receivable turnover ratio is more efficient management of receivables.

iii) Average collection period:-

Average collection period is calculated to know the average number of day or months for which a firm has to wait before trade debtors are converted into cash.

$$\text{Average collection period} = \frac{\text{Days in a year}}{\text{Receivable turnover ratio}} = \text{.....Day}$$

iv) Fixed Assets Turnover Ratio.-

Fixed Assets turnover ratio indicates the extent to which the investment in fixed assets contributes towards sales.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Net fixed assets}} = \text{.....Times}$$

Net Fixed Assets = Total Assets - Depreciations

Higher fixed assets turnover ratio indicates better business performance and lower ratio, inefficient utilization of available fixed assets.

v) Total Assets Turnover Ratio:-

Total assets turnover ratio is the relationship between total sales and total net assets.

$$\text{Total Assets Turnover ratio} = \frac{\text{Sales}}{\text{Total net sales}} = \text{.....Times}$$

Where,

Total Net Assts= current Assets + Fixed Assets + Intangible assets (-) Less Depreciation and write off.

Higher total assets turnover ratio indicates the proper utilization of the firm's assets.

vi) Networking capital Turnover Ratio:-

Networking capital turnover ratio is related to sales. It implies the velocity of utilization of working capital. It is calculated by:

Lower the Networking capital turnover ratio in effective management of working capital and higher shows the effective management of working capital.

$$\text{Networking capital Turnover ratio} = \frac{\text{Sales}}{\text{Net working capital}} = \text{.....Times}$$

3.7.2 Statistical Tools

The various statistical tools under have been used for the analysis and interpretation of data. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. The sample data collected 5 years from fiscal years. In spite of statistical analysis the arithmetic mean, correlation coefficient, probable error, standard deviation, co-efficient of variation is used to analysis the salt trading corporation ltd.

3.7.2.1. Arithmetic Mean (Average):-

The most popular and commonly used in average which represents the entire data by a single value. It is the value obtained adding together all times and by dividing this total by number of items observed. Average provides us the gist and gives a bird's eye view of the use mass of un widely numerical data. Its can be computed by using the following formula.

$$\bar{\varepsilon}\ X \frac{\varepsilon}{\rho}$$

Where,

$\bar{\varepsilon}$ = Arithmetic mean

ε = Sum of the values

ρ = Number of observation.

3.7.2.2. <u>Correlation Co-efficient (r)</u>:-

The most important method of measuring the correlation between the two variables is Karl Pearson's co-efficient measuring the degree of association between the two variables. The formula for calculating simple correlation co-efficient (r) by Karl person’s method is :

$$r\ X \frac{\rho \quad \varepsilon\psi\, Z \quad \varepsilon \quad \psi}{\sqrt{\rho \quad \varepsilon^{2}\, Zf \quad \varepsilon\, \mathring{A}}\sqrt{\rho \quad \psi^{2}\, Zf \quad \psi \mathring{A}}}$$

To interpret the value of correlation, the relationship between variables is positive if the value or ‘r’ is greater then O and it is negative if the relationship between variables is less then O. Similarly, if the value of ‘r’ is +1, the relationship is perfect positive and if it is -1, the relationship is perfectly negative. If the value of ‘r’ is O, the relationship between variables is zero.

3.7.2.3. <u>Probable Error (P.E.)</u>:-

Probable Error of the correlation coefficient by denoted by P.E. It is calculated under as:

$$PE\ X0.6745 \mid \frac{1Zr^2}{\sqrt{\rho}}$$

If ‘r’ is less than its P.E. It is not all significant and greater than –0.5 than considered signification.

3.7.2.4. <u>Standard Deviation</u>:-

The standard deviation is an important and widely used measure of dispersion. The measurement of the scatter ness of the mass of figures in a series about average is known as dispersion. The standard deviation is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. It is calculated for selected dependent and independent variables specified. It is the positive square root of the arithmetic mean of the square deviation from arithmetic mean. It is denoted by the letter σ (sigma). In this study standard deviation of different ratios are calculated:

$$S.D\ (\sigma) = \sqrt{\frac{\varepsilon^2}{\rho} Z \left(\frac{\varepsilon}{\rho}\right)^2}$$

Where,

σ	=	Standard Deviation.
$\frac{\varepsilon^2}{\rho}$	=	Sum of squares of observation
$\left(\frac{\varepsilon}{\rho}\right)^2$	=	Sum of squares of Mean

3.7.2.5. Co-efficient of variation (C.V):-

C.V is the relation measure based on the standard deviation and it defined as the ratio of the standard deviation to the mean expressed in present.

$$C.V. = \frac{\pm}{\varepsilon} X\ 100\%$$

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction:

The main objective of this study is to analysis the working capital management of STCL. This chapter has been organized to present the results, analyze, and interpret them accordingly. The presentation and analysis of the data in this study has been done to evaluate the working capital position through the financial reports from the fiscal year 2061 to 2065.

Efforts have been made to analysis working capital management in terms of composition of current assets, turnover position, liquidity position, and profitability position of STCL. The composition of current assets is analyzed by making relationship of each component of currents with fixed assets, total assets etc. The turnover position is analyzed with the help of current assets turnover, net working capital turnover, turnover of cash, receivables, and inventory. The liquidity position is analyzed with the help of gross profit margin, net profit margin, return on total assets, and return working capital.

Data collected for the analysis of working capital management are presented in the tabular form and they are analyzed with the help of financial tools and techniques and statistical tools.

4.2 Position of Current Assets:-

Any types of business organization require fixed assets as well as current assets. Each and every business organization has financed their capital in the assets like cash, marketable securities, inventories, receivable and so on for day-to-day operation of business organization. Total current assets which is known as working capital as per in gross concept. Most of the organization requires some amount of working capital and this requirement differ according to the size of the organization. Therefore, current assets are those assets or resources of a firm, which are either held in the form of cash or are converted in cash with in accounting period a year of the business.

A firm needs working capital (gross) because the production, sale, and cash flow are not instantaneous. The firm needs cash to purchase raw materials and pay expenses those may not be perfect matching between cash in flow and out flow. Cash may also be held to meet the future expenses. The stocks of raw materials are kept in order to ensure smooth production and to protect against the risk of non-availability of raw materials. The firm has to invest enough funds in current assets for the success of the sales activities. Current assets are needed because sales do not convert into cash instantly. Earning a steady amount of profit requires successful sales activities.

Therefore it can be studied that the efficient management of current assets is an integral part of overall financial management and has to greater impact on maximization of owner's capital. In this context it is necessary to have proper analysis for current assets management therefore firstly the overall current assets are analyzed.

Table-1

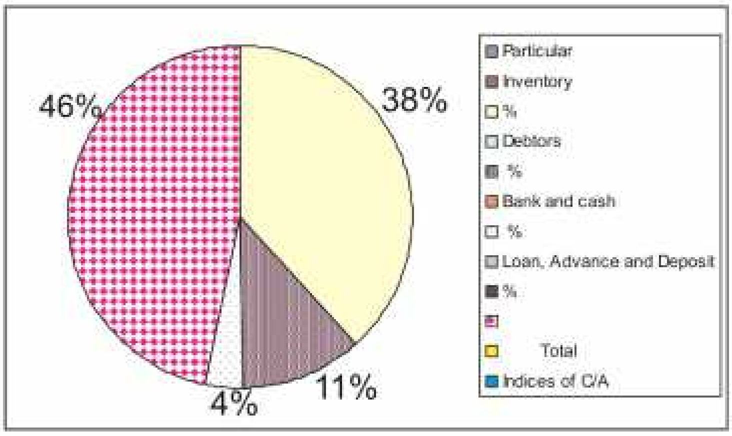
Position of current Assets

Particular	Average %	2061	2062	2063	2064	2065
Inventory		470.67	789.89	876.58	714.44	611.63
%	38.082	30.48	45.06	44.48	37.76	32.63
Debtors		177.07	203.88	196.26	218.94	224.31
%	11.32	11.47	11.63	10	11.57	11.96
Bank and cash		76.55	51.67	65.07	80.29	62.95

%	3.762	4.96	2.95	3.30	4.24	3.36
Loan, Advance and Deposit		819.65	707.41	832.84	878.27	975.64
%	46.36	53.09	40.36	42.26	46.42	52.05
Total		1543.94	1752.86	1970.75	1891.97	1874.53
Indices of C/A		100%				

Source: Appendix no.I to V

<u>Current Assets</u>



The above table no. 1 represents the current assets position of the company. The above table shows investment pattern of the company in the current assets and their fluctuation in years. As per the table, investment in inventories and Loan, advance and deposit have been found as major in comparison to other current assets. Sometimes the percentage share of loan, advance, and deposit is greater where as sometimes the percentage of share of inventory more the former. In this way, it can’t be ignored contribution debtors and cash and bank balance is covered share of current assets respectively.

The percentage share of all current assets indicates that there is not consistency in yearly change rather there exists a few fluctuations. It has adopted some time increasing and decreasing trend. The maximum percentage share of loan, advance and deposit is seemed in fiscal year 2061 i.e. 53.09% and 30.48% respectively and in as whole it covers 38.082 current assets.

Sundry debtors are also in fluctuation trend. The percentage of share in 2065 seems maximum and in 2063 seems minimum i.e. 11.96% and 10% respectively and in as whole it covers 11.32% current assets.

Position of cash and bank balance also is in fluctuating trend. Sometimes it increases and sometimes it decreases low percentage of cash shows the higher turnover of stock realization of more cash and sound liquidity of the company.

In total current assets of salt trading corporation limited is increasing trend.

4.3 Percentage of Current Assets on Total Assets

As the requirement of the current assets depends upon the nature of the business, it is required to meet the working capital, which is required to run day to day activities. Higher percentages of current assets in total assets denote greater liquidity position of the firm as well as lower the risk being in solvent and vice-versa. The table no.2 given below represents the percentage of current assets to total assets.

Table No.2

Current Assets to total Assets

Year	Current Assets	Total Assets	Ratio%	% change

2061	1543.94	2161.70	71.43	-
2062	1752.86	3587.77	48.86	(22.57)
2063	1970.75	3719.54	52.98	4.12
2064	1891.97	3638.46	51.99	(0.99)
2065	1874.53	3622.27	51.75	(0.24)
Total	9034.05	16729.74	54	-

Source: Appendix no.I to V

The above table shows the percentage of current assets to total assets of STCL. The ratio represents the proportion of current assets investment to total assets investment of STCL for selected 5 years of study period Five year's period the above table shows that the proportion of current assets of total assets in fluctuating. In 2069 current assets volume is Rs. 1543.94 (Million). This is 71.43% of total assets. It has decreased by 22.57% in the year 2062. It has increased in the year 2063 by 4.12%. But decreased in the year 2065 by 0.99% and 0.24% respectively. The percentage of current assets is highest in the year 2061 which is 71.43% of total assets. This increase in mainly due to the holding of highest amount of inventory and loan, advance and deposit.

The relation between current assets and total assets are not uniform highest level of current assets indicates good liquidity position but it adversely effect the profitability of the company because idle earn nothing.

4.4 Percentage of Current Assets on Fixed Assets:-

This ratio shows the relationship between current assets and fixed assets. An actual proportion of current assets and fixed assets can be determined through it has the lower ratio denotes slackness in trading activities and higher mechanization. On the other hand, an increase in ratio may reveal that inventories and debtors have been intensively used; increase in this ratio means increase in profit and expansion of business activities. In such situation relative size of working capital of salt trading corporation limited is analyses in the following table.

Table No-3

Current Assets to Fixed Assets

Rs. in Million

Year	Current Assets	Fixed Assets	Ratio
2061	1543.94	465.99	331.32
2062	1752.86	1393.16	125.82
2063	1970.75	1379.61	142.85
2064	1891.97	1377.87	137.31
2065	1874.53	1361.46	137.68
Total:-	9034.05	5978.09	-
Average:-	1806.81	1195.618	151.12

Source: Appendix no.I to V

From the above table we can say that there are 5 years current assets and fixed assets but all of them the highest current assets and fixed assets are Rs. 1970.75 and Rs. 1393.16 (Million). Similarly, the lowest current assets and fixed assets are Rs. 1543.94 (Million) and Rs. 465.99 (Million). The above table also shows that the lowest % of current assets and fixed assets is 125.83% in year 2062 and highest % is 331.32 in year 2061, where the average ratio is 151.12%.

4.5 <u>Analysis of Current Assets to Sales</u>:-

The relationship between current assets to sales can be further presented to analysis the size of working capital. There is essential relationship between current assets to sales because current assets include cash, Bank, receivable, marketable securities etc. Sales are depending upon cash and credit sales. Policy of STCL is high than its sales will be high. The help of STCL in a table as below can understand the relationship between current assets to sales.

Table No-4

Current Assets to sales

Rs. in Million

Year	Total CA	Sales	Ratio %
2061	1543.94	3898.94	39.60
2062	1752.86	2193.94	79.90
2063	1970.75	1850.55	106.49
2064	1891.97	1916.22	98.73
2065	1874.53	2138.96	87.64
Total:-	9034.05	11998.61	-
Average:-	1806.81	2399.722	75.29

Source: Appendix no.I to X

The above table of current assets to sales clearly shows that the lowest part f current assets is Rs. 1543.94 (Million) in the fiscal year 2061 and highest part Rs.1970.75 (Million) in the fiscal year 2063. Similarly, the lowest part of sales of STCL during last 5 years is Rs.1850.55 and highest sales is Rs. .898.94 (Million) in the fiscal years 2063 and 2061 respectively. The average current assets and average sales are Rs.1806.81 (Million) and Rs 23.99.722 (Million) respectively. In fiscal 2062, 2063, 2064 and 2065 the actual sales is less than its average sales Rs. 2399.722 (Million). On the other hand, the ratio of current assets to sales for the fiscal year 2061 is 39.60% and the highest ratio is 106.49% for the year 2063. The average ratio of all of the 5 years is 75.29%.

4.6 Proportion of Inventory to Current Assets and Total Assets:-

Inventory is the most important element of current assets. A firm may require inventory of raw material, work-in-progress, finished goods and spare parts. Inventory of raw material and work-in-progress and spare parts are required to ensure smooth and regular production while finished goods inventory is needed to facilitate sales. Therefore a firm should invest optimal in inventory to ensure its production and sales. Both excessive and inadequate level of inventory is harmful to the firm. The excessive level of inventories consumes the funds of the firm. Which can't be used for any other purpose and thus, involve an opportunity cost. Similarly, inadequate inventory is also helpful due to the fact that is poses the change of production hold-up and failure to meet delivery commitment. Therefore, the inventory position must be optimal so that neither it causes to problem of excess inventory nor the problem of short.

The table presented below reveals the proportion of inventory on current assets and total assets it's average position during the study period.

Table No-5

Current Assets to sales

Rs. in Million

Year	Inventory	CA	Ratio%	TA	Ratio%
2061	470.67	1543.14	30.48%	2161.70	21.77%
2062	789.89	1752.86	45.06%	3587.77	22.02%
2063	876.58	1970.75	44.47%	2427.86	36.10%
2064	714.44	1891.97	37.76%	3638.46	19.64%

2065	611.62	1874.53	32.63%	3622.27	16.88%
Total	3463.2	9034.05	-	15438.06	-
Average	692.64	1806.81	38.33%	3087.62	22.43%

Source: Appendix no.I to V

From the above table it is clear that the inventory to current assets and total assets are fluctuating trend. The proportion of inventory to current assets during the fiscal year 2061 to 2065 is 3048%, 45.06%, 44.47, 37.76%, and 32.63%. In this period the average of inventory to current assets is 38.33%. Similarly, the proportion of inventory on total assets is 21.77%, 22.02%, 36.10%, 19.64%, and 16.88% during the fiscal year 2061 to 2065 respectively. Again average proportion of inventory to total assets is found 22.43%.

4.7 <u>Proportion of Inventory to Sales</u>:-

Inventory is one of the components of current assets. This should be maintained efficiently. It has already been stated that the working capital, production, and sales are correlated in general case. The production should be increased to meet higher level of sales target. To produce more raw materials will be required. The stock level of raw material requirement should be properly maintained to meet the raw material requirement for higher level of production. Hence, to fulfill this requirement the company has to increase its working capital.

Inventory turnover ratio indicates the number of times inventory is replaced during the years. It measures the relationship between sales and the inventory level. The inventory turnover ratio tests the efficiency on inventory management. It is valuable measure of selling efficiency and inventory quality. A low inventory turnover may be due to a variety of reasons like poor merchandise, over valuation of closing stock, a large stock of un saleable goods over-buying and anticipated future increase in sales etc in the last case, low inventory turnover may be desirable in terms of its effect on sales and profits.

On the other hand, substantially higher rate of inventory turnover may disclose conservation pricing of closing inventory, inventory valuation at a point when it is unusually low, a real shortage of inventory for required sales, a contemplated on sales, etc. It is thus, worth nothing that a high inventory may not by itself be desirable.

The proportion of inventory to sales has been presented below:-

Table No-6

Proportion of Inventory to sales

Rs. in Million

Year	Sales	Inventory	Ratio %
2061	3898.94	470.67	12.07%
2062	2193.94	789.89	36%
2063	1850.55	876.58	47.37%
2064	1916.22	714.44	37.28%
2065	2138.96	611.62	28.59%
Total:-	11998.61	3463.2	-
Average:-	2399.722	692.64	28.86%

Source: Appendix no.I to X

The above table shows that the proportion of inventory to sale is maximum in the year 2063. The proportion of inventory to sales in this year is 47.37% where the sales amount is Rs. 1850.55 (million) only but the inventory amount is Rs. 876.58 (million). The proportion of inventory is sales is minimum is the year 2061. Which is only to sales is minimum in the year 2061, which is only 12.07%, where the sales amount is Rs. 3898.94 (million) and inventory amount is Rs. 470.67 (million) only.

4.8 Cash and Bank Balance to Current Assets:-

Cash and Bank balance both are liquid assets of STCL. This assures the sale increase or decrease. Cash and bank of STCL is necessary for the increment of business volume. The relationship between cash and bank balance to current asset is like as "Nail and Meat".

The following table shows the ratio of cash and bank balance to current assets for 5-years.

Table No-7

Cash and Bank to current Assets

Rs. in Million

Year	Cash and Bank	Current Assets	Ratio %
2061	76.55	1543.94	4.96
2062	51.68	1752.86	2.95
2063	65.07	1970.75	3.30
2064	80.29	1891.97	4.24
2065	62.95	1874.53	3.35
Total:-	336.54	9034.05	-
Average:-	67.31	1806.81	3.72%

Source: Appendix no.I to V

The above table shows that the proportion of cash and bank to current assets is high in 2061. The cash and bank balance of STCL is fluctuating trend. The average cash and bank balance is Rs. 67.31 (million) which is less than 2061, and 2064 and greater than 2062, 2063 and 2065 which is Rs. 51.68, Rs. 65.07 and Rs 62.95 (million).

4.9 Correlation Analysis:-

Correlation analysis deals with determining the degree of relationship between two variables. This analysis describes not only the magnitude of relationship but also its direction. The measure of correlation co-efficient summarizes in one figure, the direction and degree of correlation. Thus, correlation analysis refers to the techniques used in measuring the relationship between the variables. Correlation analysis between the different variables of STCL is measured and tested by Karl Pearson's method, popularly known as coefficient of correlation and is denoted by symbol 'r'. The value of r lies in between +1 and -1.

4.9.1 Correlation Analysis between Current Assets and Current Liabilities:-

The following table shows the necessary values of variables. Which are to be used in determining the value of correlation coefficient between current assets and current liabilities.

Table No-8

Current Assets and Current Liabilities

Rs. in Million

Year	Current Assets X	Current Liab. Y	ε^2	ψ^2	XY
2061	15.44	11.91	238.39	141.85	183.89

2062	17.53	16.54	307.30	273.57	289.94
2063	19.71	18.65	388.48	347.82	367.59
2064	18.92	18.16	387.96	329.78	343.58
2065	18.75	18.06	351.56	326.16	338.62
	Σx=90.35	Σy=1643.69	Σx^2 = 1643.69	Σy^2 = 1419.182	Σxy= 1523.62

Source: Appendix no.I to V

Now, we calculate correlation coefficient ‘r’ using Karl person’s correlation coefficient.

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 1523.62 - 90.35 \times 83.32}{\sqrt{5 \times 1643.69 - (90.35)^2}\sqrt{5 \times 1419.18 - (83.32)^2}}$$

$$= \frac{90.14}{7.44 \times 12.39}$$

$$= 0.97.78$$

The correlation coefficient 'r' between current assets and current liabilities is 0.9778. This reveals that these are positive and high degree of relationship between current assets and current liabilities. Thus increase decrease in current assets results increase decrease in current liabilities.

To test the significance of value of correlation coefficient calculated above. We calculate probable error (PE).

We know that,

$$PE \quad X \; 0.6745 \quad | \; \frac{1 \; Z \; r^{2}}{\sqrt{\rho}}$$

$$X \; 0.6745 \quad | \; \frac{1 \; Z \; (0.9778)^{2}}{\sqrt{5}}$$

$$X \; \frac{0.0297}{2.2361}$$

$$X \; 0.0133$$

4.9.2 <u>Correlation Analysis Between Current Assets and Total Assets</u>:-

The following table shows the necessary values of variables, which are to be used in determining the value of correlation coefficient between current assets and total assets.

Table No-9

Current Assets and Total Assets

Year	CA X	TA Y	ε^{2}	ψ^{2}	XY
2061	1543.94	2161.70	23833719.84	46722946.89	3337535.09
2062	1752.86	3587.77	3072518.18	1272093.57	6288858.52
2063	1970.86	3719.54	3883855.56	13834977.81	7330283.45
2064	1891.97	3638.46	3579436.96	12238391.17	6883857.16
2065	1874.53	3622.27	3513862.72	12120839.95	6790053.78
	☒x= 9034.05	☒y= 16729.74	☒ ε^{2} = 37883393.26	☒ ψ^{2} = 99789249.39	☒xy= 30630588

Source: Appendix no.I to V

Now, we calculate correlation coefficient 'r using Karl person's correlation coefficient.

$$
\begin{aligned}
r &= \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - \left(\sum x\right)^2}\sqrt{n\sum y^2 - \left(\sum y\right)^2}} \\
&= \frac{5 \times 30630588 - 9034.05 \times 16729.74}{\sqrt{5 \times 37883393.26 - (9034.05)^2}\sqrt{5 \times 99789249.39 - (16729.74)^2}} \\
&= \frac{2015632.4}{1038.383 \times 14800.75} \\
&= 0.02
\end{aligned}
$$

The correlation coefficient 'r' between current assets and total assets is 0.02. This reveals that there is positive and very high degree relationship between current assets and total assets. Thus increase / decrease in current assets results increase/ decrease in total assets.

To test the significance of value of correlation coefficient calculated above. We calculate probable error (PE).

$$
\begin{aligned}
PE &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\
&= 0.6745 \times \frac{1 - (0.002)^2}{\sqrt{5}} \\
&= \frac{0.6742302}{\sqrt{5}} \\
&= 0.3015
\end{aligned}
$$

Here, we find that r< SPE. Hence, the value of 'r' calculated above is not significant.

4.9.3 <u>Correlation Analysis Between Current Assets and Sales</u>:-

The following table shows the necessary values of variables. Which are to be used in determining the value of correlation coefficient between current assets (gross working capital) and sales.

Table No-10

Current Assets and Sales

Rs. in Million

Year	CA X	Sales Y	x^2	y^2	XY
2061	15.44	38.99	238.39	1520.22	602.01
2062	17.53	21.94	307.30	481.36	384.61
2063	19.71	18.51	388.48	342.62	364.83
2064	18.92	19.16	357.96	367.11	362.51
2065	18.75	21.39	351.56	457.53	401.06
	Σx=90.35	Σy=119.99	Σx^2 = 1643.69	Σy^2 = 3168.84	Σxy= 2115.02

Source: Appendix no.I to X

Now, we calculate correlation coefficient 'r' using Karl person's correlation coefficient.

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \times 2115.02 - 90.35 \times 119.99}{\sqrt{5 \times 1643.69 - (90.35)^2}\sqrt{5 \times 3168.84 - (119.99)^2}}$$

$$= \frac{265.99}{7.44 \times 38.04}$$

$$= -0.9398$$

The correlation coefficient 'r' between current assets and sales is -0.9398. This reveals that these in negative relationship between current assets and sales. Thus, increase in current assets does not result increase in sales.

To test the significance of value of correlation coefficient calculated above. We calculated probable error (PE)

We Know that

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (0.9398)^2}{\sqrt{5}}$$

$$= \frac{0.07876}{2.23606}$$

$$= 0.035$$

Here, we find that r<1. Hence there is no correlation between current assets and sales.

4.9.4 **<u>Correlation Analysis Between Inventory and Sales</u>:-**

The following table shows the necessary values of variables. Which are to be used in determining the value of correlation coefficient between inventory and sales.

Table No-11

Analysis between inventory and Sales

Rs. in Million

Year	Inventory X	Sales Y	ε^{2}	ψ^{2}	XY
2061	4.71	38.99	22.1841	1520.22	183.65
2062	7.90	21.94	62.41	481.36	173.32
2063	8.76	18.51	76.7376	342.62	162.14
2064	7.14	19.16	50.9796	367.11	136.81
2065	6.12	21.39	37.4544	457.53	130.91
	☒x=34.63	☒y=119.99	☒ ε^{2} = 249.76	☒ ψ^{2} = 3168.84	☒xy= 786.83

Source: Appendix no.I to X

Now, we calculate correlation coefficient 'r' using Karl person's correlation coefficient.

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^{2} - \left(\sum x\right)^{2}}\sqrt{n\sum y^{2} - \left(\sum y\right)^{2}}}$$

$$= \frac{5 \times 786.83 - 34.63 \times 119.99}{\sqrt{5 \times 249.76 - (34.63)^{2}}\sqrt{5 \times 3168.84 - (119.99)^{2}}}$$

$$= \frac{-221.11}{7.04 \times 38.04}$$

$$= -0.8257$$

The correlation coefficient 'r' between inventory and sales is -0.8257. This reveals that there is negative relationship between inventory and sales. Thus increase in inventory does not increase in sales.

To test significance of value of correlation coefficient calculated above.

We calculate probable error. (PE)

$$PE\ X0.6745 \mid \frac{1 Z r^2}{\sqrt{\rho}}$$

$$X0.6745 \mid \frac{1 Z (Z0.8257)^2}{\sqrt{5}}$$

$$X\frac{0.2146}{\sqrt{5}}$$

$$X0.0958$$

Here, we find that r<PE. Hence there is no correlation between inventory and sales.

4.9.5 C<u>orrelation Analysis Between Cash and Sales</u>:-

The following table shows the necessary values of variables. Which are to be used in determining the value of correlation coefficient between cash and sales.

Table No-12

Analysis Between Cash and Sales

Rs. in Million

Year	Cash X	Sales Y	ε^2	ψ^2	XY
2061	0.765	38.99	0.585	1520.22	29.83
2062	0.516	21.94	0.266	481.36	11.32
2063	0.650	18.51	0.422	342.62	12.031
2064	0.803	19.16	0.645	367.11	15.38
2065	0.629	21.39	0.395	357.53	13.45
	☒x=3.363	☒y=119.99	☒ε^2= 2.31	☒ψ^2= 3168.84	☒xy= 82.011

Source: Appendix no.I to X

Now, we calculate correlation coefficient 'r' using Karl person's correlation coefficient.

$$
\begin{aligned}
r &= \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}} \\
&= \frac{5 \times 82.01 - 3.363 \times 119.99}{\sqrt{5 \times 2.313 - (3.363)^2}\sqrt{5 \times 3168.84 - (119.99)^2}} \\
&= \frac{6.5286}{0.5052 \times 38.04} \\
&= 0.3397
\end{aligned}
$$

The correlation coefficient 'r' between cash sales is 0.3397. This reveals that there is positive relationship between cash and sales. Thus increase/decrease in cash results increase/decrease in sales.

To test significance of value of correlation coefficient calculated above. We calculate probable error. (PE)

$$
\begin{aligned}
PE &= 0.6745 \times \frac{1 - r^2}{\sqrt{n}} \\
&= 0.6745 \times \frac{1 - (-0.3377)^2}{\sqrt{5}} \\
&= \frac{0.5966}{2.2361} \\
&= 0.2668
\end{aligned}
$$

Here, we find that r>PE. Hence there is significant correlation between NWC and sales.

4.9.6 <u>Correlation Analysis Between Net Working Capital and Sales</u>:-

The following table shows the necessary values of variables. which are to be used in determining the value of correlation coefficient between net working capital and sales.

Table No-13

Analysis Between Net Working Capital and Sales

Rs. in Million

Year	NWC X	Sales Y	x^2	y^2	XY
2061	3.53	38.99	12.46	1520.22	137.64
2062	0.99	21.94	0.9801	481.36	21.72
2063	1.55	18.51	2.4025	342.62	28.69
2064	0.76	19.16	0.5776	367.11	14.56
2065	0.69	21.39	0.4761	357.53	14.76
	Σx=7.52	Σy=119.99	Σx^2= 16.89	Σy^2= 3168.84	Σxy= 217.39

Source: Appendix no.I to X

Now, we calculate correlation coefficient 'r' using Karl person's correlation coefficient.

$$
\begin{aligned}
r &= \frac{n\Sigma xy - \Sigma x \Sigma y}{\sqrt{n\Sigma x^2 - (\Sigma x)^2}\sqrt{n\Sigma y^2 - (\Sigma y)^2}} \\
&= \frac{5 \times 217.37 - 7.52 \times 119.99}{\sqrt{5 \times 16.89 - (7.52)^2}\sqrt{5 \times 3168.84 - (119.99)^2}} \\
&= \frac{184.52}{5.28 \times 38.04} \\
&= 0..345
\end{aligned}
$$

The correlation coefficient 'r' between NWC and sales is 0.0345. This reveals that these are positive relationship between NWC and sales. Thus increase in NWC does result increase in sales.

To test the significance of value of correlation calculated above, we calculate probable error (PE).

$$
\begin{aligned}
PE &= 0.6745 \times \frac{1 - r^2}{\sqrt{\rho}} \\
&= 0.6745 \times \frac{1 - (-0.0345)^2}{\sqrt{5}} \\
&= \frac{0.6665}{2.2361} \\
&= 0.2981
\end{aligned}
$$

Here, we find that r<PE. Hence there is no correlation between NWC and sales.

4.10 <u>**Analysis of Liquidity Ratio**</u>**:-**

The ability of a firm to meet its obligation in the short-term is known as liquidity. It reflects the short-term is known as liquidity. It reflects the short-term financial strength of the organization. A firm should ensure that it does not suffer from Lack of liquidity and also that it has not too much liquidity. The failer of a company to meet its obligations due to Lack of liquidity will result in bad credit ratings, loss of creditor's confidence or even in lawsuits resulting the closure of the company. A very high degree of liquidity is also bad as idle assets earn nothing. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity.

Here we go through current ratio and quick ratio to evaluate and analyze the liquidity of the firm.

4.10.1 **<u>Current Ratio</u>:-**

Current ratio is frequently used to measure the liquidity position of the firm. This ratio shows the availability of current assets in rupees for every one Rupee of current liabilities. Generally, the current assets of the firm should be twice the current obligation to be technically solvent. Technically solvent means the ability of the firm to meet current obligation duly as they become matured. A relatively high value of current ratio is considered as an indication that the firm is liquid and has the ability to pay it's bill and vice versa.

Table No-14

Analysis of Current Ratio

Rs. in Million

Year	CA	CL	CR(CA/CL)
2061	15.44	11.91	1.30
2062	17.53	16.54	1.06
2063	19.71	18.65	1.06
2064	18.92	18.16	1.05
2065	18.75	18.08	0.67
Total	90.35	64.69	-
Average	18.07	12.938	1.40

Source: Appendix no.I to V

Current ratio is found fluctuation during the study period. It is observed highest 1.30:1 times in fiscal year 2061 and the lowest 0.67:1 times in fiscal year 2065. Average current ratio is 1.40:1 times. If the standard current ratio (2:1) is taken. It can be said that STCL hold weak liquidity position. In each year current ratio is lower than normal ratio 2:1 thus it is not satisfactory condition.

The current ratio of STCL reflects the higher liquidity maintained by the firm or there is lower risk of short term or there is lower risk of short term solvency. Excess current assets are not beneficial to the company because it shows the investment in unproductive assets and working nothing.

4.10.2 <u>Acid-Test Ratio/Quick Assets</u>:-

The acid test ratio or quick ratio is the relationship between quick assets and current liabilities. The ratio is measure of liquidity designed to overcome the defect of the current ratio. It is a measurement of company's ability to convert its current assets quickly into cash in order to meet its current liabilities. Higher is the ratio better is the ability to honor current obligation.

The quick ratio is finding out by dividing quick assets by current liabilities.

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

Table No-15

Analysis of Current Ratio

Rs. in Million

Year	Quick Assets	Current Liab.	Quick Raito (QA/CL)
2061	10.74	11.91	0.91
2062	9.63	16.54	0.58
2063	10.95	18.65	0.58
2064	11.77	18.16	0.65
2065	12.66	18.08	0.71
Total	55.75	64.69	-
Average	11.15	12.938	0.86

Source: Appendix no.I to V

Quick ratio is fluctuating during the study period. The average quick ratio is found to be 0.86:1 times. The quick ratios calculated above are observed lower than standard level (1:1) each year. This is not satisfactory condition.

4.11 <u>Profitability Position</u>:-

i. <u>Gross Profit Margin Ratio</u>:-

This ratio shows the end result of business activities. The overall efficiency of business concerned profitability, if main factor to measure how effectively firm is operated and have managed.

The difference between net sales and lost of good sold is a very significant terms, because it represents the margin of gross profit on sales. It is generally contended that the margin of gross profit should be sufficient enough to recover all operation expenses and other expenses and also to leave adequate amount as net income in relation to sales and owner's equity. The gross profit margin reflects the efficiency of operations of the company.

$$\text{Gross profit Margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

Table No-16

Analysis of Gross Profit Margin

Rs. in Million

Year	Sales	Gross profit	Ratio
2061	38.99	2.96	7.59%
2062	21.94	2.57	11.71
2063	18.51	2.58	1394
2064	19.16	2.72	14.19
2065	21.39	2.58	12.06
Total	119.99	13.41	-
Average	23.998	2.682	11.17%

Source: Appendix no.VI to X

The above table shows the gross profit margin of STCL for fiscal year 2061 to 2065, which are 7.59%, 11.71%, 13.94%, 14.19%, and 12.06% respectively. The corporation's average gross profit margin is 11.17%. In the last four years. The gross profit margins and higher than the average but in the first year this is at lower side. This shows that the company is more efficient in manufacturing each unit of its products in last four years rather than in the first year of the study period.

ii. <u>Net profit Margin Raito</u>:-

Net profit is the profit which comes after deducting operation expenses and income tax form gross profit. This ratio is the relationship on net profit after tax to sales. This ratio on net profit after tax to sales. This ratio shows the ability of management to operate business with sufficient success. The ratio of net profit to sales essentially expenses the cost price effectiveness of the operation. The operating expenses mainly affect the net profit of the company.

$$\text{Net Profit ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

Table No-17

Analysis of Net profit Margin

Rs. in Million

Year	Sales	Net profit	Ratio
2061	38.99	0.73	1.87
2062	21.94	0.49	2.23
2063	18.51	0.29	1.57
2064	19.16	(1.04)	(5.43)
2065	21.39	0.13	0.7
Total	119.99	0.6	-
Average	23.998	0.12	0.50%

Source: Appendix no.VI to X

The net profit margin calculated above shows that firm is able to earn profit in the fiscal year 2061 to 2065. The corporation has loss in the year 2064. Net profit margin is the highest in 2.23% fiscal year 2.23 and the lowest (5.43)% in the fiscal year 2064. Average net profit margin of the corporation over the study period is 0.50%. Corporation’s net profit margins from fiscal year 2061 to 2063 are at satisfactory level since the margins are higher than the average in these years. But it is loss in fiscal year 2064.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In partial fulfillment of the requirements for the degree of master of business studies (MBS) thesis writing is compulsory. This thesis is also written for the same purpose. This thesis is about the “study of working capital management efficiency of salt trading corporation Ltd.” In this report of STCL is analyzed using certain financial and statistical tools in order to know the working capital efficiency of STCL.

This research report contains five chapters, introduction, review of literature, research methodology, presentation, and analysis of data and last summary, conclusion and recommendation.

Chapter one deals with the background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study, organization of the study and terminology used in the study.

Chapter two deals with review of literature of relevant topics. It includes review of publications relating to the working capital and other related research study.

Chapter three deals with research methodology adopted to achieve the objectives of the study.

Chapter four is the main part of the study, which deals with presentation and analysis of relevant data using appropriate tools.

Chapter five is the present chapter which deals with summary of the study, conclusions of the study and the recommendations. This study has focused on the liquidity position, profitability position and efficiency of working capital and overall working capital management policy of STCL. To accomplish these objectives of the study, different financial variables, and statistical tools like mean, coefficient of correlation and probable error has been used for the meaningful interpretation of the data. The analysis found out that high amount of current assets to STCL. STCL has not maintained the current assets properly. Similarly, STCL could not able to maintain the operating efficiency, which indicates that companies have to improve overall working capital policy to survive in present competitive market.

The term working capital management is a very sensitive area of financial management abundantly used by trading sectors to improve their efficiency for the betterment of their organization. “A study of working capital management of trading companies with respect to salt trading corporation Limited” is an exciting and challenging study. The basic objective of this study is to examine the management of working capital position of trading company.

5.2 Conclusion:-

In conclusion, it can be said that working capital is most important part of trading companies and its should be neglected. The need for working capital to run day-to-day business activities operations can not be we emphasized. Working capital management has been looked upon as driving seat of finance manager. Efficient management of working capital not only maintains proper liquidity but also increase profitability management of working capital is perhaps more important than even management f profit. While pinpointing to the sample companies, we can found that investment in current assets is high with respect to its total assets and net fixed assets and it has been stated after analyzing various turnover ratio that current assets is not properly utilized in the company. However, liquidity position of STCL is weak; it shows that there are not excess current assets.

Similarly, after analyzing the various profitability ratios, it can be conclude that is operating inefficiency in Sample Company and overall return position of the company is also not in favorable condition because of inefficient utilization of current assets, total assets and shareholders wealth. Very short period is also not good for the company because the company can't get the credit due to the delay in paying obligation.

Although trading companies are following aggressive financing policy. Which comprises higher risk and higher return and low liquidity position are not in condition of following this policy. Being unsteady in financial situation. Company will be unsuccessful to take high risk and if an attempt has been made to take risk-return trade off is not matched in Nepalese trading companies. Hence, from our overall financial analysis, it can be said that the Nepalese Trading companies are not in tremendous condition. They are suffering from sickness.

The correlation coefficient of the variables selected for the statistical analysis shows that STCL has significant and positive correlation with each other except with net profit and net working capital and sales. As we know that positive correlation means both the variables are moving towards the direction. Above stated finding also helps to conclude that STCL is financially steady and better during the study period. It seems that main sources of cash of STCL are sales of goods and loan from bank. Besides this, corporation receives miscellaneous income like interest, commission, dividend, and sales of fixed assets. Corporation uses cash at huge amount for purchase of commodities paid bonus, interest, income tax, purchase of fixed assets, selling expenses etc. The corporation holds cash for transaction motives.

During the study period, average current ratio of the company is recorded 1.40:1 times. If the company standard current ratio i.e. 2:1 is taken, it can be concluded that STCL hold weak Liquidity position. In each year current ratio is lower than the standard bevel. Hence, current ratio of STCL refers the lower liquidity maintained by the company.

5.3 Recommendation

Based on findings of the analysis mentioned above, the researcher has forwarded some practicable recommendation for the improvement of the working capital management of trading company.

1. The working capital policy followed by company unjustifiable to their liquidity, profitability and turnover position. To correct this problem, comp any requires to manage their assets so effectively that leads to high or quick turnover which in turn increases the profitability. Working capital forecasting, planning and management is crucial for the success of company. the working capital policy to be justifiable the firm should forecast working capital need and its sources using the different methods like percentage of sales, regression methods etc.
2. STCL is following aggressive financing policy. It has poor return and turnover position which means that risk and return trade off is not matched in trading company. So company better have to follow the mix financing policy between moderate and aggressive financing policy to reduce the risk and earn some profit.
3. Negative working capital represents the poor financing management of the company. Therefore, to cradicate this situation, suitable working capital

should be formulated and implemented. Keeping optimum size of investment in current check of working capital could do it.

4. To run day to day business activities and earn maximum profit current assets should be properly managed. Inventory is consisting largest portion in total current assets. Therefore, the huge amount of inventory kept by the company should be reduced or optimum level should be adjusted according to the sale. In this regard management is advised to improve its marketing policy and should be integrated with credit policy. The credit policy has highly influence to the sales. So, certain target would be set for credit policy.
5. Simple regression result suggests that net working capital has no any impact upon profits. So the company is suggested to guide their liquidity decisions towards profit maximization. Like wise working capital turnover, current assets ratio and total assets turnover ratio should be managed in such a way that contributes something towards profit.
6. The management should give attention towards the unnecessary expenses, misuses of facilities, over staffing, heavy expenses on overheads ore the major caused for high operation cost. To overcome such short comings management should be strict for use of facilities, not only these but also right number of workers in right place providing necessary training also contribute for lower administrative and operating cost.
7. Management is backbone of the company and success and failure of the company depends upon the managerial skill. So, company should allocate some money for training of financial employees to produce skilled and experienced manpower.
8. It should adopt strength credit policy especially for its staff and workers for effective credit and collection performances as low total receivable. One of the reasons of lower turnover and high collection period arise due to more advances to corporation employees.

9. Corporation should manage its cash affairs in such a way as to keep cash balances to a minimum level and to invest the surplus cash funds in profitable opportunities.
10. This study is based on secondary data it is better to use survey and other methods to collect primary data and to use them in making precise conclusion.
11. It is recommended to use other methods of analysis by taking them from the literature to make the analysis of working capital more useful.

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Appendix I

सौल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६१ साल आषाढ मसान्तको वासलात

पूँजी तथा दायित्व	अनुसूची	२०६१।३।३१ (रु.)	२०६०।३।३२ (रु.)
पूँजी तथा जगेडा			
शेयर पूँजी	१	२,४७,७७,७००	२,४७,७७,७००
जगेडा तथा मुनाफा	२	५८,४२,०४,९०६	४१,७७,१९,५२५
मध्यम तथा दीर्घकालीन ऋण			
सुरक्षित ऋण	३	१,१८,४०,७९,४४७	१,३५,९५,९२,८९०
कुल जम्मा		१,७९,३०,५५,०५३	१,९०,२०,९०,११५
सम्पत्ति			
अचल सम्पत्ति			
परल मोल	४	४७,४४,३६,९८२	४६,६९,०४,३३२
कुल ह्रास		८५,४४,९९३	४७,७५,१९९
खुद मोल		४६,५८,९१,९८९	४६,२१,२९,१३३
लगानी	५	१५,१७,८१,२८७	१४,५०,२१,७१६
चालू सम्पत्ति, ऋण तथा पेश्की			
जिन्सी मौज्दात	६	४५,०६,६९,७७३	६८,८१,३३,५४९
नगद तथा बैंक मौज्दात	७	७,६५,४५,४२६	५,८८,२३,६६६
आसामी	८	१०,७७,८१,००२	१६,७७,७८,८४५
पेश्की, सापटी तथा धरौटी	९	८२,२५,५५,६९५	७६,०९,५८,९५०
कुल चालू सम्पत्ति		१,५९,७५,६१,८९६	१,६७,५६,९५,०३५
न्यून चालू दायित्व तथा व्यवस्था	१०	४२,३२,८०,११९	३८,०७,५५,७४४
खुद चालू सम्पत्ति		१,१७,५३,८१,७७७	१,२९,४९,३९,२६६
कुल जम्मा		१,७९,३०,५५,०५३	१,९०२,०९०,११५

Source: Annual Report of STCL

Appendix VI

सॉल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६० साल श्रावण १ गतेदेखि २०६१ आषाढ ३१ गतेसम्मको नाफा-नोक्सान हिसाब

विवरण	अनुसूची	यस वर्ष (रु.)	गत वर्ष (रु.)
आम्दानी (बिक्री)	११	३,८९,८९,४१,६४६	२,४६,१०,००,७०८
बिक्री लागत	१२	३,६०,३२,५६,७६६	२,२०,२३,००,७१४
कुल मुनाफा		२९,५६,८४,८८०	२५,८६,९९,९९४
अन्य आम्दानी	१३	८२,५५,७६५	४४,८२,६२०
जम्मा		३०,४२,४१,६४५	२६,३१,८२,६१४
प्रशासकीय खर्च	१४	७,३८,३१,८९८	७,५३,६३,७००
ब्याज खर्च		११,५६,८६,२९८	११,१४,२५,७६१
ह्रास खर्च		३६,२८,५६६	२५,३६,८६५
खुद सञ्चालन नाफा		१०,९०,७४,९६६	७,३८,५६,२८१
सम्पत्ति बिक्री नाफा (नोक्सानी)		(८,९९३)	१,३३,३४४
आयकर, बोनस व्यवस्थापूर्वको नाफा (नोक्सानी)		१०,९०,६६,९७३	७,३९,८९,६२५
कर्मचारी बोनस		१,०९,०६,६९७	७३,९८,९६२
आयकर व्यवस्थाअगाडिको नाफा (नोक्सानी)		९,८१,६०,२७६	६,६५,९०,६६३
आयकर व्यवस्था		२,४१,३५,६२५	१,६३,४०,४१५
खुद नाफा (नोक्सानी)		७,४०,२४,६५१	५,०२,५०,२४८
गत वर्षसम्मको बाँकी नाफा		४४,७२,३६६	१५,१०,५५३
विनियोजनको लागि उपलब्ध		७,८४,९७,०१७	५,१७,६०,८०१
विनियोजन			
सञ्चालक प्रोत्साहन		१५,०७,५०७	१३,३२,८९५
साधारण जगेडा		१,००,००,०००	१,००,००,०००
लगानी समीकरण कोष		५,००,००,०००	३,००,००,०००
प्रस्तावित लाभांश		४९,५५,५४०	४९,५५,५४०
बाँकी वासलातमा सारेको		१,२०,३३,९७०	५४,७२,३६६
		७,८४,९७,०१७	५,१७,६०,८०१

Source: Annual Report of STCL

Appendix II

सॉल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६२ साल आषाढ मसान्तको वासलात

पूँजी तथा दायित्व	अनुसूची	२०६२।३।३१ (रु.)	२०६१।३।३१ (रु.)
पूँजी तथा जगेडा			
शेयर पूँजी	१	२,४७,७७,७००	२,४७,७७,७००
जगेडा तथा मुनाफा	२	१,५४,६०,००,३०७	५८,४२,०४,९०६
मध्यम तथा दीर्घकालीन ऋण			
सुरक्षित ऋण	३	३६,२८,८८,२३३	३६,२६,०९,७४२
कुल जम्मा		१,९३,३६,६७,२४०	९७,१५,९२,३५८
सम्पत्ति			
अचल सम्पत्ति			
परल मोल	४	१,४०,४४,५८,२११	४७,४४,३६,९८२
कुल ह्रास		१,२३,००,१२८	८४,४४,९९३
खुद मोल		१,३९,२१,५८,०८३	४६,५९,९१,९८९
लगानी	५	४४,१७,५९,५२८	१५,१७,८१,२८७
चालु सम्पत्ति, ऋण तथा पेस्की			
जिन्सी मौज्दात	६	७८,९८,८८,२०५	४३,०६,६९,७७३
नगद तथा बैङ्क मौज्दात	७	५,१६,७८,४२८	७,६५,४५,४२६
आसामी	८	२०,३८,८१,४०४	१३,७०,६७,१८४
पेस्की, सापटी तथा धरौटी	९	७०,७४,०८,९२०	८१,९६,४४,५४१
कुल चालु सम्पत्ति		१,७४,२८,५६,९५७	१,४४,३९,२७,९३४
न्यून चालु दायित्व तथा व्यवस्था	१०	१,६५,४१,०७,३२८	१,१९,०१,०८,८४२
खुद चालु सम्पत्ति		८,८७,४९,६२८	२५,३८,१९,०९२
कुल जम्मा		१,९३,३६,६७,२४०	९७,१५,९२,३५८

Source: Annual Report of STCL

Appendix VII

सॉल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६१ साल श्रावण १ गतेदेखि २०६२ आषाढ ३१ गतेसम्मको नाफा–नोक्सान हिसाब

विवरण	अनुसूची	यस वर्ष (रु.)	गत वर्ष (रु.)
आम्दानी (बिक्री)	११	२,१९,३९,३५,३६८	३,८९,८९,४२,६४६
बिक्री लागत	१२	१,९३,७२,३५,३४७	३,६०,३२,५६,७६६
कुल मुनाफा		२५,६७,००,०२१	२९,५६,८५,८८०
अन्य आम्दानी	१३	२,७५,४१,१४८	८५,५५,७५५
जम्मा		२८,४२,४१,१६९	३०,४२,४१,६३५
प्रशासकीय खर्च	१४	८,२२,९२,३२२	७,५८,५१,८१८
ब्याज खर्च		११,९९,९४,९०३	११,५६,८६,२८८
ह्रास खर्च		३८,७३,१३०	३६,२८,५६३
खुद सञ्चालन नाफा		७,८०,८०,८१४	१०,९०,७४,९६६
सम्पत्ति बिक्री नाफा (नोक्सानी)		१,५४,७५३	(७,९९३)
आयकर, बोनस व्यवस्थापूर्वको नाफा (नोक्सानी)		७,८२,३५,५६७	१०,९०,६६,९७३
कर्मचारी बोनस		७८,२३,५६०	१,०९,०६,६९७
आयकर व्यवस्थाअगाडिको नाफा (नोक्सानी)		७,०४,१२,००७	९,८१,६०,२७६
आयकर व्यवस्था (गत वर्षहरूको रु. २३,४८,१५३ समेत)		२,०६,०४,०४६	२,५१,३५,६२५
खुद नाफा (नोक्सानी)		४,९८,०७,९६१	७,३०,२४,६५१
गत वर्षसम्मको बाँकी नाफा		१,२०,३३,९३०	५४,६२,३६६
विनियोजनको लागि उपलब्ध		६,१८,४१,८९१	७,८४,८७,०१७
विनियोजन			
सञ्चालक प्रोत्साहन (आ.व. २०६०/०६१)		२१,९०,३४०	१४,९७,५४७
साधारण जगेडा		१,००,००,०००	१,००,००,०००
लगानी समीकरण कोष		४,००,००,०००	५,००,००,०००
प्रस्तावित लाभांश		४९,५५,५४०	४९,५५,५४०
बाँकी वासलातमा सारेको		४६,९६,०११	१,२०,३३,९३०
		६,१८,४१,८९१	७,८४,८७,०१७

Source: Annual Report of STCL

Appendix III

सल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६३ साल आषाढ मसान्तको वासलात

पूँजी तथा दायित्व	अनुसूची	२०६३।३।३२ (रु.)	२०६२।३।३१ (रु.)
पूँजी तथा दायित्व			
शेयर पूँजी	१	२,४७,७७,७००	२,४७,७७,७००
जगेडा तथा मुनाफा	२	१,५२,४१,६३,८४८	१,५४,६०,००,३०७
मध्यम तथा दीर्घकालीन ऋण			
सुरक्षित ऋण	३	३०,४६,६८,७०६	३६,२८,८९,२३३
कुल जम्मा		१,८५,४६,१०,२५४	१,९३,३६,६७,२४०
सम्पत्ति			
अचल सम्पत्ति			
परल मोल	४	१,४३,४४,९१,३४१	१,४०,५४,५८,२११
कुल ह्रास		५,४८,८३,२८८	१,२३,००,१२९
खुद मोल		१,३७,९६,०८,०५२	१,३९,३१,५८,०८२
लगानी	५	४५,५७,२१,३८३	४४,३७,१९,५२८
चालू सम्पत्ति, ऋण तथा पेश्की			
जिन्सी मौज्दात	६	८७,६५,७८,२१२	७८,९८,८८,२०५
नगद तथा बैङ्क मौज्दात	७	६,४०,७२,८०९	५,१६,७८,५२८
आसामी	८	१९,६२,५८,५५६	२०,३८,८१,५०४
पेश्की, सापटी तथा धरौटी	९	७४,६३,०१,०११	७०,५४,४८,९२१
कुल चालू सम्पत्ति		१,८८,४२,१०,६०८	१,७५,०८,९६,९५८
न्यून: चालू दायित्व तथा व्यवस्था	१०	१,८६,५९,२८,७८९	१,६५,४१,०७,३२८
खुद चालू सम्पत्ति		१,८२,८०,८१९	८,६७,८९,६३०
कुल जम्मा रु.		१,८५,४६,१०,२५४	१,९३,३६,६७,२४०

Source: Annual Report of STCL

Appendix VIII

सॉल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६२ साल श्रावण १ गतेदेखि २०६३ आषाढ ३२ गतेसम्मको नाफा–नोक्सान हिसाव

विवरण	अनुसूची	यस वर्ष (रु.)	गत वर्ष (रु.)
आम्दानी (बिक्री)	११	१,७५,७४,२१,४९३	२,१८,३८,३५,३६८
बिक्री लागत	१२	१,४८,२०,६१,१३४	१,८३,७२,३५,३४७
कुल मुनाफा		२७,५४,६०,३५९	३४,६७,००,०२१
अन्य आम्दानी	१३	३,४७,३६,८८०	३,७४,४१,१४८
जम्मा		३०,०१,९७,२३८	३८,४२,४१,१६८
प्रशासकीय खर्च	१४	८,८३,६४,०८८	८,२२,७२,३२२
ब्याज खर्च		१४,४०,१४,२३४	११,७८,८४,७०३
ह्रास खर्च		४७,३३,२३०	३८,७३,१३०
खुद सञ्चालन नाफा		६,३८,४३,६६६	७,८०,७२,८१४
सम्पत्ति बिक्री नाफा (नोक्सानी)		८४०	१,४४,३८३
आयकर, बोनस व्यवस्थापूर्वको नाफा (नोक्सानी)		६,३८,४४,५०६	७,८२,१५,४७७
कर्मचारी बोनस		४४,८५,४२१	३८,२३,४६०
आयकर व्यवस्थाअगाडिको नाफा (नोक्सानी)		५,९३,५८,०८५	७,०६,९२,०१७
आयकर व्यवस्था		१,९३,०५,०३०	२,०६,०४,०२६
खुद नाफा (नोक्सानी)		४,००,५३,०५५	५,०० ,८८,९९१
गत वर्षहरुको नाफा–नोक्सान मिलान		(८०,६२,०४४)	-
गत वर्षसम्मको बाँकी नाफा		४६,७४,६७१	१,२०,३३,७३०
बिनियोजनको लागि उपलब्ध		३,६६,६५,६८२	६,२१,२२,७२१
बिनियोजन			
सञ्चालक प्रोत्साहन		-	२१,८०,३४०
साधारण जगेडा		-	१,००,००,०००
लगानी समीकरण कोष		१,००,००,०००	४,००,००,०००
आसामी समीकरण कोष		१,००,००,०००	-
प्रस्तावित लाभांश		१६,४४,४४०	५८,४४,४४०
बाँकी वासलातमा सारेको		३७,०६२	४६,७४,६७१
		३,५६,७६,६७७	६,१८,४१,७४१

Source: Annual Report of STCL

Appendix IV

साल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६४ साल आषाढ मसान्तको वासलात

पूँजी तथा दायित्व	अनुसूची	२०६४।३।३२ (रू.)	२०६३।३।३२ (रू.)
पूँजी तथा दायित्व			
शेयर पूँजी	१	२,४७,७७,७००	२४७७७७००
जगेडा तथा मुनाफा	२	१,३३,४८,८२,४९४	१,५२,४१,६३,८४८
मध्यम तथा दीर्घकालीन ऋण			
सुरक्षित ऋण	३	४९,६५,३२,६१४	३०,४६,६८,७०६
कुल जम्मा		१,८१,६१,९२,८८८	१,८५,४६,१०,२५४
सम्पत्ति			
अचल सम्पत्ति	४		
परल मोल		१,४७,०९,२६,६८६	१,४३,४४,९१,३४२
कुल ह्रास		९,३०,५९,१२९	५,४८,८३,२९०
खुद मोल		१,३७,७८,६७,५५७	१,३७,९६,०८,०५२
लगानी	५	३५,८६,५४,४७५	४५,५७,२१,३८३
चालु सम्पत्ति, ऋण तथा पेस्की			
जिन्सी मौज्दात	६	७१,४४,५०,२९५	८७,६५,७८,२३२
नगद तथा बैङ्क मौज्दात	७	८,०२,९२,३४५	६,५०,७२,८०९
आसामी	८	२१,८९,३८,०९४	१९,६२,५८,५५६
पेस्की, सापटी तथा धरौटी	९	८७,८२,७२,८१४	८३,२८,४५,०९९
कुल चालु सम्पत्ति		१,८९,१९,४३,५४८	१,९७,०७,५४,६९६
न्यून: चालु दायित्व तथा व्यवस्था	१०	१,८२,२२,७२,६९२	१,९५,१४,७२,८७७
खुद चालु सम्पत्ति		६,९६,७०,८५६	१,९२,८०,८१९
कुल जम्मा रु.		१,८१,६१,९२,८८८	१,८५,४६,१०,२५४

Source: Annual Report of STCL

Appendix IX

साल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६३ साल श्रावण १ गते देखि २०६४ साल आषाढ ३२ गते सम्मको नाफा-नोक्सान हिसाब

बिवरण	अनुसूची	२०६४।३।३२ (रू.)	२०६३।३।३२ (रू.)
आम्दानी (बिक्री)	११	१,९१,६२,१८,१८०	१,८५,०५,५१,५१३
बिक्री लागत	१२	१,६४,४५,४०,९९१	१,५९,२०,६१,१७४
कुल मुनाफा		२७,१६,७७,१८९	२५,८४,९०,३३९
अन्य आम्दानी	१३	२,६०,२४,७४४	३,४५,७६,८९०
जम्मा		२९,७७,०१,९३३	२९,३०,६७,२२९
प्रशासकीय खर्च	१४	९,०४,३८,७७६	८,८३,६५,०९९
ब्याज खर्च		१६,११,८८,६६३	१५,४०,१५,२३४
ह्रास खर्च		४२,७५,४३८	४७,३३,२३०
खुद सञ्चालन नाफा		४,१७,५९,०५६	४,५९,५३,६६६
सम्पत्ति बिक्री नाफा (नोक्सानी)		९६,१७१	८४०
आयकर, बोनस व्यवस्थापूर्वको नाफा (नोक्सानी)		४,१८,५५,२२७	४,५९,५४,५०६
लगानी एवं आसामी व्यवस्था खर्च		१३,५०,००,०००	-
आयकर, बोनस व्यवस्थापूर्वको नाफा (नोक्सानी)		(९,३१,४४,७७३)	४,५९,५४,५०६
कर्मचारी बोनस		-	४५,९५,४५१
आयकर व्यवस्थाअगाडिको नाफा (नोक्सानी)		(९,३१,४४,७७३)	४,१३,५९,०५५
आयकर व्यवस्था		१०५,११,५९३	१,२३,०६,०७०
खुद नाफा (नोक्सानी)		(१०,३६,५६,३६६)	२,९०,५२,९८५
यस वर्षको खुद नाफा (नोक्सानी)		(१०,३६,५६,३६६)	२,९०,५२,९८५
गत वर्षको नाफा नोक्सानी मिलान		-	(८०,६२,०५४)
गत वर्षसम्मको बाँकी नाफा		१४,०७,३१,०६२	१२,४६,९५,६७१
विनियोजनको लागि उपलब्ध		३,७०,७४,६९६	१४,५६,८६,६०२
विनियोजन			
आयकर व्यवस्था (५६/५७-६१/६२ को आयकर)		४९,६१,४७८	-
प्रस्तावित लाभांश		४९,५५,५४०	४९,५५,५४०
बाँकी वासलातमा सारेको		२,७१,५७,६७८	१४,०७,३१,०६२
		३,७०,७४,६९६	१४,५६,८६,६०२

Source: Annual Report of STCL

Appendix V

साल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६५ साल आषाढ मसान्तको वासलात

पूंजी तथा दायित्व	अनुसूची	२०६५।३।३१ (रू.)	२०६४।३।३२ (रू.)
पूंजी तथा दायित्व			
शेयर पूंजी	१	२,४७,७७,७००	२,४७,७७,७००
जगेडा तथा मुनाफा	२	१,३५,१७,२०,१४८	१,३७,४८,८२,४९४
मध्यम तथा दीर्घकालीन ऋण			
सुरक्षित ऋण	३	४३,७६,२५,६८३	४१,६५,३२,६९४
कुल जम्मा		१,८१,४१,२३,५३१	१,८१,६१,९२,८८८
सम्पत्ति			
अचल सम्पत्ति	४		
परल मोल		१,४९,३२,६६,८०२	१,४७,०९,२६,६८६
कुल ह्रास		१३,१८,१३,८६३	९,३०,५९,१२९
खुद मोल		१,३६,१४,५२,९३९	१,३७,७८,६७,५५७
लगानी	५	३८,३३,१२,७७३	३६,८६,५४,४७५
चालु सम्पत्ति, ऋण तथा पेश्की			
जिन्सी मौज्दात	६	६१,१६,२१,२२०	७१,४४,४०,२९५
नगद तथा बैङ्क मौज्दात	७	६,२९,५२,४१४	८,०२,९२,३४५
आसामी	८	२२,४३,१०,४०७	२१,८९,३८,०९४
पेश्की, सापटी तथा धरौटी	९	९७,५६,४०,२२२	८७,८२,७२,८१४
परसारिएको कर (Deferred Tax Asset)		२९,८७,१९३	-
कुल चालु सम्पत्ति		१,८७,७५,११,४६६	१,८९,१९,४३,५४८
न्यून: चालु दायित्व तथा व्यवस्था	१०	१,८०,८१,५३,६५१	१,८२,२२,७२,६९२
खुद चालु सम्पत्ति		६,९३,५७,८१५	६,९६,७०,८५६
कुल जम्मा रु.		१,८१,४१,२३,५३१	१,८१,६१,९२,८८८

Source: Annual Report of STCL

Appendix X

साल्ट ट्रेडिङ्ग कर्पोरेशन लिमिटेड

२०६४ साल श्रावण १ गते देखि २०६५ साल आषाढ ३१ गते सम्मको नाफा–नोक्सान हिसाब

विवरण	अनुसूची	२०६५।३।३१ (रू.)	२०६४।३।३२ (रू.)
आम्दानी (बिक्री)	११	२,१३,८९,५७,४२४	१,९१,६२,१८,१८०
बिक्री लागत	१२	१,८३,७६,३०,७८५	१,६४,४५,४०,९९१
कुल मुनाफा		३०,१३,२६,६३९	२७,१६,७७,१८९
अन्य आम्दानी	१३	२,५७,८८,८०४	२,६०,२४,७४४
जम्मा		३२,७१,१५,४४३	२९,७७,०१,९३३
प्रशासकीय खर्च	१४	११,४३,५३,८३७	९,०४,७८,७७६
ब्याज खर्च		१५,२९,५६,३६९	१६,११,८८,६६३
ह्रास खर्च		५१,६९,७०३	४२,७५,४३८
खुद सञ्चालन नाफा		५,४६,३५,५३४	४,१७,५९,०५६
सम्पत्ति बिक्री नाफा (नोक्सानी)		८,९९६	९६,१७१
आयकर, बोनस र व्यवस्थापूर्वको नाफा (नोक्सानी)		५,४६,४४,५३०	४,१८,५५,२२७
लगानी एवं आसामी व्यवस्था खर्च		३,००,००,०००	१३,५०,००,०००
आयकर र बोनसपूर्वको नाफा (नोक्सानी)		२,४६,४४,५३०	(९,३१,४४,७७३)
कर्मचारी बोनस		२२,४०,४१२	–
आयकर अगाडिको नाफा (नोक्सानी)		२,२४,०४,११८	(९,३१,४४,७७३)
आयकर व्यवस्था		१,२३,६४,११०	१,०५,११,५९३
परसारिएको कर (Deferred Tax Asset)		(२९,८७,१९३)	–
खुद नाफा (नोक्सानी)		१,३०,२७,२०१	(१०,३६,५६,३६६)

Source: Annual Report of STCL