CHAPTER-1

INTRODUCTION

1.1 Background of the study:

Industry and commerce plays a significant role for the development of country while the development of trade and business can only flourish under the development of the bank and financial institution.

Basically, Finance Company means a financial institution which is a company on banking institution, whose primary business is to receive the deposits under any scheme of arrangement or any other manner and lending in any manner.

Finance company, a financial institution, is playing a vital role in the economic development of the country. The function of finance companies are not only accepting deposits and granting loans but also including wide range of services to the different strata of society, to facilitate the growth of the trade, commerce, industry and agriculture of the national economy. In the absence and insufficiency of banking and financial facilities, the growth of economic development becomes slow. However, finance company is a resource for economic development, which maintains the self-confidence of various segments of society and advances credit to the people. Finance company is the lifeblood of economic development of the country. Development of trade, commerce, and industry are the prime necessary for the achievement of economic, social and political goals. To fulfill the purpose of planning, financial function more often dominated the other function "there is always lack of finance in under developed economy because natural resources are either unutilized or underutilized in production sectors or even other purpose i.e. Social welfare and so on. Likewise, under developed countries are not deficient in land, water, mineral, forest or power resources, though they may be unused; constituting only potential resources." So, in these countries, for rapid development of the economy there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Notice could be one of the main reasons of this. Therefore, banks, financial institution, and co-operative plays a vital role to encourage thrift and discourage notice by mobilizing the resources and removing the habit of notice. They pursue rapid economic growth, developing the banking habit among the people, collecting the small-scattered resources in one mass, using them in the further productive purposes, and rendering other valuable service to the country. Thus this gives the individuals an opportunity to borrow funds against future income, which's may improve the economic well being of the borrower.

Finance companies are the financial institutions which deals in accepting deposits from persons, small savers and institutions under any scheme of arrangement or manner, provide interest formulate small loans, capitals and grants loans against securities for individuals, institutions, companies and etc. that help to remove the lack of needs. They contribute significantly in the formation and mobilization of internal capital and development effort. They also furnish necessary cash according to the requirements for trade, commerce, industry and even to agriculture sectors. They also perform agency function to make life easier and play an important role in credit creation. Besides, they also provide technical and administrative assistance to industries, traders and business enterprises. So they are being the means for the development of society. Their main objectives are to earn reasonable profit as reward for their service by proper mobilization of idle resources collecting them from different scattered sources, in particular productive sectors.

Financial institution plays a great role for economic growth of every country the reason behind Nepal's underdeveloped economy is not only due to lack of resources but it is due to lack of proper utilization of the available resources. Cash is an important asset for every organization. Cash is the life-blood of every organization in the absence of it; no organization can run effectively and smoothly. Cash management leads the organization towards the efficiency and success. Corporate must adopt such a policy that makes optimum cash management possible for improving the efficiency of cash management. Effective method of collection and disbursement should be adopted however in developing country; cooperative has given not so much attention in assessing the time value of money. So the methods of cash management practiced by corporation in developing countries may not be viable due to the deficiency of knowledge or lack of consciousness among corporate managers of developing country to calculate the interest lost of fund lost if cash not collected promptly.

The term cash management has a meaning according to the purpose for which it is used and persons with varying branches of knowledge, it implies various meaning of cash. Economics considered cash as the means to satisfy human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is to look from the view point of balance sheet cash is an asset constituting the most liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest. indeed cash which has as cost whether received internally through generation of funds in business operations or externally through money market procurement are liability and a wasted opportunity unless it is not put to its optimal use.

Management can adopt various tools and techniques for effective cash management. Cash management primarily concerns with effective collection and disbursement of cash; it is the integral part of financial management. The managerial policy maker should play beneficial role to the company by planning and management of cash collection and disbursement. A company needs cash for following purposes mainly

To make payment possible

To help to meet contingencies

To help regular running of the company

1.2 Evolution of Bank and Financial Institution:

When studying to the origin of modern banking, it is very difficult to say about the origin of modern banking. In ancient time banking transactions took places, which were slightly in crude form of banking compare to today's banking process. In ancient time mainly three communities or groups revived commercial banking transaction in every country. They are Merchant, money lenders, and goldsmith. Even in incident time, merchants used to go different places for trading it was impossible for them to carry huge amounts of coins. Merchants were regarded as respected persons in the society. They started to issue letters which were treated as good as money. Money lenders used to give loan to the needy persons out of their own treasury. Later on, savers started depositing their saving with the money lenders. People used to keep their valuable assets such as gold, silver, and coins in the custody of the goldsmiths with as intention to protect them from being robbed and theft. Thus, the above three groups are taken as the ancestor of bankers as they provided the foundation for modern banking system.

We come to know that Bank of Venice was established, as the first commercial bank of the world, in 1157 AD and In Nepal, like in other countries the present day banker has three ancestors of particular note. One the merchant the banker's two other ancestors is the moneylender and the goldsmith. In B.S. 1933, Tejarath Adda was established during the tenure of the Prime Minister Ranoddip Singh Rana. It provided loans under the security of gold and silver to the government employees and to the public. In this way this government financial institution occupies an important place in the banking history of Nepal. In 1994 B.S., Nepal Bank Ltd as a modern bank was established. Therefore the incorporation of N.B. Ltd is the real starting of banking institution in Nepal, which carried out the functions of a commercial bank in Nepal, Nepal Bank Limited, was established, as the first commercial bank in B.S. 1994. Its initial authorized capital was 10 million rupees and issued capital wash 15 lakh, paid-up capital was 8 lakh 42 thousand but now it has increased its capital significantly.

It was necessary to establish a central bank. So, in 14th Baishakh 2013 B.S. Nepal Rastra Bank was established as per Nepal Rastra Bank Act 2012 B.S. the growth and development of the country is possible only when competitive providing service reach each and every place of the country. So break up with this problems, the government established Rastriya Banijya Bank in 2022 B.S , under Banijya Bank Act 2022 further steps for the development of banking institution is taken by establishing Nepal Industrial Development Corporation in 2016 B.S., Agriculture Development Bank in 2024 B.S., Employee Provident fund, National Insurance Corporation and so on. Before 1974 (B.S. 2031), there was no any existence of joint venture banks in the country, there were no provisions made in the old Commercial Bank Act, which facilitated to the establishment of joint venture banks in Nepal.

The new commercial bank act 1974 has, however, made provisions to permit foreign banks to operate in the country by obtaining the approval of Nepal Rastra Bank. In order to establish and develop other joint venture commercial banks and other financial institution Nepal adopted liberal and free economy policy. Accordingly, Nepal allowed establishing different joint ventures banks under collaboration with foreign banks. This was the great significant event in Nepalese banking history competition began to grow. The banks began to offer their valuable services to the people through new scheme, technologies.

The history of non-financial institutions is not that old as of banks. Before the enactment of finance company Act 2042, few insurance companies and Employee Provident Fund were under operation. And the unorganized sectors were collecting saving form the common public in the name of Dhukuti & Uphar programs, in which people also showed great interest and enthusiasm. But they were cheated by most of organizers of these programs. So, the government felt the very need of finance company considering the peoples of high interest in such programs, benefit of mobilizing such savings in productive sector, banking sections inability to carry out capital market activities and to meet consumer need for credit. Thus, the economic liberation policy of the government has encouraged the establishment and growth of finance companies in the country without a short span of time. Along with various joint venture Banks in the country, finance company act 2042 B.S are also contributing so as to collect scattered fund and invest them to an individual or company or firm in various sector economy.

The finance company started emerging in Nepal only in 2049 after the first amendment in Finance Company Act 2042. The first Finance Company "Nepal Awash Bikash Bitta Co. Ltd" is established in 2049/4/11 promoted by Rastriya Beema Sansthan, Nepal Bank Ltd., Rastriya Banijya Bank, Agriculture Development Bank, Nepal Arab Bank Ltd. In the same year 2049/12/30 Nepal Finance and Savings Co. Ltd was established from the private sector.

All the banking and financial activities were establish and operate by different acts likes, Banijaya Bank Act 2031, Finance Company Act 2042, Development Bank Act 2052, Co operative Act 2048, Financial Mediator Act 2055, Agriculture Development Act 2024, and Nepal industrial Development Corporation Act 2046. In that condition Nepal Rastra Bank cannot perfect supervision and control all banks and financial institutions. So uniformity all banks and financial institutions to develop new umbrella Act, called Bank and Financial Institution Act 2063. According to this Act, all the bank and financial institutions are established and control by Nepal Rastra Bank. According to this Act, Bank and Financial institution segregate 4 categories, like Bank, Development bank, Finance company and Co-operative firms.

In the country now a day's also the processes of opening finance companies are still continuing. Till now there are 28 commercial banks, 38 development banks, 74 finance companies, 11 rural development bank, 17 cooperative institutions registered in Rastra bank and plenty of cooperative institutions are doing transactions in the competitive way. So it is necessary for all the financial institutions to search and invest in new probable sectors, bring awareness among the general public about the saving and investment and spreading public reliance as well as it should providing more quality customer service.

1.3 A brief profile of the selected Finance Companies:

The study focuses on the cash management of finance companies but this study will cover only two finance companies. These are:

Pashchimanchal finance company limited (PFCL)

Butwal finance company limited (BFCL)

Pashchimanchal Finance Company Limited (PFCL):

Pashchimanchal finance company Ltd. Was established in the year 2051(chaitra 26) under the finance company Act 2042. It was register on falgun 21, 2051 and was permitted by Nepal Rastra Bank in chaitra 23, 2051.

Most of the financial company in Nepal were restricted to Kathmandu only and carried out their activities from capital city. But PFCL was set up in Butwal mobilize the capital towards the productive, development sectors in other regions of the country. PFCL has been recognized as an institutions, which is successful in fulfilling the needs of industrialist, traders, as well as public, especially in western regions of our country thus, this company is one of those company who are successful in listing its name in the list of grade-A, by working outside the capital city of our country. At the present, an authorized capital of the PFCL had been Rs 200 million, issued capital Rs100 million and paid up capital Rs 50.6 million.

The ownership composition or holding pattern of share capital of the bank is as follows.

Nepali promoters	60%
Public shareholders	40%

Butwal Finance Company Limited (BFCL)

Butwal finance company Ltd. came into existence in the year 2055 B.S. With the view to accelerate the pace of economic development through active participation in socio-economic activities, since its inception, BFCL has made its earnest efforts to contribute to the country by undertaking various integrated economic projects.

BFCL has been established with the purpose of managing the static capital into an organized from in order of developing the nation in the economic field. The company has been working from 25th Ashadh 2055 with the permission from Nepal Rastra Bank on 7th Ashadh 2055. By the purpose of providing the privileges and facility to the people of Lumbini Zone, BFCL has hired the highly skilled experienced employee and full computerized system in order to serve the peoples of Lumbini Zone in a simple, reliable and scientific way.An authorized capital of the BFCL had been Rs. 160 million, issued capital Rs. 80 million and paid up capital Rs. 63.25 million.

The ownership composition or holding pattern of share capital of the bank is as follows.

Nepali promoters	60%
Public shareholders	40%

1.4 Statement of the problem:

Most of the Nepalese Organizations are still facing the problem of cash management due to the unprofessional manpower. Cash management of Nepalese business organization has lack of scientific approach and they are holding primarily based on traditional practices. A more serious aspect of cash management has been the absence of any formalized system of planning and cash budgeting. The Nepalese organization cannot achieve their objective, due to poor management. Their main problem are ignorance of objectives, ineffective objective setting procedures, communication gap between top levels and lower level about many aspects and limited use of modern technology etc.

Cash management on finance company is also difficult that of other manufacturing and non manufacturing business organizations. Finance institution which are playing important role to broad interests of the economy. They must be ready to pay on demand without warning and notice, a good share of their liabilities. Finance companies collect funds from different type of deposits for providing loan and advances, investment to different sectors get higher return. Finance companies must try to increase fund from deposits as well as their investment.

The growing entry of non banking financial institutions into the financial market have also led a cut throat competition in the market all of them are focused to the same market however concerned to small savers. The major difficulty of the financial institution is to fill up the gap between the depositors and loaners.

Cash management has been most intricate and challenging area of modern corporate. Finance as much as the management always faces a tradeoff between the liquidity and profitability of firm through most of the organization in Nepal have well recognized the important of proper cash management. They are still facing the problems of cash management.

1.5 Research Questions:

In this research following issues are to be deal for the purpose of the stud. The research is attempted to sort out the answers to the following questions.

a) What is cash condition of finance companies?

b) What is the position of cash collection and disbursement of finance companies?

c) Average collection period is satisfactory or not?

d) What is the condition of cash and bank balance with deposit?

1.6 Objectives of study:

Cash management plays the essential role the achievement or collapse of any kind of company. Thus every company needs the suitable level of cash management for their daily transaction. The main goal of the study is to examine the cash management of finance companies of Nepal. The objectives of this study are as follows.

1. To present overall cash condition of selected Finance companies of Nepal.
2. To analyze the cash collection and disbursement by Finance companies in Nepal
3. To analysis the cash and bank balance to deposit ratio of selected Finance companies in

Nepal

4. To provide suitable recommendation and suggestions.

1.7 Significance of study:

The success or failure of any organization depends on its strategy which is affected by cash management. Cash management is the central part of problem to prepare proper strategy on its favor. The financial manager can adopt the sound strategies of all functional areas by using adequate cash management. If a business organization cannot maintain a satisfactory level of cash management. It is likely to become insolvent and may even push into bankruptcy.

Cash management is the controlling nerve center of every business organization. It affects overall functional areas of the firm. It is strongly related to the tradeoff between risk and return. Profit is not only indicator of proper management of cash. There are several indicators of cash management. So basically this study has tried to find out the issues of cash management of finance companies. This study will be helpful for the management of finance companies to make sound strategy in future. It might be valuable for the researcher, scholars and students who want to investigate in cash management of finance companies.

1.8 Limitation of study:

The main limitations of this study are:

1) The study is only of partial fulfillment of master of business studies (MBS) program.

2) This study is focus only to the cash management of selected finance companies with reference Pashchimanchal Finance company Ltd. and Butwal finance company Ltd.

3) The data have been based on 6 years period (2059/60 to 2064/65).

4) This study based on secondary data so the accuracy and analysis will depends upon the information and sources provided by selected finance companies.

5) Financial ratio analysis and statistical tools have been used to analyze.

1.9 Organization of the study:

This study is mainly related with the problems of cash management .to get objective of the study, this study will be divided into five chapters.

1.9.1 Introduction:

The first chapter deals with Background of study, evolution of banking and financial institutions, focus of the study, statement of problem, objectives of the study, limitations and chapter scheme of the study.

1.9.2 Review of literature:

The second chapter deals with the review of literature relating to cash management and review of some research work ,text books and thesis newspaper will included.

1.9.3 Research and Methodology:

The third chapter includes introduction, research design, and sources of data, data processing procedure and tools and techniques of analysis.

1.9.4 Presentation and Analysis of Data:

Fourth chapter presents the analysis of data. To the analysis of data, this chapter uses different charts, table, and statistical and financial tools for better understanding of data and to reach towards accurate interpretations.

1.9.5 Summary, Conclusion and Recommendation:

The fifth and the final chapter include the summary of the study, findings of the study, conclusion and recommendation also presented on the basic findings.

CHAPTER –II

REVIEW OF LITERATURE

2.1. Theoretical Framework:

2.1.1. Meaning of cash management

Cash is the important current assets for the operation of business. Cash is the basis input needed to keep the business running on a continuous basis; it is also the ultimate output expected by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more or less. Cash shortage will disturb the firm's manufacturing operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability .thus; a major function of the financial manager is to maintain a sound cash position. Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance in its banks accounts. (Pandey: 1992, p. 911)

Cash is the most liquid asset, is of vital importance to daily operation of business firm. Cash is both beginning and the end of the working capital cycle-cash, inventories, receivables and cash. Its effective management is the key determinate of efficient working capital management. Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is them business solvency. It is cash which keeps a business going. Hence; every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or on outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. It is shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through its idle cash is sterile, its retention is not without cost. Holding of cash balance is has an implicit cost in the form of its opportunity costs. The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously. (Keynes: 1936, p. 170)

2.1.2. Motives of holding cash: (Rana: 2000, p. 242-243)

Organization and individual have four primary motives for holding cash and cash back up in from marketable securities.

i) Transaction motive:

Transaction refers to the act of giving and taking cash or kinds in daily business activities like purchase and sales of goods or services. If these payments and receipts in terms of cash were perfectly synchronized, a firm would not have to hold cash for transaction motive. But, in real situation, cash inflow and cash outflow cannot be matched exactly. A firm should hold certain level of cash to meet current payment of cash in excess of its receipt during the period.

ii) Precautionary motive:

A firm should also hold some cash for the payment of unpredictable or unexpected events. A firm may have to face different crises such as strikes and lock-ups from employees, increases in cost of raw materials, funds and labor, fall in market demand and so on. How much cash is held against these crises depends on the degree of predictability associated with future cash flow. Firm may hold very minimum amount of cash for this motive. The precautionary needs for holding cash are usually satisfied by holding near cash items such as, investment in marketable securities, short term government bond so on.

iii) Speculative motive:

Speculative needs for holding cash require that a firm possibly have some profitable opportunities to exploit, which are out of the normal course of business. These opportunities arise in conditions when price of raw material and interest rate on borrowed funds are expected to decline, and purchase of inventory occurs at reduced price on immediate cash payment. These unexpected moments fetch some benefits to the firm. Therefore, firms hold cash also for speculation.

iv) Compensating balance requirement:

Sometimes, a firm should also hold cash to meet the compensating balance requirement demanded by commercial banks for providing short-term loan. Specially, commercial banks demand that regular borrower should maintain an average checking account balance equal at some percentage of the outstanding loan. The borrower (or firm) cannot be allowed to use it.

Bank provides different services to the firm. Compensating balance also represent an indirect charge to bank for providing services. About all this represents the reason why a firm should hold cash.

2.1.3. Efficiency of cash management

"Cash use a number of functions as it makes payment possible. It serves to meet contingencies. But if cash in kept idle it contributes directly nothing to the earning of the corporation. As such corporation must adopt such a policy that makes optimum cash management possible. The financial management of the corporation should try to minimize the corporation's holdings of cash wide still maintaining enough to ensure payment of obligation. For improving the efficiency of cash management, effective method of cash collection and disbursement should be adopted." (Shrestha: 1980, p. 62)

Some method for efficiency of cash management is described below.

i) Speedy collection of cash:

An organization can maintain optimum cash balance if it can speed up its cash collection. Cash collection can be made speedy and effective by reducing the gap between the times a customer pays his bill and the cheque become available for use. The greater deposit float (the amount of cheque sent by customer but not yet collected) takes long time to convert cheque into usable fund. The techniques which can be used to save mailing and processing time are, concentrating banking; luck box system and special handling of movement of cash.

ii) Concentration banking:

In this system, numbers of collection centers are established instead of single collection center centralized at the head office of the firms'. A large number of bank accounts are operated in this system in the branches area of the firm. The collection centers will be collected cheques from customers and deposits in their local bank accounts. The collection center will transfer funds at firm's head office each day.

iii) Special handling of cash:

Special handling of cash helps to operate company's funds in profitable use.

iv) Delaying disbursement:

"Quick collection and show disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursements cash results in a faster turnover of cash."(Shrestha: 1980, p. 64)

Speedy collection of receivables and delay disbursement of account payable can reduce the operating requirement. Slow disbursement represents source of funds requiring no interest payments. "Where the underlying objective of collection is maximum acceleration, the objective in disbursement is to slow them down as much as possible." (Van Horne: 1974, p. 426)

v) Cash velocity:

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

$$Cash\ velocity = \frac{Annual\ Sales}{Average\ Cash\ Balance}$$

vi) Minimum cash balance:

Organizations are required to keep a minimum cash balance requirement of a bank, either for the service it renders or consideration of lending arrangement.

vii) Synchronized cash flows:

Situation in which inflow coincides with outflows, thereby permitting a firm to hold transactions balance to a minimum.

viii) Using float:

The different between the balance shown in a firms or individual's cheque book and the balance on the banks records in known as float or cheque written by firms and not deducted from bank records in float.

ix) Overdraft system:

A system whereby depositors may write cheques in excess of their balances with their banks, which is automatically extending loans to cover the shortage.

x) Transferring funds: (Weston & Copeland: 1982, p.771-773)

It is also one effective method for efficiency of cash management .the method of transferring funds is:

a) Depository transfer checks (DTCS)

DTCS provide a means for moving funds from local depository banks into concentration banks. A DTC is payable only to the bank of deposit for credit to the firms specific account.

b) Electronic Depository transfer checks(EDTCS)

An electronic DTC (EDTC) is a paperless electronic image transfer via the automated clearing house (ACH) network developed by Federal Reserve System. The EDTC avoids the use of the mails and has uniform one-business-day clearing time. Central company management generally initiates EDTCS.

c) Wire transfer

Wire transfer of funds between banks makes funds collected at a bank immediately available for use at another bank. It is the fastest way to move cash between banks, eliminating transit float.

2.1.4. Different technique of cash management:

i) Cash planning:

Cash Planning is technique to plan and control the use of cash. It protects financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plan are very crucial in developing the overall operating plans of the firm. Cash planning is a technique to plan for and control the use of cash. (Pandey: 1997, p.42)

ii) Cash budget:

Cash budget is mainly related with cash receipts and disbursement activities. It is the most significant device to planned control cash receipt and payment. A cash budget is a summary statement of the firm expected cash inflows and outflows over a projected time period. A cash budget is most important for the business enterprises to know about time and magnitude size of expected cash flows and cash balance over the projected period. Financial manager can determine to future cash need of the firm by the helps of information provided by cash budget and helps to plan for the financing of these needs exercise control over the cash and liquidates of the firm.

Different firms may take different time period to preparing cash budget. It depends upon situation and natures of the enterprises. If business is affected by seasonable variations they may prepare monthly cash budget. Daily and weekly cash budget should be prepared for determining cash requirement according to nature of the activities and long time cash budget may be prepared which cash flows are relatively stable. So, the firms can take different time to prepare cash budget. (Pandey: 1992, p. 843)

iii) Cash forecasting: (Panday:1997, p 912)

Cash forecasting may be long-term forecasting and short-term forecasting.

Short-term forecasting:

There are two most common methods of short-term cash forecasting.

a. Receipt and disbursement forecast:

Generally, this technique is used after preparing sales and other budget. This method follows all the items of cash receipt and disbursements are listed to exercise close over the changes in cash flows during a predetermined period. As a result it provides absolute magnitudes of expected cash flows within the company. This technique also can be used in long range cash forecasting.

b. The adjusted net income method:

This method is also known as source and use approach. This method of cash forecasting involves the tracing of working capital flows. There are two objectives, which are mainly involves in the approach. To project the company's needs for future date and next to show how much the company generate this money internally and if not how much will have to either borrow or rise in the capital market.

The item can be easily determined from the company's annual operating budget such as net income, depreciation, taxes, dividend etc., in preparing the adjustment net income forecast.

Long term cash forecasts

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

- To indicate as company's future financial needs especially for its working capital requirement.
- To evaluate proposed capital projects. In pin pints the cash required to finance these projects as well as the cash to be generated by the company to support them.
- To improve corporate planning. Long term cash forecast compel each division to plan for future and no formulate project carefully.

2.1.5. Cash management models:

Different analytical models are used in cash management are:

i) Baumol model

ii) Miller model

iii) Orgler's model

iv) Cash management models

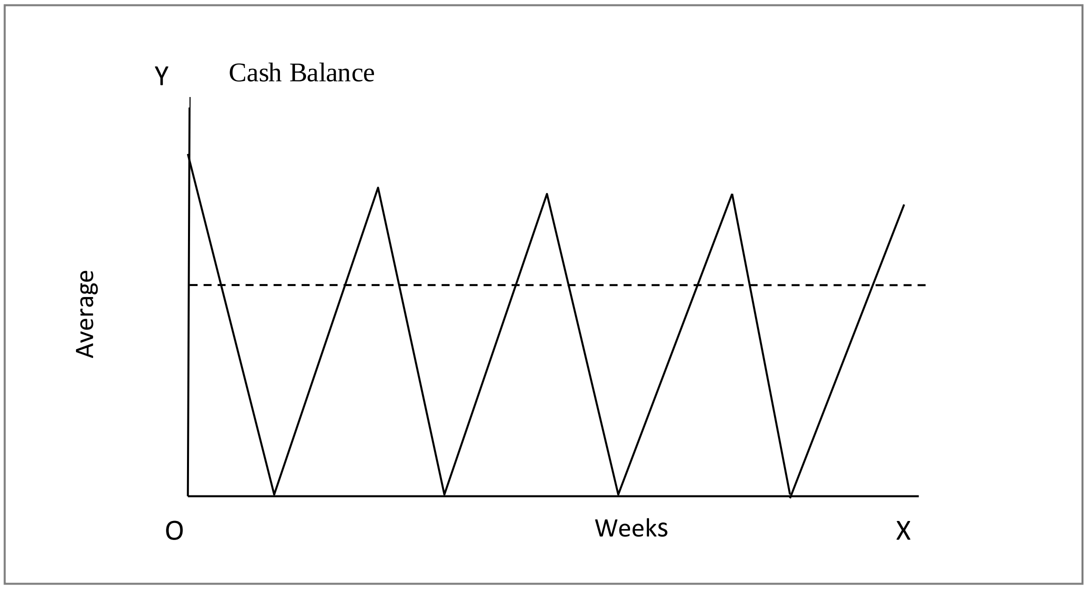
i) Baumol model: (Baumol: 1952 p. 545-556)

Baumol model is one of the methods, which can be used for minimizing the opportunity cost of holding cash and maximizing the return on the available funds. The cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

It is simple inventory model that tells something about the management of cash balance. This model is specially based on the following assumption that the cash is used ate constant rate. The periodic cash requirement is more or less and there are some costs such as opportunity costs that increase and other costs such as transaction costs that decrease the cash balance. We can describe it by taking help of following figure.

Figure No. 1

EOQ Model of Cash Balance



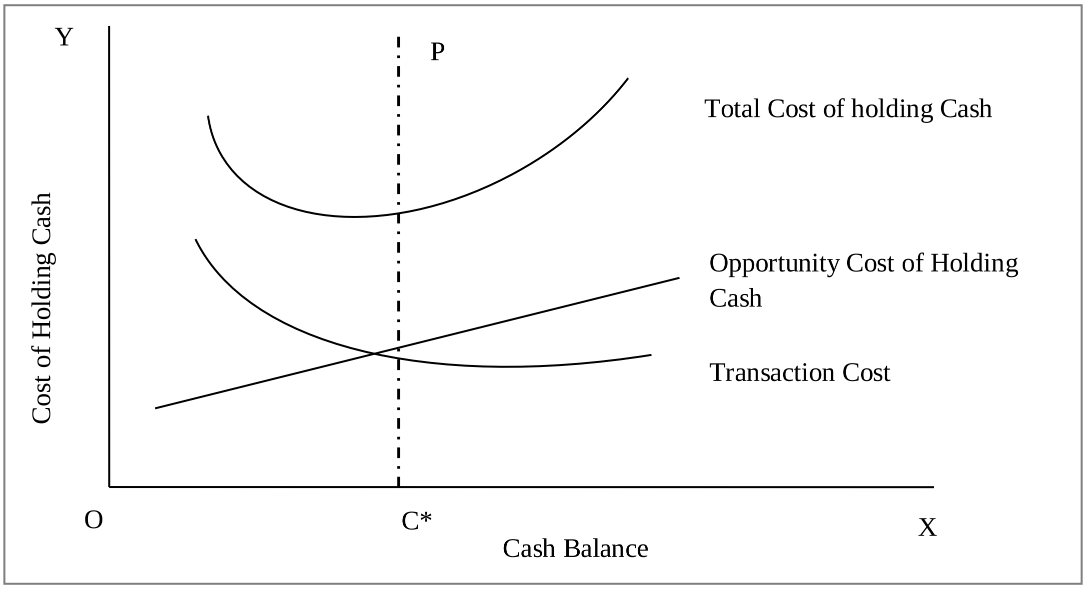
Unlike the case of inventory purchase, the cash transfer does not take the time. Therefore; it is normally not required to maintain safety stock of cash.

The model prescribes an optimal size of cash balance and the optimal size of cash transfers from marketable securities to cash account or borrowing. The objectives of this model are to minimize the total cast which is related with the total of opportunity cost and the transaction cost of a firm.

The relationship between average size of cash balance and various costs associated with the cash management is shown by below figure.

Figure No. 2

Relationship between Cash and various Costs



The optimal size of the cash balance is lies in point C* mathematically, the optimal size of cash transfer from investment account or line of credit C* is determined as follows.

$$C^* = \sqrt{\frac{2bt}{i}}$$

Where,

B = fixed transaction cost per transaction.

T = requirement of cash per period

I = opportunities cost of holding cash or interest rate on borrowing.

In the case of predictable uniform net cash flows, the model can be applied appropriately but not in irregular and uncertain cash flows.

The average cash balance 'Ca' is calculated as:

$$Ca = \frac{C*}{2} + M$$

Where,

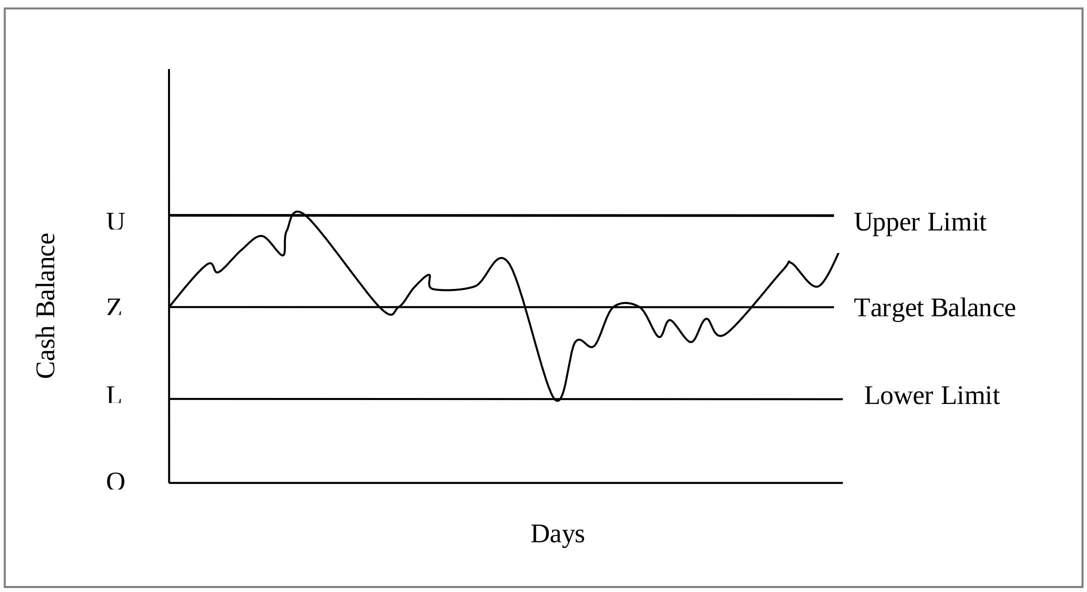
M= minimum balance or cash for precautionary purpose.

ii) Miller – ORR model: (Miller and ORR: 1966 p. 413-435)

The lot size of cash need depends on the patters and degree of irregularity of cash inflow and outflow. Miller ORR model which is developed by Merton miller and Denial Orr, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa. The model assumes that the daily net cash flows are random in size as well as positive or negative flows and are normally distributed in the long run. According to this model, it sets an upper (U) and Lower (L) limit within when the cash balance is allowed to fluctuate and sets the target cash balance in between these two limits. This model needs of follow is to transfer the amount of cash that is necessary to bring the cash position to its target balance from the investment account whenever the balance gets slide down to the lower limit 'L' to transfer the cash in excess of target balance to the investment account whenever it reaches to the upper limit 'U'. In this model the lower limit is set by managerial decision to meet emergency or as required to maintain compensating balance in the account by the bank. The graphical presentation of the model is given below:

Figure No. 3

Miller Orr Model of Cash Management



Mathematically the model is set as follows:

Target Balance;

$$Z * = \left[\frac{3F\sigma 2}{4i}\right]^{1/3}$$

The model calculated U as:

U = 3z*

Where,

Z* = Target Cash Balance

F = Fixed Translation cost per transacts

I = Daily interest/opportunity cost

σ^2 = Variance of net daily Cash flows

L= Lower limit

iii) Orgler's model: (Orgler: 1970, p. 220)

This model can follows an optimal cash management strategy determined through the use of a multiple linear programming model comprise i) Selection of the appropriate planning horizon. ii) Selection of the appropriate decision variable. iii) Formulation of the cash management strategy itself.

This model uses time horizon of the model basically one-year i.e. 12 month's period for its simplicity. It has four basic set of decision variable which influence cash management of a firm and which must be incorporate into the linear programming model of the firm are i) Payment schedule ii) short time financing iii) Purchase and sale of marketable securities and iv) Cash balance. In this model, its objectives function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period, assumption to be used that (i) all revenue generated is immediately reinvested and (ii) that any cost in immediately financed.

The objectives function, which recognized each co-operation of the firm, generates cash inflow or cash out flows as adding or subtracting profit opportunities for the firms cash management operations. In the objective function, there may be positive or negative coefficient, the decision variables which generate cash inflow, such as payment on receivables have positive coefficient

and which generate cash outflow such as interest on short term borrowing gave negative co-efficient.

In this model the constraints could be (i) institution constraints like labors, raw material, machine, money, energy etc. and (ii) Policy constraints. External factor imposes the institution constraints for its instance. The financial management may be prohibited from selling securities before maturity, in this model constraints can occur during monthly or the entire month in the one year planning horizon etc.

An example of linear programming is given below.

Objective function,

$$Max.profit = a_1x_1 + a_2x_2$$

Subject to:

$$b_1x_1 + b_2x_2 = Production\ constraint$$

$$c_1x_1 + c_2x_2 \leq Cash\ available\ constraints$$

$$d_1x_1 + d_2x_2 \geq Current\ assets\ requirement\ constraints$$

iv) Cash management model: (Weston and Copeland: 1990, p. 784-785)

In this model, it is assumed that the firm on average is growing and is a net user of cash. Marketable securities represent a buffer stock between episodes of external financing which is drown as required periodically ordering costs are represented by clerical and transactions costs of making transfers between the investment portfolio and the cash account. The holding cost is the interest foregone a cash balance held. Assuming that expenditure occurred evenly over time and that cash replenishment comes in lump sum at periodic intervals. The optimal size of the cash transfer is formulated as follows.

$$C = \sqrt{\frac{2bT}{i}}$$

C = the optimal size of the cash balance

T = the total cash usage for the period of time involved.

b = the most of transaction in the purchase or sales of marketable securities.

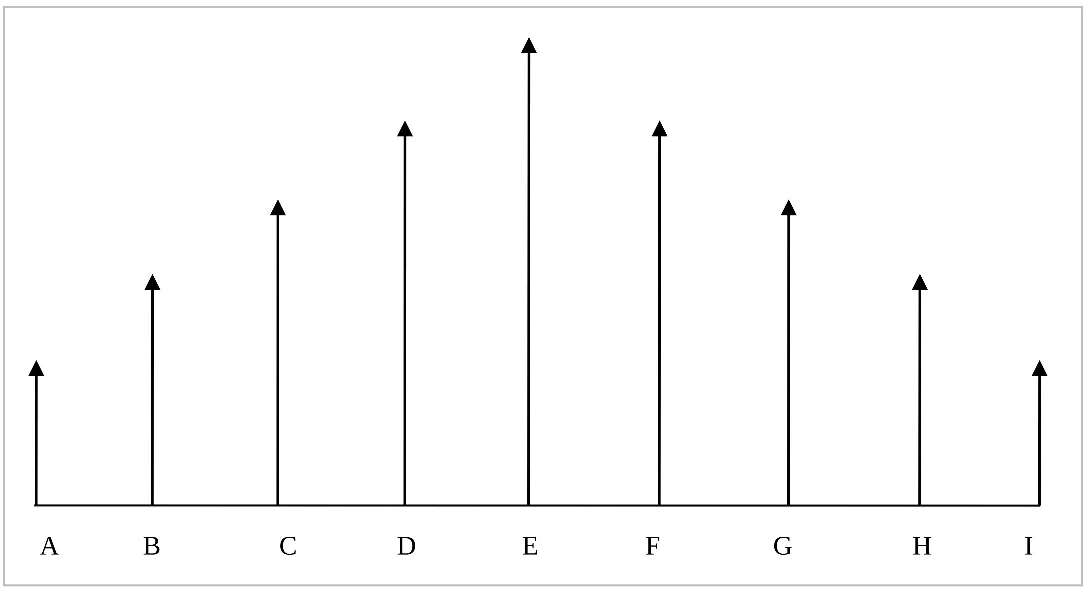
i = the applicable interest rate on marketable securities.

2.1.6. Cash cycle : (Solman and Pringle: 1978, p.178)

The process by which cash is used to purchase materials for producing goods, after production, which are then sold to customers, and they pay bills. The firm receives cash from customers than the cycle is presented. The cycle repeats time to time that is called cash cycle. The several steps are involved in cycle which is given below:

Figure No. 4

Cash Cycle



Where,

A = Materials order

B = Materials received

C = Payment

D = Cheque Clearance

E = Goods Sold

F = Customers mail payment

G = Payment received

H = Cheque Deposited

I = Funds collected

The cash cycle may consume a long time period. If we conduct cash management strategies, we concerned with time period s involves in point B, C, D and F, G ,H ,I it may be mentioned that a firm has no control over the time involved between stage A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. So, the time horizon taken by cash cycle depends upon spiller's policy, payment policy, production process and inventory policy, credit terms and customers payment policy etc.

2.2. Review of Books and Research works:

2.2.1. Review of Books:

In the section an attempt has been made to reviews some book on financial management which deals with management of cash.

Cash a corporate has must be utilized efficiency to meet obligation of interest payment it cash is obtained from borrowing and it is received through issue of shares the corporation has responsibility to owners in assuring them to pay favorable rate of return since cash is not easy to obtain the available cash must be prudently spent without incurring loss. Although it is impossible to formulate a set assets management policy of universal accepted is that cash must be conserved. (Raymond P. Kent, 1964, p. 128)

In the type of financial manager should not only attain toward the aspect of profitability but he should also turn forwards ensuring the liquidity of the corporation. Since every business is a constant debtors and enterprise borrow funds financial institution and purchase merchandise on credit. There by are fewer obligations to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of firms is tarnished at worst the creditor may force the firm to terminate it business.(Soolmon and Flink Donald: 1964, p. 13)

A cash budget shows the planned cash inflow, outflows, and ending position by interim for a specific time span. Most companies should develop the long term and short term cash budget is included in the annual profit plan. a cash budget basically includes two parts (i) the planned cash

receipt (ii) planned cash disbursement, planning cash inflow and outflow give the planed beginning and ending cash position for the budget period planning the cash inflows will include 1) need for financial probable cash deficit or the need for the investment planning to put excess cash to probable uses. (Welesh, Glean A Hillon Ronald W. Gordon: 1964, p. 433)

Some theoretical insights in to current management (Cash management) after their various research studies provides on it. The bond conceptual findings of their studies provide sound knowledge and guidance for the future studies and naturally to this study as well. They explain in the beginning the motives for holding cash specific advantage of adequate cash synchronization of cash flow expending collection and check clearing. Using float cost of cash management determining minimum cash balance compensating balances over draft system cash management. Market securities, arrangement of account receivable credit policy have evaluating changes in credit policy. (Weston and Brigham: 1973, p.138)

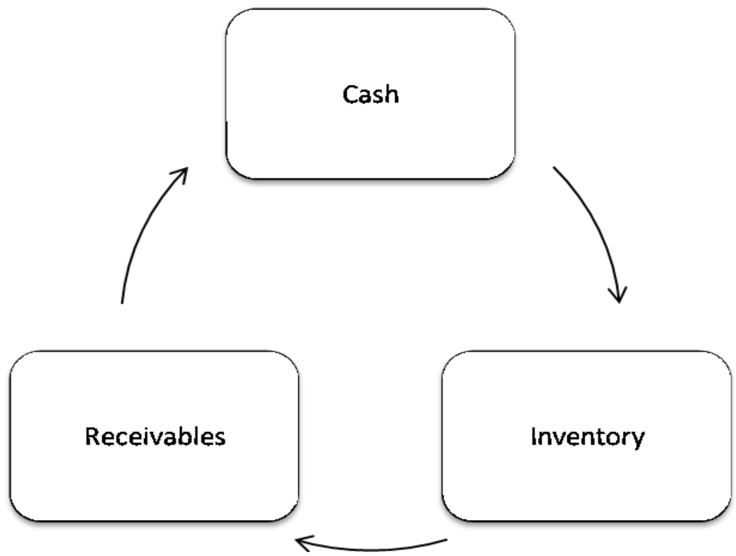
Liquidity is the life blood of a corporation and a want of cash is the only factor which may free it out of business cash flow in corporation by direct cash sales of assets. It flows out indirect purchases and payment to creditors, wages and other costs. Cash also flows in purchase and payment to creditors, wages and other equipment. In the payment of takes interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager's unable to pay obligation in time, while each situation in unique the one common threats that runs through all corporate in crisis in lack of liquidity. (Jedry & Chiston: 1976, p. 24)

The cash management of corporation is significant enough to have the best use of idle cash balances and to take the advantages from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. The various motives for holding cash and determination of safety level based on normal periods and peak period must be adequately considered. The cash flow balance of corporation can be sufficiently improved by increasing volume of sales and turnover of total assets. But on the whole measure should be taken to have efficient collection combined with disbursement. (Shrestha: 1982, p. 62)

First of all it is obvious that cash is component that correlated with working capital which is known to be current assets. The circulation nature of current assets can be depicted as figure given below.

Figure No. 5

Circulation nature of Current Assets



"A firm begins with cash which is used for purchase o raw material and bought in components. Material and other operating supplies can also be purchased on credit which in turn generates account payable. Further cash is expended to pay the labor and other manufacturing costs and further trade credit obtained to enable production of finished goods which are eventually sold on credit giving rise to accounts receivable. The collection of receivables brings cash in to the firm and creditors are paid. The average time, which elapses between the acquisition of material or services entering in to the manufacturing process and the final cash realization constitutes and operating cycle." (Jain and Narang: 1988, p. 174-175)

We also received from theoretical concept on the component of cash management from book. He has categorized the various component of cash management. These are the functions of cash management managing collection transferring funds concentration banking. Lock box system and other procedure disbursement. Zero balance account, electronic fund transfer, balancing and cash and marketable securities, compensating balance and fees, model for determining optional

cash inventory model stochastic model. A probabilities approach optional level of cash. (Van Horne: 1990, p. 389-415)

Cash is the important aspect of working capital. Cash is the basis needed to keep the business running on in order to keep the firm sufficient liquid and to use excess cash in profitable way. The firm should held sufficient cash; neither more, nor less, cash shortage will disrupt the firms without contributing anything towards the firm profitability. Thus a major function of the financial manager is to maintain a sound cash position. Some conceptual ingredients which are based on his various research studies. We can learn lesson from it and also helpful for this study indeed. He described various concept of cash management. Motive of holding cash, cash planning, cash forecasting and budgeting, and the cash flows are determining the optimum cash balance. (Pandey: 1992, p. 839-869**)**

Cash management strategies are generally built around two goals. (a) To provide cash needed to meet the obligation and (b) to minimize the idle cash held by firm. The financial manager has to strike an acceptable balance between holding too much cash and too little cash. This is the focal point of the cash risk return trade-off. Large cash investments minimize the chances of default but penalize the profitability of the firm. a small cash balance target may free the excess cash balance for investment in marketable securities and thereby enhancing the profitability as well as value of the firm, but simultaneously the chances of running out of cash.(Rustagi:2001,p 921)

The term “cash” with reference to cash management is used in two senses. In a narrower sense it includes coins, currency, notes, cheques, bank overdrafts held by firm with it and the demand deposits held by it in banks. In boarder sense it also includes “near cash assets” such as, marketable securities and time deposits can immediately be sold or converted into cash of the circumstances requires. The term cash management is generally used for management of both cash and near cash assets. (Maheshwari: 2001, p 299)

Cash management involves managing the monies of the firm to maximize cash availability and interest income any idle funds. At one end, the function starts when a customer writes a cheak to pay the firms on its current receivable. The function ends when a supplier, an employee or the government realizes collect funds from the firm on an account payable or accrual. All the activities between these two points fall within the area of cash management. The firm’s effort to

get customers to pay their bills at a certain time fall within account receivable management (Van Horne: 2002, p 429)

Cash management is one part of the key areas of working capital management. Apart from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e., receivables and inventories get eventually converted into cash. (Khan & Jain: 2003, p 7.11)

Cash includes coins, currencies, cheque hold by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "near cash items" are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. (Pradhan: 2004, p 310)

The cash management is one of the main areas of working capital management. The basic objective of cash management is to ensure adequate cash not more or less. It is concerned with managing cash inflows and outflows. The cash management involves formulations of policies and programs. For cash receipts and payment which maximize the value of the firm. The cash management is also called management of money position because it includes not only the management of cash also the management of the near asset such as marketable securities, readily available credit and so on. (Shrestha: 2006, p 373)

The function of cash management starts when a customer writes cheques to pay the firm on its account receivable. The function ends when a supplier, an employee, or government realizes collected funds from the firm on an account payment or accruals. The basic purpose of cash management is to enable a firm to maintain sufficient liquidly and also at the same time improve its profitability. Cash management is concerned with management of cash so as to achieve the generally accepted objectives of the firm. Maximum profitability is consistent with minimum liquidity of the firm. It is the management's ability to recognize cash problems before they rise and to delegate someone the identified solution to carry them out. Cash itself is not an asset capable of causing the profit differential for the firm; it is desirable that cash balances be minimized as much as possible. Yet the maintains of adequate cash balances is an obvious requirement, if a firm's solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintain a balance at the lowest figure adequate to meet current obligations. (Poudel, Baral, Gautum and Rana: 2007, p 406)

Cash management assumes more important than other current asset because cash is the most significant and the least productive asset that a firm holds. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. Therefore, firm should try to maintain the optimum level of cash that maximizes the values of the firm. (Manandhar, Dhakal, Thapa, Koirala and Basnet: 2009, p 6.13).

Cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash itself earns no interest, thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, the same time, to have sufficient cash i) to take trade discount, ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.(Brigham & Ehrhardt: 2009, p 656)

2.2.2. Review of journals

W.J Baumol, At the article "the transaction demand for cash: An inventory theoretic Approach" on quarterly journal of economic (VOL. LXV, Nov,1992) identifies cash maintenance as analogues to inventory maintained and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be investment in the marketable securities.

M.H Miller and Orr .D, in their article " A model of the demand for money in firms" an quarterly journal of economic, (VOL.LXY, Aug. 1996) have developed a model known a Miller-Orr model ,that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Ram M. Saksena at his Article, "Towards more efficient cash management" on quarterly journal of management quality (VOL. NO 5,1974) identified that the term cash management has a meaning according the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash as the means to satisfy

human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest .in through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

2.2.3. Review of Research works:

In last few years, prior to this thesis, some students of M.B.A. and M.B.S. programme have been found conducting research about the cash Management. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

(Subarna Lal Bajracharya: 1990) had conducted a research in the topic "Cash Management in Public Nepalese Enterprises" after completion of the study he has pointed out some findings that are; Cash management in Public enterprises of is preliminary based on traditional practices. Lacking of scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis. Modern practices with respect to debt collection monitoring the payment behavior of customers and relevant banking arrangement in connection with collection receivables have been virtually ignored in many enterprises. Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. Majority of the enterprises did not face any serious liquidity problem. However, this wants because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay in payment to creditors.

He has suggested that, cash planning and cash budgeting on a formal basis such as to project cash surplus or cash deficit for a period not to exceeding one year and broken up into shorter intervals. Managing the cash flows is to accelerate the inflows as far as possible to decelerate outflows. He also stressed to maintain optimal level of cash and at last, it can be better invest idle fund in marketable securities.

(Bijay Pradhan: 1997) had conducted a research in the topic "A Study on Cash Management of Salt Trading Corporation Limited" he has conducted a research of six years periods under consideration from F.Y 2047/48 to F.Y 2052/53. After completion of the study he has pointed out some findings that are; The STCL could not make the best use of available cash balance prudently. Cash collection efficiency in the corporation is very low .the collection of trade credit in the corporation is low during the study period. Management has taken liberal credit policy to sales of goods. Cash and bank balance of the study period's minimum of Account receivable. He suggested that cash should be managed effectively. Cash budget cash and funds flow statement should be prepared. Which helps to estimate cash receipt and payment of cash .The Corporation should be adopt suitable credit policy for effective cash management. The surplus of cash balance should be investment in profitable opportunities.

(Biranji Gautom: 1999) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." A case study of Gandaki Noodles Pvt. Ltd.", after completion of the study he has pointed out some findings that are; cash collection efficiency in this company is low. Company has not best use of available cash balance. Company has taken liberal credit policy to sales of noodles. Hence cash balance of the study period was minimum account receivable. Debt collection of the company is low. Cash balance with respect to current assets and total assets has been fluctuating trend. After analysis of findings, he has recommended that, company should to appointed financial expert to fulfill the lack of financial experts. The company should acetate its debtor receivables collection, the dealers and distributors should provide proper incentives for earlier payment. Company should have proper cash planning to estimate the cash receipts and payment. Company should adopt effective credit policy.

(Ramesh Prithi: 2003) had conducted a research in the topic "A study on Cash Management of United Mission Hospital Tansen, UMHT" after completion of the study he has pointed out some findings that are; the cash collection efficiency in UMHT is very low. It is found that management is less concerned to speed of collection of account receivables. Cash balance with respect current assets has been fluctuating trend. Current ratio shows the uncomfortable working situation maybe experienced in payment of current liabilities and day to day operation of the business may suffer. There is no good relationship between cash and revenue, but significant relationship between receivables and cash balance. He recommended to prepare monthly trail

balance, cash and funds flow statement and looking at the organization's inefficiency in the area of internal audit and central system. The UMHT should pay much attention toward collection of account receivable and to decrease average collection period for effective cash management.

(Sabin Prakash Sainju: 2003) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." after completion of the study he has pointed out some findings that are; overall cash management practices have been found disappointing, overall liquidity position of the firm has been found moderately dissatisfactory, overall yearly cash inflows and outflows in RDL is not properly managed. Surplus cash hasn't been properly employed to earn return by investing in short term investment opportunities. Profitable has been found in very weak position and overall cash budgeting practice of RDL is very poor.

(Dilli Raj Bhatt: 2004) had conducted a research in the topic "A Study on Cash Management of Dairy Development Corporation" after completion of the study he has pointed out some findings that are; DDC does not any definite policy regarding how much cash balance to hold in each fiscal year. DDC is able to collect receivables from sundry debtors timely. Liquidity position of the firm has been found dissatisfactory. DDC has not been faced specially shortage of cash .it means DDC able to meet current liabilities. A large portion of DDC's current assets has been tied-up in the most illiquid asset like inventory. Analysis of the liquidity position suggested that current assets have been tied up in slow moving and unsalable inventories. Cash flow and outflow in DDC is not properly managed surplus cash has not been properly employed to earn return by investing in short term investment opportunities. He suggested DDC should determine minimum level of cash balance to hold every year, maintain such minimum level of cash balance as a requirement of precautionary, speculative and compensation motives, besides for daily transactions. Corporation should prepare cash flow statement and cash budget .cash planning manager or experts should be appointed. Idle cash balance should be invested in profitable sectors. There should not be tied up unsalable inventories in current assets. It is the most illiquid current assets, affects the liquidity position of the firm and thus is unfavorable. So it is recommended not to tie up current asset in unsalable inventories.

(Tika Ram Ghimire: 2005) had conducted a research in the topic "Cash Management, A case study of Gorakhkali Rubber Udyog Limited" after completion of the study he has pointed out some findings that are; cash turnover ratio is low which indicates low collection efficiency of

the industry and account receivable turnover ratio is also low. Cash and current liabilities ratio found highly fluctuating that means the industry has been facing problem of cash management. The cash balance of different years shows optimum cash balance is maintained and there is no definite policy applied for cash management. He suggested, company has not maintained optimum cash balance, it should maintain cash balance by matching between surplus and deficiency of cash balance. Industry should prepare cash budget which helps to estimate cash receipt and payment of cash and closing balance of cash .company should keep cash at minimum level and to invest the surplus cash in profitable opportunities .this helps to generate profit for the industry.

(Padeep Koirala: 2006) had conducted a research in the topic "Cash Management in context of Nepal Telecommunication (Nepal Telecom)" after completion of the study he has pointed out some findings that are; company was able to collect more cash from different sources than it targeted in the budget .it shows good position of actual cash collection of the company. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year .but company could not manage surplus in the productive sector. Company has high liquidity which adversely affects profitability .moreover; it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus there was separate budget for investment which was compulsory in nature. Company has also taken external loan from foreign institution which as not required to borrow. It is able to meet it expenses of budget by its own source. On the basis study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus in profitable sectors. If the liquidity of the company is too high, it adversely affects the profitability of the company. So, the company should hold the cash as required to run annual operating expenses .internal sources of company is sufficient to finance whole budgeted expenses of the company. It should not borrow loan from foreign institution because it increases the cost.

(Sundeep Kumar Thapa: 2007) has conducted a research entitled in" Liquidity assessment of Bank of Kathmandu" after completion of the study he has pointed out some findings that are; liquidity position of the company isn't matched with the standard ratio set for the liquidity. The standard current ratio is 2:1 where as the ratio is found only 1.21 in the fiscal year 2062/63 and highest on fiscal year 2058/59 ie1.29 by even that time the ratio was less than standard. He also

found that cash and bank balance to total deposit ratio is not satisfactory as the average ratio found out to be only 0.1408 which seems to be lacking of meeting their standard level. This shows that BOK is not capable to keep more cash balance against its various deposits and thus it defined that liquidity position is not good.

(Kiran Neupane: 2009) has conducted a research entitled in "A study of Cash management of Nepalese Public Enterprises" (A Case study of Salt Trading Corporation Limited.) He has collected the data from secondary source that are published by Salt trading Corporation Limited and related information through the direct interview and questionnaire. He has pointed out some major finding of research work. STCL could not make the best use of available cash balance prudently. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period. The average inventory conversion period into cash is found little more than two months i.e. 62 days which is very slow. The average payable conversion period is faster than average receivable period which isn't a good single for the purpose of managing cash. Management has taken liberal credit policy of sales of goods. Hence the cash &Bank balance of the study period is in minimum. No optimum cash balance is maintained .the cash balance with respect to current asset has been fluctuating trend.

2.2.4. Research Gap

There is gap between present Research and previous Research. There is no Research done on Analysis of Cash management of Finance companies in Nepal. Probability this might be the first research study. This work is different with previous works, study period, some objectives, tools for analysis and the organization. The main issue of this study is to analyze the cash management of finance companies. This study has used to financial and statistical tool for cash management. It mainly concerned with finance companies and data taken in between 2059/60 to 2064/65. This study has been done to analyze the cash position of finance companies, analysis of cash collection and disbursement system and identify the strength and weakness of cash management of finance companies and to provide recommendation to concerned organization for future improvement on the basis of this study.

CHAPTER –II

REVIEW OF LITERATURE

2.3. Theoretical Framework:

2.3.1. Meaning of cash management

Cash is the important current assets for the operation of business. Cash is the basis input needed to keep the business running on a continuous basis; it is also the ultimate output expected by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more or less. Cash shortage will disturb the firm's manufacturing operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability .thus; a major function of the financial manager is to maintain a sound cash position. Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance in its banks accounts. (Pandey: 1992, p. 911)

Cash is the most liquid asset, is of vital importance to daily operation of business firm. Cash is both beginning and the end of the working capital cycle-cash, inventories, receivables and cash. Its effective management is the key determinate of efficient working capital management. Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is them business solvency. It is cash which keeps a business going. Hence; every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or on outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. It is shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through its idle cash is sterile, its retention is not without cost. Holding of cash balance is has an implicit cost in the form of its opportunity costs. The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously. (Keynes: 1936, p. 170)

2.3.2. Motives of holding cash: (Rana: 2000, p. 242-243)

Organization and individual have four primary motives for holding cash and cash back up in from marketable securities.

v) Transaction motive:

Transaction refers to the act of giving and taking cash or kinds in daily business activities like purchase and sales of goods or services. If these payments and receipts in terms of cash were perfectly synchronized, a firm would not have to hold cash for transaction motive. But, in real situation, cash inflow and cash outflow cannot be matched exactly. A firm should hold certain level of cash to meet current payment of cash in excess of its receipt during the period.

vi) Precautionary motive:

A firm should also hold some cash for the payment of unpredictable or unexpected events. A firm may have to face different crises such as strikes and lock-ups from employees, increases in cost of raw materials, funds and labor, fall in market demand and so on. How much cash is held against these crises depends on the degree of predictability associated with future cash flow. Firm may hold very minimum amount of cash for this motive. The precautionary needs for holding cash are usually satisfied by holding near cash items such as, investment in marketable securities, short term government bond so on.

vii) Speculative motive:

Speculative needs for holding cash require that a firm possibly have some profitable opportunities to exploit, which are out of the normal course of business. These opportunities arise in conditions when price of raw material and interest rate on borrowed funds are expected to decline, and purchase of inventory occurs at reduced price on immediate cash payment. These unexpected moments fetch some benefits to the firm. Therefore, firms hold cash also for speculation.

viii) Compensating balance requirement:

Sometimes, a firm should also hold cash to meet the compensating balance requirement demanded by commercial banks for providing short-term loan. Specially, commercial banks demand that regular borrower should maintain an average checking account balance equal at some percentage of the outstanding loan. The borrower (or firm) cannot be allowed to use it.

Bank provides different services to the firm. Compensating balance also represent an indirect charge to bank for providing services. About all this represents the reason why a firm should hold cash.

2.3.3. Efficiency of cash management

"Cash use a number of functions as it makes payment possible. It serves to meet contingencies. But if cash in kept idle it contributes directly nothing to the earning of the corporation. As such corporation must adopt such a policy that makes optimum cash management possible. The financial management of the corporation should try to minimize the corporation's holdings of cash wide still maintaining enough to ensure payment of obligation. For improving the efficiency of cash management, effective method of cash collection and disbursement should be adopted." (Shrestha: 1980, p. 62)

Some method for efficiency of cash management is described below.

xi) Speedy collection of cash:

An organization can maintain optimum cash balance if it can speed up its cash collection. Cash collection can be made speedy and effective by reducing the gap between the times a customer pays his bill and the cheque become available for use. The greater deposit float (the amount of cheque sent by customer but not yet collected) takes long time to convert cheque into usable fund. The techniques which can be used to save mailing and processing time are, concentrating banking; luck box system and special handling of movement of cash.

xii) Concentration banking:

In this system, numbers of collection centers are established instead of single collection center centralized at the head office of the firms'. A large number of bank accounts are operated in this system in the branches area of the firm. The collection centers will be collected cheques from customers and deposits in their local bank accounts. The collection center will transfer funds at firm's head office each day.

xiii) Special handling of cash:

Special handling of cash helps to operate company's funds in profitable use.

xiv) Delaying disbursement:

"Quick collection and show disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursements cash results in a faster turnover of cash."(Shrestha: 1980, p. 64)

Speedy collection of receivables and delay disbursement of account payable can reduce the operating requirement. Slow disbursement represents source of funds requiring no interest payments. "Where the underlying objective of collection is maximum acceleration, the objective in disbursement is to slow them down as much as possible." (Van Horne: 1974, p. 426)

xv) Cash velocity:

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

$$Cash\ velocity = \frac{Annual\ Sales}{Average\ Cash\ Balance}$$

xvi) Minimum cash balance:

Organizations are required to keep a minimum cash balance requirement of a bank, either for the service it renders or consideration of lending arrangement.

xvii) Synchronized cash flows:

Situation in which inflow coincides with outflows, thereby permitting a firm to hold transactions balance to a minimum.

xviii) Using float:

The different between the balance shown in a firms or individual's cheque book and the balance on the banks records in known as float or cheque written by firms and not deducted from bank records in float.

xix) Overdraft system:

A system whereby depositors may write cheques in excess of their balances with their banks, which is automatically extending loans to cover the shortage.

xx) Transferring funds: (Weston & Copeland: 1982, p.771-773)

It is also one effective method for efficiency of cash management .the method of transferring funds is:

d) Depository transfer checks (DTCS)

DTCS provide a means for moving funds from local depository banks into concentration banks. A DTC is payable only to the bank of deposit for credit to the firms specific account.

e) Electronic Depository transfer checks(EDTCS)

An electronic DTC (EDTC) is a paperless electronic image transfer via the automated clearing house (ACH) network developed by Federal Reserve System. The EDTC avoids the use of the mails and has uniform one-business-day clearing time. Central company management generally initiates EDTCS.

f) Wire transfer

Wire transfer of funds between banks makes funds collected at a bank immediately available for use at another bank. It is the fastest way to move cash between banks, eliminating transit float.

2.3.4. Different technique of cash management:

iv) Cash planning:

Cash Planning is technique to plan and control the use of cash. It protects financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plan are very crucial in developing the overall operating plans of the firm. Cash planning is a technique to plan for and control the use of cash. (Pandey: 1997, p.42)

v) Cash budget:

Cash budget is mainly related with cash receipts and disbursement activities. It is the most significant device to planned control cash receipt and payment. A cash budget is a summary statement of the firm expected cash inflows and outflows over a projected time period. A cash budget is most important for the business enterprises to know about time and magnitude size of expected cash flows and cash balance over the projected period. Financial manager can determine to future cash need of the firm by the helps of information provided by cash budget and helps to plan for the financing of these needs exercise control over the cash and liquidates of the firm.

Different firms may take different time period to preparing cash budget. It depends upon situation and natures of the enterprises. If business is affected by seasonable variations they may prepare monthly cash budget. Daily and weekly cash budget should be prepared for determining cash requirement according to nature of the activities and long time cash budget may be prepared which cash flows are relatively stable. So, the firms can take different time to prepare cash budget. (Pandey: 1992, p. 843)

vi) Cash forecasting: (Panday:1997, p 912)

Cash forecasting may be long-term forecasting and short-term forecasting.

Short-term forecasting:

There are two most common methods of short-term cash forecasting.

c. Receipt and disbursement forecast:

Generally, this technique is used after preparing sales and other budget. This method follows all the items of cash receipt and disbursements are listed to exercise close over the changes in cash flows during a predetermined period. As a result it provides absolute magnitudes of expected cash flows within the company. This technique also can be used in long range cash forecasting.

d. The adjusted net income method:

This method is also known as source and use approach. This method of cash forecasting involves the tracing of working capital flows. There are two objectives, which are mainly involves in the approach. To project the company's needs for future date and next to show how much the company generate this money internally and if not how much will have to either borrow or rise in the capital market.

The item can be easily determined from the company's annual operating budget such as net income, depreciation, taxes, dividend etc., in preparing the adjustment net income forecast.

Long term cash forecasts

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

- To indicate as company's future financial needs especially for its working capital requirement.
- To evaluate proposed capital projects. In pin pints the cash required to finance these projects as well as the cash to be generated by the company to support them.
- To improve corporate planning. Long term cash forecast compel each division to plan for future and no formulate project carefully.

2.3.5. Cash management models:

Different analytical models are used in cash management are:

v) Baumol model

vi) Miller model

vii) Orgler's model

viii) Cash management models

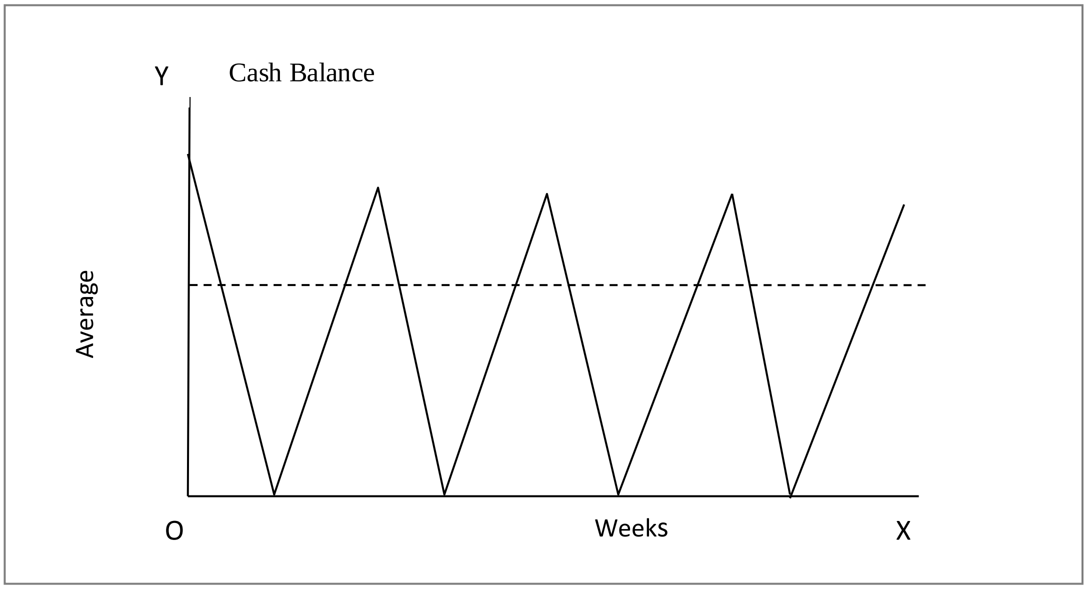
v) Baumol model: (Baumol: 1952 p. 545-556)

Baumol model is one of the methods, which can be used for minimizing the opportunity cost of holding cash and maximizing the return on the available funds. The cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

It is simple inventory model that tells something about the management of cash balance. This model is specially based on the following assumption that the cash is used ate constant rate. The periodic cash requirement is more or less and there are some costs such as opportunity costs that increase and other costs such as transaction costs that decrease the cash balance. We can describe it by taking help of following figure.

Figure No. 1

EOQ Model of Cash Balance



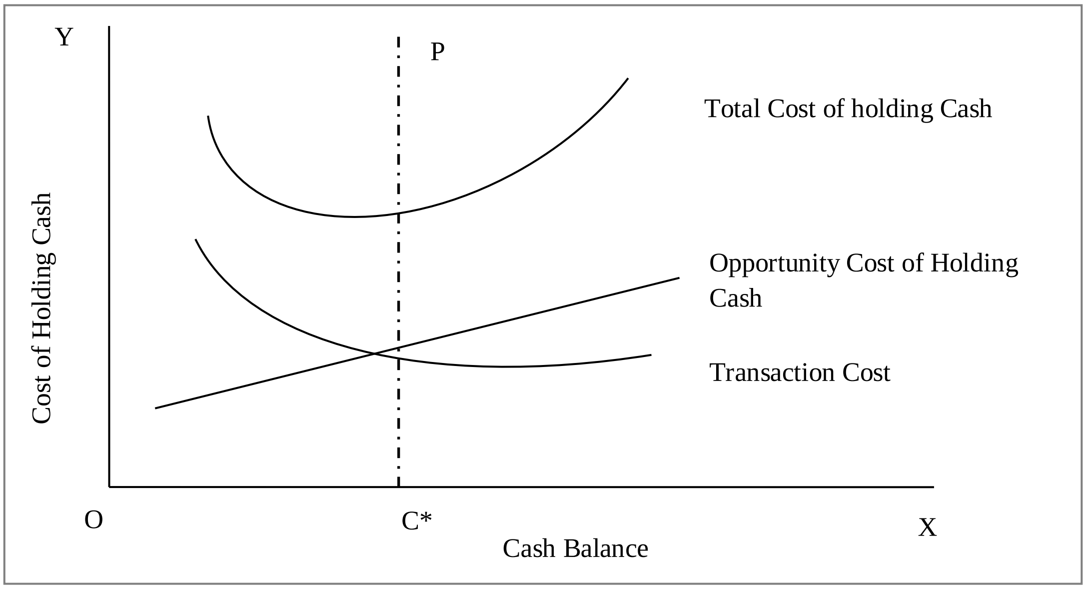
Unlike the case of inventory purchase, the cash transfer does not take the time. Therefore; it is normally not required to maintain safety stock of cash.

The model prescribes an optimal size of cash balance and the optimal size of cash transfers from marketable securities to cash account or borrowing. The objectives of this model are to minimize the total cast which is related with the total of opportunity cost and the transaction cost of a firm.

The relationship between average size of cash balance and various costs associated with the cash management is shown by below figure.

Figure No. 2

Relationship between Cash and various Costs



The optimal size of the cash balance is lies in point C* mathematically, the optimal size of cash transfer from investment account or line of credit C* is determined as follows.

$$C^* = \sqrt{\frac{2bt}{i}}$$

Where,

B = fixed transaction cost per transaction.

T = requirement of cash per period

I = opportunities cost of holding cash or interest rate on borrowing.

In the case of predictable uniform net cash flows, the model can be applied appropriately but not in irregular and uncertain cash flows.

The average cash balance 'Ca' is calculated as:

$$Ca = \frac{C*}{2} + M$$

Where,

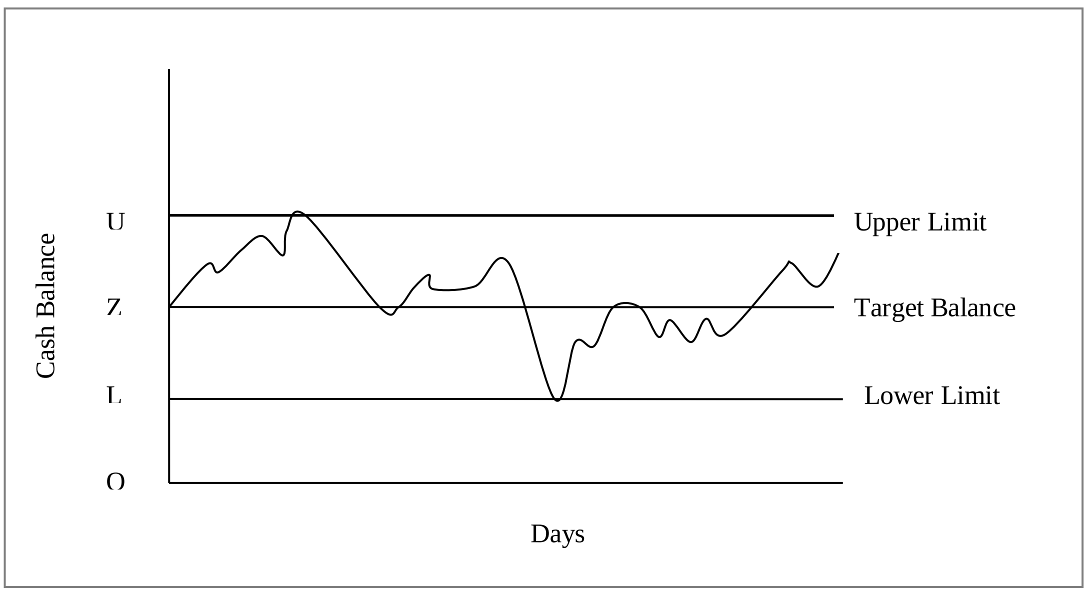
M= minimum balance or cash for precautionary purpose.

vi) Miller – ORR model: (Miller and ORR: 1966 p. 413-435)

The lot size of cash need depends on the patters and degree of irregularity of cash inflow and outflow. Miller ORR model which is developed by Merton miller and Denial Orr, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa. The model assumes that the daily net cash flows are random in size as well as positive or negative flows and are normally distributed in the long run. According to this model, it sets an upper (U) and Lower (L) limit within when the cash balance is allowed to fluctuate and sets the target cash balance in between these two limits. This model needs of follow is to transfer the amount of cash that is necessary to bring the cash position to its target balance from the investment account whenever the balance gets slide down to the lower limit 'L' to transfer the cash in excess of target balance to the investment account whenever it reaches to the upper limit 'U'. In this model the lower limit is set by managerial decision to meet emergency or as required to maintain compensating balance in the account by the bank. The graphical presentation of the model is given below:

Figure No. 3

Miller Orr Model of Cash Management



Mathematically the model is set as follows:

Target Balance;

$$Z * = \left[\frac{3F\sigma 2}{4i}\right]^{1/3}$$

The model calculated U as:

U = 3z*

Where,

Z* = Target Cash Balance

F = Fixed Translation cost per transacts

I = Daily interest/opportunity cost

σ^2 = Variance of net daily Cash flows

L= Lower limit

vii) Orgler's model: (Orgler: 1970, p. 220)

This model can follows an optimal cash management strategy determined through the use of a multiple linear programming model comprise i) Selection of the appropriate planning horizon. ii) Selection of the appropriate decision variable. iii) Formulation of the cash management strategy itself.

This model uses time horizon of the model basically one-year i.e. 12 month's period for its simplicity. It has four basic set of decision variable which influence cash management of a firm and which must be incorporate into the linear programming model of the firm are i) Payment schedule ii) short time financing iii) Purchase and sale of marketable securities and iv) Cash balance. In this model, its objectives function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period, assumption to be used that (i) all revenue generated is immediately reinvested and (ii) that any cost in immediately financed.

The objectives function, which recognized each co-operation of the firm, generates cash inflow or cash out flows as adding or subtracting profit opportunities for the firms cash management operations. In the objective function, there may be positive or negative coefficient, the decision variables which generate cash inflow, such as payment on receivables have positive coefficient

and which generate cash outflow such as interest on short term borrowing gave negative co-efficient.

In this model the constraints could be (i) institution constraints like labors, raw material, machine, money, energy etc. and (ii) Policy constraints. External factor imposes the institution constraints for its instance. The financial management may be prohibited from selling securities before maturity, in this model constraints can occur during monthly or the entire month in the one year planning horizon etc.

An example of linear programming is given below.

Objective function,

$$Max.profit = a_1x_1 + a_2x_2$$

Subject to:

$$b_1x_1 + b_2x_2 = Production\ constraint$$

$$c_1x_1 + c_2x_2 \leq Cash\ available\ constraints$$

$$d_1x_1 + d_2x_2 \geq Current\ assets\ requirement\ constraints$$

viii) Cash management model: (Weston and Copeland: 1990, p. 784-785)

In this model, it is assumed that the firm on average is growing and is a net user of cash. Marketable securities represent a buffer stock between episodes of external financing which is drown as required periodically ordering costs are represented by clerical and transactions costs of making transfers between the investment portfolio and the cash account. The holding cost is the interest foregone a cash balance held. Assuming that expenditure occurred evenly over time and that cash replenishment comes in lump sum at periodic intervals. The optimal size of the cash transfer is formulated as follows.

$$C = \sqrt{\frac{2bT}{i}}$$

C = the optimal size of the cash balance

T = the total cash usage for the period of time involved.

b = the most of transaction in the purchase or sales of marketable securities.

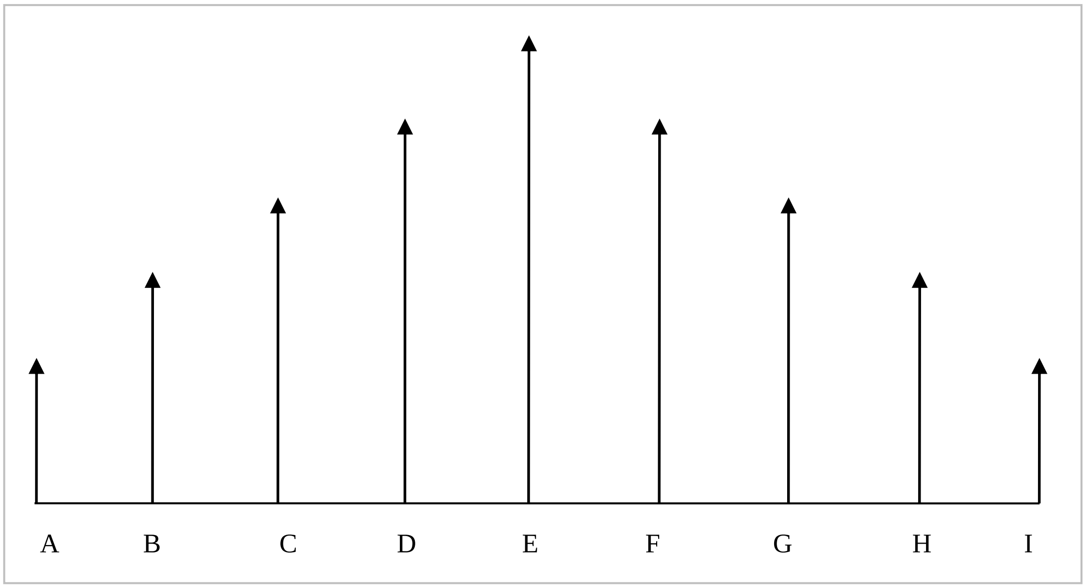
i = the applicable interest rate on marketable securities.

2.3.6. Cash cycle : (Solman and Pringle: 1978, p.178)

The process by which cash is used to purchase materials for producing goods, after production, which are then sold to customers, and they pay bills. The firm receives cash from customers than the cycle is presented. The cycle repeats time to time that is called cash cycle. The several steps are involved in cycle which is given below:

Figure No. 4

Cash Cycle



Where,

A = Materials order

B = Materials received

C = Payment

D = Cheque Clearance

E = Goods Sold

F = Customers mail payment

G = Payment received

H = Cheque Deposited

I = Funds collected

The cash cycle may consume a long time period. If we conduct cash management strategies, we concerned with time period s involves in point B, C, D and F, G ,H ,I it may be mentioned that a firm has no control over the time involved between stage A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. So, the time horizon taken by cash cycle depends upon spiller's policy, payment policy, production process and inventory policy, credit terms and customers payment policy etc.

2.4. Review of Books and Research works:

2.4.1. Review of Books:

In the section an attempt has been made to reviews some book on financial management which deals with management of cash.

Cash a corporate has must be utilized efficiency to meet obligation of interest payment it cash is obtained from borrowing and it is received through issue of shares the corporation has responsibility to owners in assuring them to pay favorable rate of return since cash is not easy to obtain the available cash must be prudently spent without incurring loss. Although it is impossible to formulate a set assets management policy of universal accepted is that cash must be conserved. (Raymond P. Kent, 1964, p. 128)

In the type of financial manager should not only attain toward the aspect of profitability but he should also turn forwards ensuring the liquidity of the corporation. Since every business is a constant debtors and enterprise borrow funds financial institution and purchase merchandise on credit. There by are fewer obligations to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of firms is tarnished at worst the creditor may force the firm to terminate it business.(Soolmon and Flink Donald: 1964, p. 13)

A cash budget shows the planned cash inflow, outflows, and ending position by interim for a specific time span. Most companies should develop the long term and short term cash budget is included in the annual profit plan. a cash budget basically includes two parts (i) the planned cash

receipt (ii) planned cash disbursement, planning cash inflow and outflow give the planed beginning and ending cash position for the budget period planning the cash inflows will include 1) need for financial probable cash deficit or the need for the investment planning to put excess cash to probable uses. (Welesh, Glean A Hillon Ronald W. Gordon: 1964, p. 433)

Some theoretical insights in to current management (Cash management) after their various research studies provides on it. The bond conceptual findings of their studies provide sound knowledge and guidance for the future studies and naturally to this study as well. They explain in the beginning the motives for holding cash specific advantage of adequate cash synchronization of cash flow expending collection and check clearing. Using float cost of cash management determining minimum cash balance compensating balances over draft system cash management. Market securities, arrangement of account receivable credit policy have evaluating changes in credit policy. (Weston and Brigham: 1973, p.138)

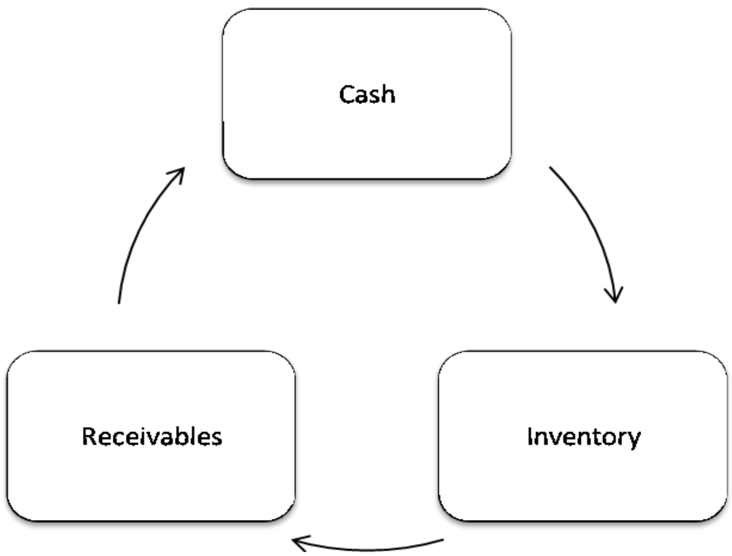
Liquidity is the life blood of a corporation and a want of cash is the only factor which may free it out of business cash flow in corporation by direct cash sales of assets. It flows out indirect purchases and payment to creditors, wages and other costs. Cash also flows in purchase and payment to creditors, wages and other equipment. In the payment of takes interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager's unable to pay obligation in time, while each situation in unique the one common threats that runs through all corporate in crisis in lack of liquidity. (Jedry & Chiston: 1976, p. 24)

The cash management of corporation is significant enough to have the best use of idle cash balances and to take the advantages from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. The various motives for holding cash and determination of safety level based on normal periods and peak period must be adequately considered. The cash flow balance of corporation can be sufficiently improved by increasing volume of sales and turnover of total assets. But on the whole measure should be taken to have efficient collection combined with disbursement. (Shrestha: 1982, p. 62)

First of all it is obvious that cash is component that correlated with working capital which is known to be current assets. The circulation nature of current assets can be depicted as figure given below.

Figure No. 5

Circulation nature of Current Assets



“A firm begins with cash which is used for purchase o raw material and bought in components. Material and other operating supplies can also be purchased on credit which in turn generates account payable. Further cash is expended to pay the labor and other manufacturing costs and further trade credit obtained to enable production of finished goods which are eventually sold on credit giving rise to accounts receivable. The collection of receivables brings cash in to the firm and creditors are paid. The average time, which elapses between the acquisition of material or services entering in to the manufacturing process and the final cash realization constitutes and operating cycle.” (Jain and Narang: 1988, p. 174-175)

We also received from theoretical concept on the component of cash management from book. He has categorized the various component of cash management. These are the functions of cash management managing collection transferring funds concentration banking. Lock box system and other procedure disbursement. Zero balance account, electronic fund transfer, balancing and cash and marketable securities, compensating balance and fees, model for determining optional

cash inventory model stochastic model. A probabilities approach optional level of cash. (Van Horne: 1990, p. 389-415)

Cash is the important aspect of working capital. Cash is the basis needed to keep the business running on in order to keep the firm sufficient liquid and to use excess cash in profitable way. The firm should held sufficient cash; neither more, nor less, cash shortage will disrupt the firms without contributing anything towards the firm profitability. Thus a major function of the financial manager is to maintain a sound cash position. Some conceptual ingredients which are based on his various research studies. We can learn lesson from it and also helpful for this study indeed. He described various concept of cash management. Motive of holding cash, cash planning, cash forecasting and budgeting, and the cash flows are determining the optimum cash balance. (Pandey: 1992, p. 839-869**)**

Cash management strategies are generally built around two goals. (a) To provide cash needed to meet the obligation and (b) to minimize the idle cash held by firm. The financial manager has to strike an acceptable balance between holding too much cash and too little cash. This is the focal point of the cash risk return trade-off. Large cash investments minimize the chances of default but penalize the profitability of the firm. a small cash balance target may free the excess cash balance for investment in marketable securities and thereby enhancing the profitability as well as value of the firm, but simultaneously the chances of running out of cash.(Rustagi:2001,p 921)

The term “cash” with reference to cash management is used in two senses. In a narrower sense it includes coins, currency, notes, cheques, bank overdrafts held by firm with it and the demand deposits held by it in banks. In boarder sense it also includes “near cash assets” such as, marketable securities and time deposits can immediately be sold or converted into cash of the circumstances requires. The term cash management is generally used for management of both cash and near cash assets. (Maheshwari: 2001, p 299)

Cash management involves managing the monies of the firm to maximize cash availability and interest income any idle funds. At one end, the function starts when a customer writes a cheak to pay the firms on its current receivable. The function ends when a supplier, an employee or the government realizes collect funds from the firm on an account payable or accrual. All the activities between these two points fall within the area of cash management. The firm’s effort to

get customers to pay their bills at a certain time fall within account receivable management (Van Horne: 2002, p 429)

Cash management is one part of the key areas of working capital management. Apart from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e., receivables and inventories get eventually converted into cash. (Khan & Jain: 2003, p 7.11)

Cash includes coins, currencies, cheque hold by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times “near cash items” are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. (Pradhan: 2004, p 310)

The cash management is one of the main areas of working capital management. The basic objective of cash management is to ensure adequate cash not more or less. It is concerned with managing cash inflows and outflows. The cash management involves formulations of policies and programs. For cash receipts and payment which maximize the value of the firm. The cash management is also called management of money position because it includes not only the management of cash also the management of the near asset such as marketable securities, readily available credit and so on. (Shrestha: 2006, p 373)

The function of cash management starts when a customer writes cheques to pay the firm on its account receivable. The function ends when a supplier, an employee, or government realizes collected funds from the firm on an account payment or accruals. The basic purpose of cash management is to enable a firm to maintain sufficient liquidly and also at the same time improve its profitability. Cash management is concerned with management of cash so as to achieve the generally accepted objectives of the firm. Maximum profitability is consistent with minimum liquidity of the firm. It is the management’s ability to recognize cash problems before they rise and to delegate someone the identified solution to carry them out. Cash itself is not an asset capable of causing the profit differential for the firm; it is desirable that cash balances be minimized as much as possible. Yet the maintains of adequate cash balances is an obvious requirement, if a firm’s solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintain a balance at the lowest figure adequate to meet current obligations. (Poudel, Baral, Gautum and Rana: 2007, p 406)

Cash management assumes more important than other current asset because cash is the most significant and the least productive asset that a firm holds. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. Therefore, firm should try to maintain the optimum level of cash that maximizes the values of the firm. (Manandhar, Dhakal, Thapa, Koirala and Basnet: 2009, p 6.13).

Cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash itself earns no interest, thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, the same time, to have sufficient cash i) to take trade discount, ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.(Brigham & Ehrhardt: 2009, p 656)

2.4.2. Review of journals

W.J Baumol, At the article "the transaction demand for cash: An inventory theoretic Approach" on quarterly journal of economic (VOL. LXV, Nov,1992) identifies cash maintenance as analogues to inventory maintained and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be investment in the marketable securities.

M.H Miller and Orr .D, in their article " A model of the demand for money in firms" an quarterly journal of economic, (VOL.LXY, Aug. 1996) have developed a model known a Miller-Orr model ,that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Ram M. Saksena at his Article, "Towards more efficient cash management" on quarterly journal of management quality (VOL. NO 5,1974) identified that the term cash management has a meaning according the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash as the means to satisfy

human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest .in through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

2.4.3. Review of Research works:

In last few years, prior to this thesis, some students of M.B.A. and M.B.S. programme have been found conducting research about the cash Management. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

(Subarna Lal Bajracharya: 1990) had conducted a research in the topic “Cash Management in Public Nepalese Enterprises” after completion of the study he has pointed out some findings that are; Cash management in Public enterprises of is preliminary based on traditional practices. Lacking of scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis. Modern practices with respect to debt collection monitoring the payment behavior of customers and relevant banking arrangement in connection with collection receivables have been virtually ignored in many enterprises. Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. Majority of the enterprises did not face any serious liquidity problem. However, this wants because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn’t arise due to the coincidence of delay in payment to creditors.

He has suggested that, cash planning and cash budgeting on a formal basis such as to project cash surplus or cash deficit for a period not to exceeding one year and broken up into shorter intervals. Managing the cash flows is to accelerate the inflows as far as possible to decelerate outflows. He also stressed to maintain optimal level of cash and at last, it can be better invest idle fund in marketable securities.

(Bijay Pradhan: 1997) had conducted a research in the topic "A Study on Cash Management of Salt Trading Corporation Limited" he has conducted a research of six years periods under consideration from F.Y 2047/48 to F.Y 2052/53. After completion of the study he has pointed out some findings that are; The STCL could not make the best use of available cash balance prudently. Cash collection efficiency in the corporation is very low .the collection of trade credit in the corporation is low during the study period. Management has taken liberal credit policy to sales of goods. Cash and bank balance of the study period's minimum of Account receivable. He suggested that cash should be managed effectively. Cash budget cash and funds flow statement should be prepared. Which helps to estimate cash receipt and payment of cash .The Corporation should be adopt suitable credit policy for effective cash management. The surplus of cash balance should be investment in profitable opportunities.

(Biranji Gautom: 1999) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." A case study of Gandaki Noodles Pvt. Ltd.", after completion of the study he has pointed out some findings that are; cash collection efficiency in this company is low. Company has not best use of available cash balance. Company has taken liberal credit policy to sales of noodles. Hence cash balance of the study period was minimum account receivable. Debt collection of the company is low. Cash balance with respect to current assets and total assets has been fluctuating trend. After analysis of findings, he has recommended that, company should to appointed financial expert to fulfill the lack of financial experts. The company should acetate its debtor receivables collection, the dealers and distributors should provide proper incentives for earlier payment. Company should have proper cash planning to estimate the cash receipts and payment. Company should adopt effective credit policy.

(Ramesh Prithi: 2003) had conducted a research in the topic "A study on Cash Management of United Mission Hospital Tansen, UMHT" after completion of the study he has pointed out some findings that are; the cash collection efficiency in UMHT is very low. It is found that management is less concerned to speed of collection of account receivables. Cash balance with respect current assets has been fluctuating trend. Current ratio shows the uncomfortable working situation maybe experienced in payment of current liabilities and day to day operation of the business may suffer. There is no good relationship between cash and revenue, but significant relationship between receivables and cash balance. He recommended to prepare monthly trail

balance, cash and funds flow statement and looking at the organization‘s inefficiency in the area of internal audit and central system. The UMHT should pay much attention toward collection of account receivable and to decrease average collection period for effective cash management.

(Sabin Prakash Sainju: 2003) had conducted a research in the topic “Cash Management in Public Manufacturing Enterprises of Nepal.” after completion of the study he has pointed out some findings that are; overall cash management practices have been found disappointing, overall liquidity position of the firm has been found moderately dissatisfactory, overall yearly cash inflows and outflows in RDL is not properly managed. Surplus cash hasn’t been properly employed to earn return by investing in short term investment opportunities. Profitable has been found in very weak position and overall cash budgeting practice of RDL is very poor.

(Dilli Raj Bhatt: 2004) had conducted a research in the topic “A Study on Cash Management of Dairy Development Corporation” after completion of the study he has pointed out some findings that are; DDC does not any definite policy regarding how much cash balance to hold in each fiscal year. DDC is able to collect receivables from sundry debtors timely. Liquidity position of the firm has been found dissatisfactory. DDC has not been faced specially shortage of cash .it means DDC able to meet current liabilities. A large portion of DDC’s current assets has been tied-up in the most illiquid asset like inventory. Analysis of the liquidity position suggested that current assets have been tied up in slow moving and unsalable inventories. Cash flow and outflow in DDC is not properly managed surplus cash has not been properly employed to earn return by investing in short term investment opportunities. He suggested DDC should determine minimum level of cash balance to hold every year, maintain such minimum level of cash balance as a requirement of precautionary, speculative and compensation motives, besides for daily transactions. Corporation should prepare cash flow statement and cash budget .cash planning manager or experts should be appointed. Idle cash balance should be invested in profitable sectors. There should not be tied up unsalable inventories in current assets. It is the most illiquid current assets, affects the liquidity position of the firm and thus is unfavorable. So it is recommended not to tie up current asset in unsalable inventories.

(Tika Ram Ghimire: 2005) had conducted a research in the topic “Cash Management, A case study of Gorakhkali Rubber Udyog Limited” after completion of the study he has pointed out some findings that are; cash turnover ratio is low which indicates low collection efficiency of

the industry and account receivable turnover ratio is also low. Cash and current liabilities ratio found highly fluctuating that means the industry has been facing problem of cash management. The cash balance of different years shows optimum cash balance is maintained and there is no definite policy applied for cash management. He suggested, company has not maintained optimum cash balance, it should maintain cash balance by matching between surplus and deficiency of cash balance. Industry should prepare cash budget which helps to estimate cash receipt and payment of cash and closing balance of cash .company should keep cash at minimum level and to invest the surplus cash in profitable opportunities .this helps to generate profit for the industry.

(Padeep Koirala: 2006) had conducted a research in the topic "Cash Management in context of Nepal Telecommunication (Nepal Telecom)" after completion of the study he has pointed out some findings that are; company was able to collect more cash from different sources than it targeted in the budget .it shows good position of actual cash collection of the company. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year .but company could not manage surplus in the productive sector. Company has high liquidity which adversely affects profitability .moreover; it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus there was separate budget for investment which was compulsory in nature. Company has also taken external loan from foreign institution which as not required to borrow. It is able to meet it expenses of budget by its own source. On the basis study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus in profitable sectors. If the liquidity of the company is too high, it adversely affects the profitability of the company. So, the company should hold the cash as required to run annual operating expenses .internal sources of company is sufficient to finance whole budgeted expenses of the company. It should not borrow loan from foreign institution because it increases the cost.

(Sundeep Kumar Thapa: 2007) has conducted a research entitled in" Liquidity assessment of Bank of Kathmandu" after completion of the study he has pointed out some findings that are; liquidity position of the company isn't matched with the standard ratio set for the liquidity. The standard current ratio is 2:1 where as the ratio is found only 1.21 in the fiscal year 2062/63 and highest on fiscal year 2058/59 ie1.29 by even that time the ratio was less than standard. He also

found that cash and bank balance to total deposit ratio is not satisfactory as the average ratio found out to be only 0.1408 which seems to be lacking of meeting their standard level. This shows that BOK is not capable to keep more cash balance against its various deposits and thus it defined that liquidity position is not good.

(Kiran Neupane: 2009) has conducted a research entitled in "A study of Cash management of Nepalese Public Enterprises" (A Case study of Salt Trading Corporation Limited.) He has collected the data from secondary source that are published by Salt trading Corporation Limited and related information through the direct interview and questionnaire. He has pointed out some major finding of research work. STCL could not make the best use of available cash balance prudently. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period. The average inventory conversion period into cash is found little more than two months i.e. 62 days which is very slow. The average payable conversion period is faster than average receivable period which isn't a good single for the purpose of managing cash. Management has taken liberal credit policy of sales of goods. Hence the cash &Bank balance of the study period is in minimum. No optimum cash balance is maintained .the cash balance with respect to current asset has been fluctuating trend.

2.4.4. Research Gap

There is gap between present Research and previous Research. There is no Research done on Analysis of Cash management of Finance companies in Nepal. Probability this might be the first research study. This work is different with previous works, study period, some objectives, tools for analysis and the organization. The main issue of this study is to analyze the cash management of finance companies. This study has used to financial and statistical tool for cash management. It mainly concerned with finance companies and data taken in between 2059/60 to 2064/65. This study has been done to analyze the cash position of finance companies, analysis of cash collection and disbursement system and identify the strength and weakness of cash management of finance companies and to provide recommendation to concerned organization for future improvement on the basis of this study.

CHAPTER –II

REVIEW OF LITERATURE

2.5. Theoretical Framework:

2.5.1. Meaning of cash management

Cash is the important current assets for the operation of business. Cash is the basis input needed to keep the business running on a continuous basis; it is also the ultimate output expected by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more or less. Cash shortage will disturb the firm's manufacturing operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability .thus; a major function of the financial manager is to maintain a sound cash position. Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance in its banks accounts. (Pandey: 1992, p. 911)

Cash is the most liquid asset, is of vital importance to daily operation of business firm. Cash is both beginning and the end of the working capital cycle-cash, inventories, receivables and cash. Its effective management is the key determinate of efficient working capital management. Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is them business solvency. It is cash which keeps a business going. Hence; every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or on outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. It is shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through its idle cash is sterile, its retention is not without cost. Holding of cash balance is has an implicit cost in the form of its opportunity costs. The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously. (Keynes: 1936, p. 170)

2.5.2. Motives of holding cash: (Rana: 2000, p. 242-243)

Organization and individual have four primary motives for holding cash and cash back up in from marketable securities.

ix) Transaction motive:

Transaction refers to the act of giving and taking cash or kinds in daily business activities like purchase and sales of goods or services. If these payments and receipts in terms of cash were perfectly synchronized, a firm would not have to hold cash for transaction motive. But, in real situation, cash inflow and cash outflow cannot be matched exactly. A firm should hold certain level of cash to meet current payment of cash in excess of its receipt during the period.

x) Precautionary motive:

A firm should also hold some cash for the payment of unpredictable or unexpected events. A firm may have to face different crises such as strikes and lock-ups from employees, increases in cost of raw materials, funds and labor, fall in market demand and so on. How much cash is held against these crises depends on the degree of predictability associated with future cash flow. Firm may hold very minimum amount of cash for this motive. The precautionary needs for holding cash are usually satisfied by holding near cash items such as, investment in marketable securities, short term government bond so on.

xi) Speculative motive:

Speculative needs for holding cash require that a firm possibly have some profitable opportunities to exploit, which are out of the normal course of business. These opportunities arise in conditions when price of raw material and interest rate on borrowed funds are expected to decline, and purchase of inventory occurs at reduced price on immediate cash payment. These unexpected moments fetch some benefits to the firm. Therefore, firms hold cash also for speculation.

xii) Compensating balance requirement:

Sometimes, a firm should also hold cash to meet the compensating balance requirement demanded by commercial banks for providing short-term loan. Specially, commercial banks demand that regular borrower should maintain an average checking account balance equal at some percentage of the outstanding loan. The borrower (or firm) cannot be allowed to use it.

Bank provides different services to the firm. Compensating balance also represent an indirect charge to bank for providing services. About all this represents the reason why a firm should hold cash.

2.5.3. Efficiency of cash management

"Cash use a number of functions as it makes payment possible. It serves to meet contingencies. But if cash in kept idle it contributes directly nothing to the earning of the corporation. As such corporation must adopt such a policy that makes optimum cash management possible. The financial management of the corporation should try to minimize the corporation's holdings of cash wide still maintaining enough to ensure payment of obligation. For improving the efficiency of cash management, effective method of cash collection and disbursement should be adopted." (Shrestha: 1980, p. 62)

Some method for efficiency of cash management is described below.

xxi) Speedy collection of cash:

An organization can maintain optimum cash balance if it can speed up its cash collection. Cash collection can be made speedy and effective by reducing the gap between the times a customer pays his bill and the cheque become available for use. The greater deposit float (the amount of cheque sent by customer but not yet collected) takes long time to convert cheque into usable fund. The techniques which can be used to save mailing and processing time are, concentrating banking; luck box system and special handling of movement of cash.

xxii) Concentration banking:

In this system, numbers of collection centers are established instead of single collection center centralized at the head office of the firms'. A large number of bank accounts are operated in this system in the branches area of the firm. The collection centers will be collected cheques from customers and deposits in their local bank accounts. The collection center will transfer funds at firm's head office each day.

xxiii) Special handling of cash:

Special handling of cash helps to operate company's funds in profitable use.

xxiv) Delaying disbursement:

"Quick collection and show disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursements cash results in a faster turnover of cash."(Shrestha: 1980, p. 64)

Speedy collection of receivables and delay disbursement of account payable can reduce the operating requirement. Slow disbursement represents source of funds requiring no interest payments. "Where the underlying objective of collection is maximum acceleration, the objective in disbursement is to slow them down as much as possible." (Van Horne: 1974, p. 426)

xxv) Cash velocity:

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

$$Cash\ velocity = \frac{Annual\ Sales}{Average\ Cash\ Balance}$$

xxvi) Minimum cash balance:

Organizations are required to keep a minimum cash balance requirement of a bank, either for the service it renders or consideration of lending arrangement.

xxvii) Synchronized cash flows:

Situation in which inflow coincides with outflows, thereby permitting a firm to hold transactions balance to a minimum.

xxviii) Using float:

The different between the balance shown in a firms or individual's cheque book and the balance on the banks records in known as float or cheque written by firms and not deducted from bank records in float.

xxix) Overdraft system:

A system whereby depositors may write cheques in excess of their balances with their banks, which is automatically extending loans to cover the shortage.

xxx) Transferring funds: (Weston & Copeland: 1982, p.771-773)

It is also one effective method for efficiency of cash management .the method of transferring funds is:

g) Depository transfer checks (DTCS)

DTCS provide a means for moving funds from local depository banks into concentration banks. A DTC is payable only to the bank of deposit for credit to the firms specific account.

h) Electronic Depository transfer checks(EDTCS)

An electronic DTC (EDTC) is a paperless electronic image transfer via the automated clearing house (ACH) network developed by Federal Reserve System. The EDTC avoids the use of the mails and has uniform one-business-day clearing time. Central company management generally initiates EDTCS.

i) Wire transfer

Wire transfer of funds between banks makes funds collected at a bank immediately available for use at another bank. It is the fastest way to move cash between banks, eliminating transit float.

2.5.4. Different technique of cash management:

vii) Cash planning:

Cash Planning is technique to plan and control the use of cash. It protects financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plan are very crucial in developing the overall operating plans of the firm. Cash planning is a technique to plan for and control the use of cash. (Pandey: 1997, p.42)

viii) Cash budget:

Cash budget is mainly related with cash receipts and disbursement activities. It is the most significant device to planned control cash receipt and payment. A cash budget is a summary statement of the firm expected cash inflows and outflows over a projected time period. A cash budget is most important for the business enterprises to know about time and magnitude size of expected cash flows and cash balance over the projected period. Financial manager can determine to future cash need of the firm by the helps of information provided by cash budget and helps to plan for the financing of these needs exercise control over the cash and liquidates of the firm.

Different firms may take different time period to preparing cash budget. It depends upon situation and natures of the enterprises. If business is affected by seasonable variations they may prepare monthly cash budget. Daily and weekly cash budget should be prepared for determining cash requirement according to nature of the activities and long time cash budget may be prepared which cash flows are relatively stable. So, the firms can take different time to prepare cash budget. (Pandey: 1992, p. 843)

ix) Cash forecasting: (Panday:1997, p 912)

Cash forecasting may be long-term forecasting and short-term forecasting.

Short-term forecasting:

There are two most common methods of short-term cash forecasting.

e. Receipt and disbursement forecast:

Generally, this technique is used after preparing sales and other budget. This method follows all the items of cash receipt and disbursements are listed to exercise close over the changes in cash flows during a predetermined period. As a result it provides absolute magnitudes of expected cash flows within the company. This technique also can be used in long range cash forecasting.

f. The adjusted net income method:

This method is also known as source and use approach. This method of cash forecasting involves the tracing of working capital flows. There are two objectives, which are mainly involves in the approach. To project the company's needs for future date and next to show how much the company generate this money internally and if not how much will have to either borrow or rise in the capital market.

The item can be easily determined from the company's annual operating budget such as net income, depreciation, taxes, dividend etc., in preparing the adjustment net income forecast.

Long term cash forecasts

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

- To indicate as company's future financial needs especially for its working capital requirement.
- To evaluate proposed capital projects. In pin pints the cash required to finance these projects as well as the cash to be generated by the company to support them.
- To improve corporate planning. Long term cash forecast compel each division to plan for future and no formulate project carefully.

2.5.5. Cash management models:

Different analytical models are used in cash management are:

ix) Baumol model

x) Miller model

xi) Orgler's model

xii) Cash management models

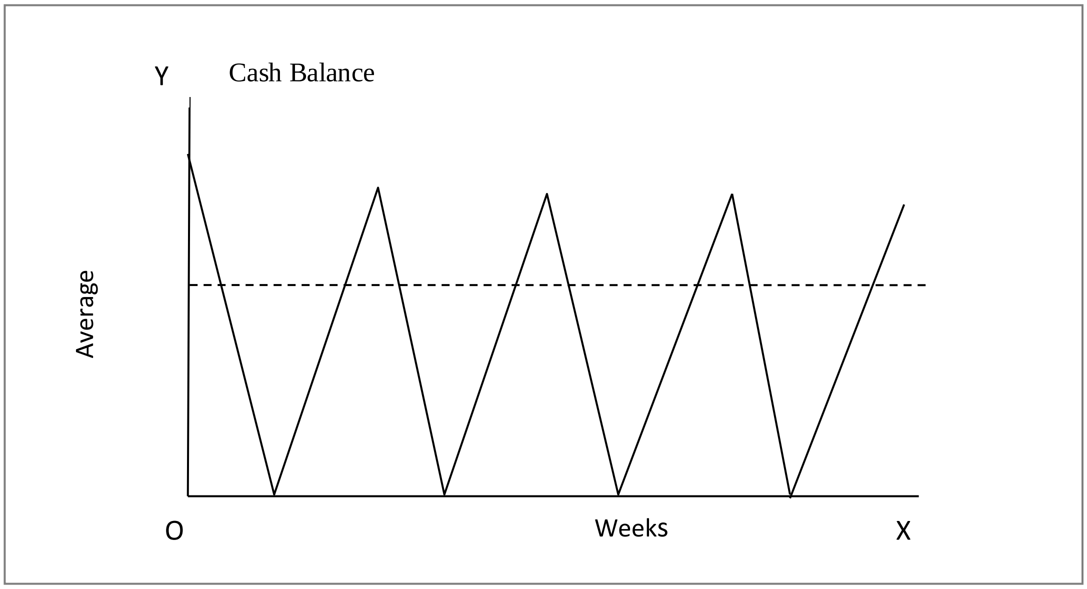
ix) Baumol model: (Baumol: 1952 p. 545-556)

Baumol model is one of the methods, which can be used for minimizing the opportunity cost of holding cash and maximizing the return on the available funds. The cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

It is simple inventory model that tells something about the management of cash balance. This model is specially based on the following assumption that the cash is used ate constant rate. The periodic cash requirement is more or less and there are some costs such as opportunity costs that increase and other costs such as transaction costs that decrease the cash balance. We can describe it by taking help of following figure.

Figure No. 1

EOQ Model of Cash Balance



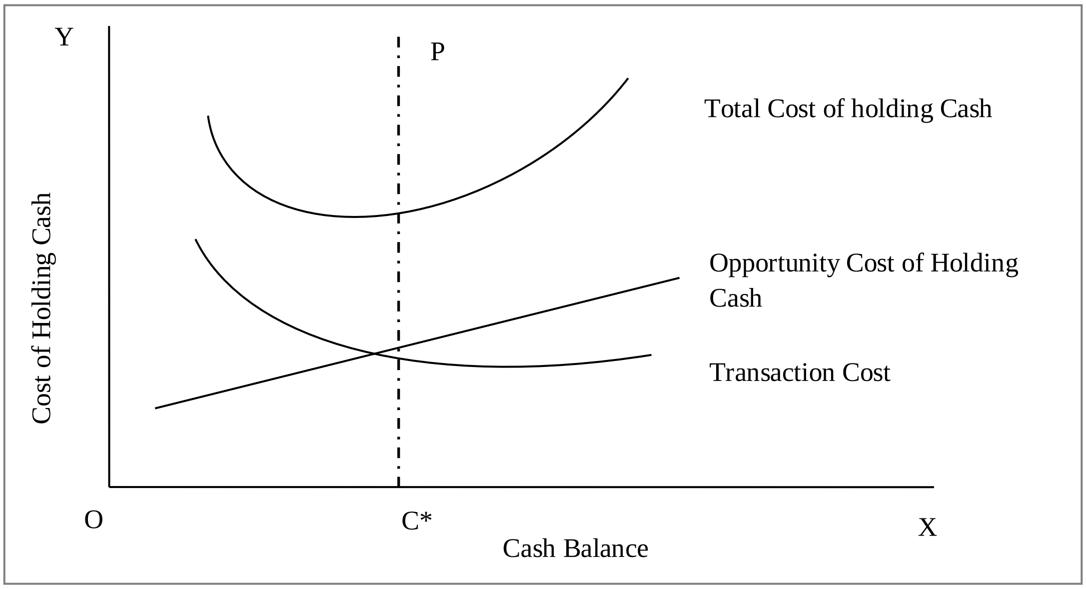
Unlike the case of inventory purchase, the cash transfer does not take the time. Therefore; it is normally not required to maintain safety stock of cash.

The model prescribes an optimal size of cash balance and the optimal size of cash transfers from marketable securities to cash account or borrowing. The objectives of this model are to minimize the total cast which is related with the total of opportunity cost and the transaction cost of a firm.

The relationship between average size of cash balance and various costs associated with the cash management is shown by below figure.

Figure No. 2

Relationship between Cash and various Costs



The optimal size of the cash balance is lies in point C* mathematically, the optimal size of cash transfer from investment account or line of credit C* is determined as follows.

$$C^* = \sqrt{\frac{2bt}{i}}$$

Where,

B = fixed transaction cost per transaction.

T = requirement of cash per period

I = opportunities cost of holding cash or interest rate on borrowing.

In the case of predictable uniform net cash flows, the model can be applied appropriately but not in irregular and uncertain cash flows.

The average cash balance 'Ca' is calculated as:

$$Ca = \frac{C^*}{2} + M$$

Where,

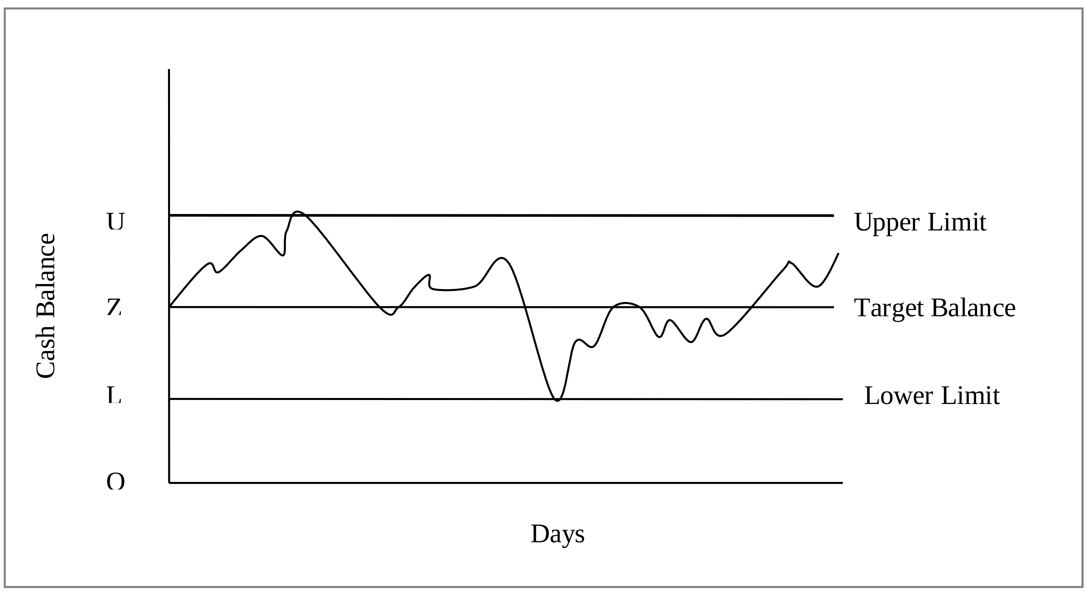
M= minimum balance or cash for precautionary purpose.

x) Miller – ORR model: (Miller and ORR: 1966 p. 413-435)

The lot size of cash need depends on the patters and degree of irregularity of cash inflow and outflow. Miller ORR model which is developed by Merton miller and Denial Orr, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa. The model assumes that the daily net cash flows are random in size as well as positive or negative flows and are normally distributed in the long run. According to this model, it sets an upper (U) and Lower (L) limit within when the cash balance is allowed to fluctuate and sets the target cash balance in between these two limits. This model needs of follow is to transfer the amount of cash that is necessary to bring the cash position to its target balance from the investment account whenever the balance gets slide down to the lower limit 'L' to transfer the cash in excess of target balance to the investment account whenever it reaches to the upper limit 'U'. In this model the lower limit is set by managerial decision to meet emergency or as required to maintain compensating balance in the account by the bank. The graphical presentation of the model is given below:

Figure No. 3

Miller Orr Model of Cash Management



Mathematically the model is set as follows:

Target Balance;

$$Z* = \left[\frac{3F\sigma 2}{4i}\right]^{1/3}$$

The model calculated U as:

U = 3z*

Where,

Z* = Target Cash Balance

F = Fixed Translation cost per transacts

I = Daily interest/opportunity cost

σ^2 = Variance of net daily Cash flows

L= Lower limit

xi) **Orgler's model:** (Orgler: 1970, p. 220)

This model can follows an optimal cash management strategy determined through the use of a multiple linear programming model comprise i) Selection of the appropriate planning horizon. ii) Selection of the appropriate decision variable. iii) Formulation of the cash management strategy itself.

This model uses time horizon of the model basically one-year i.e. 12 month's period for its simplicity. It has four basic set of decision variable which influence cash management of a firm and which must be incorporate into the linear programming model of the firm are i) Payment schedule ii) short time financing iii) Purchase and sale of marketable securities and iv) Cash balance. In this model, its objectives function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period, assumption to be used that (i) all revenue generated is immediately reinvested and (ii) that any cost in immediately financed.

The objectives function, which recognized each co-operation of the firm, generates cash inflow or cash out flows as adding or subtracting profit opportunities for the firms cash management operations. In the objective function, there may be positive or negative coefficient, the decision variables which generate cash inflow, such as payment on receivables have positive coefficient

and which generate cash outflow such as interest on short term borrowing gave negative co-efficient.

In this model the constraints could be (i) institution constraints like labors, raw material, machine, money, energy etc. and (ii) Policy constraints. External factor imposes the institution constraints for its instance. The financial management may be prohibited from selling securities before maturity, in this model constraints can occur during monthly or the entire month in the one year planning horizon etc.

An example of linear programming is given below.

Objective function,

$Max.profit\ =\ a_1x_1 + a_2x_2$

Subject to:

$b_1x_1 + b_2x_2 = Production\ constraint$

$c_1x_1 + c_2x_2 \leq Cash\ available\ constraints$

$d_1x_1 + d_2x_2 \geq Current\ assets\ requirement\ constraints$

xii) Cash management model: (Weston and Copeland: 1990, p. 784-785)

In this model, it is assumed that the firm on average is growing and is a net user of cash. Marketable securities represent a buffer stock between episodes of external financing which is drown as required periodically ordering costs are represented by clerical and transactions costs of making transfers between the investment portfolio and the cash account. The holding cost is the interest foregone a cash balance held. Assuming that expenditure occurred evenly over time and that cash replenishment comes in lump sum at periodic intervals. The optimal size of the cash transfer is formulated as follows.

$$C = \sqrt{\frac{2bT}{i}}$$

C = the optimal size of the cash balance

T = the total cash usage for the period of time involved.

b = the most of transaction in the purchase or sales of marketable securities.

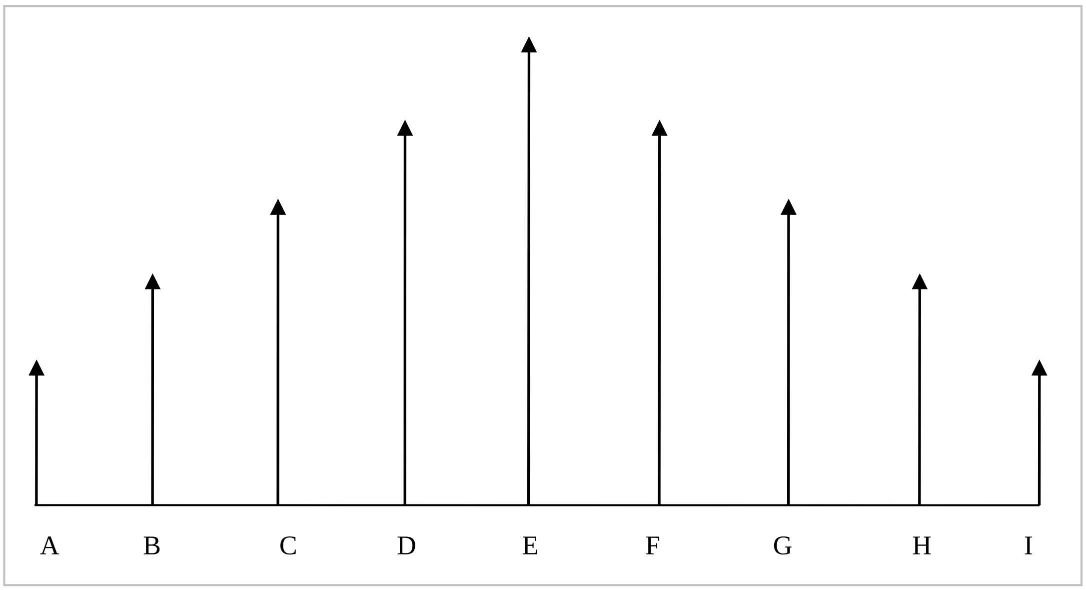
i = the applicable interest rate on marketable securities.

2.5.6. Cash cycle : (Solman and Pringle: 1978, p.178)

The process by which cash is used to purchase materials for producing goods, after production, which are then sold to customers, and they pay bills. The firm receives cash from customers than the cycle is presented. The cycle repeats time to time that is called cash cycle. The several steps are involved in cycle which is given below:

Figure No. 4

Cash Cycle



Where,

A = Materials order

B = Materials received

C = Payment

D = Cheque Clearance

E = Goods Sold

F = Customers mail payment

G = Payment received

H = Cheque Deposited

I = Funds collected

The cash cycle may consume a long time period. If we conduct cash management strategies, we concerned with time period s involves in point B, C, D and F, G ,H ,I it may be mentioned that a firm has no control over the time involved between stage A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. So, the time horizon taken by cash cycle depends upon spiller's policy, payment policy, production process and inventory policy, credit terms and customers payment policy etc.

2.6. Review of Books and Research works:

2.6.1. Review of Books:

In the section an attempt has been made to reviews some book on financial management which deals with management of cash.

Cash a corporate has must be utilized efficiency to meet obligation of interest payment it cash is obtained from borrowing and it is received through issue of shares the corporation has responsibility to owners in assuring them to pay favorable rate of return since cash is not easy to obtain the available cash must be prudently spent without incurring loss. Although it is impossible to formulate a set assets management policy of universal accepted is that cash must be conserved. (Raymond P. Kent, 1964, p. 128)

In the type of financial manager should not only attain toward the aspect of profitability but he should also turn forwards ensuring the liquidity of the corporation. Since every business is a constant debtors and enterprise borrow funds financial institution and purchase merchandise on credit. There by are fewer obligations to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of firms is tarnished at worst the creditor may force the firm to terminate it business.(Soolmon and Flink Donald: 1964, p. 13)

A cash budget shows the planned cash inflow, outflows, and ending position by interim for a specific time span. Most companies should develop the long term and short term cash budget is included in the annual profit plan. a cash budget basically includes two parts (i) the planned cash

receipt (ii) planned cash disbursement, planning cash inflow and outflow give the planed beginning and ending cash position for the budget period planning the cash inflows will include 1) need for financial probable cash deficit or the need for the investment planning to put excess cash to probable uses. (Welesh, Glean A Hillon Ronald W. Gordon: 1964, p. 433)

Some theoretical insights in to current management (Cash management) after their various research studies provides on it. The bond conceptual findings of their studies provide sound knowledge and guidance for the future studies and naturally to this study as well. They explain in the beginning the motives for holding cash specific advantage of adequate cash synchronization of cash flow expending collection and check clearing. Using float cost of cash management determining minimum cash balance compensating balances over draft system cash management. Market securities, arrangement of account receivable credit policy have evaluating changes in credit policy. (Weston and Brigham: 1973, p.138)

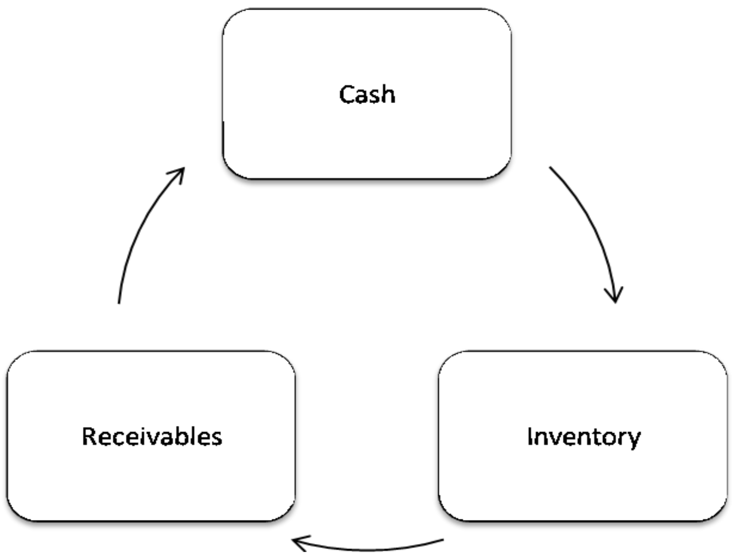
Liquidity is the life blood of a corporation and a want of cash is the only factor which may free it out of business cash flow in corporation by direct cash sales of assets. It flows out indirect purchases and payment to creditors, wages and other costs. Cash also flows in purchase and payment to creditors, wages and other equipment. In the payment of takes interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager's unable to pay obligation in time, while each situation in unique the one common threats that runs through all corporate in crisis in lack of liquidity. (Jedry & Chiston: 1976, p. 24)

The cash management of corporation is significant enough to have the best use of idle cash balances and to take the advantages from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. The various motives for holding cash and determination of safety level based on normal periods and peak period must be adequately considered. The cash flow balance of corporation can be sufficiently improved by increasing volume of sales and turnover of total assets. But on the whole measure should be taken to have efficient collection combined with disbursement. (Shrestha: 1982, p. 62)

First of all it is obvious that cash is component that correlated with working capital which is known to be current assets. The circulation nature of current assets can be depicted as figure given below.

Figure No. 5

Circulation nature of Current Assets



"A firm begins with cash which is used for purchase o raw material and bought in components. Material and other operating supplies can also be purchased on credit which in turn generates account payable. Further cash is expended to pay the labor and other manufacturing costs and further trade credit obtained to enable production of finished goods which are eventually sold on credit giving rise to accounts receivable. The collection of receivables brings cash in to the firm and creditors are paid. The average time, which elapses between the acquisition of material or services entering in to the manufacturing process and the final cash realization constitutes and operating cycle." (Jain and Narang: 1988, p. 174-175)

We also received from theoretical concept on the component of cash management from book. He has categorized the various component of cash management. These are the functions of cash management managing collection transferring funds concentration banking. Lock box system and other procedure disbursement. Zero balance account, electronic fund transfer, balancing and cash and marketable securities, compensating balance and fees, model for determining optional

cash inventory model stochastic model. A probabilities approach optional level of cash. (Van Horne: 1990, p. 389-415)

Cash is the important aspect of working capital. Cash is the basis needed to keep the business running on in order to keep the firm sufficient liquid and to use excess cash in profitable way. The firm should held sufficient cash; neither more, nor less, cash shortage will disrupt the firms without contributing anything towards the firm profitability. Thus a major function of the financial manager is to maintain a sound cash position. Some conceptual ingredients which are based on his various research studies. We can learn lesson from it and also helpful for this study indeed. He described various concept of cash management. Motive of holding cash, cash planning, cash forecasting and budgeting, and the cash flows are determining the optimum cash balance. (Pandey: 1992, p. 839-869**)**

Cash management strategies are generally built around two goals. (a) To provide cash needed to meet the obligation and (b) to minimize the idle cash held by firm. The financial manager has to strike an acceptable balance between holding too much cash and too little cash. This is the focal point of the cash risk return trade-off. Large cash investments minimize the chances of default but penalize the profitability of the firm. a small cash balance target may free the excess cash balance for investment in marketable securities and thereby enhancing the profitability as well as value of the firm, but simultaneously the chances of running out of cash.(Rustagi:2001,p 921)

The term “cash” with reference to cash management is used in two senses. In a narrower sense it includes coins, currency, notes, cheques, bank overdrafts held by firm with it and the demand deposits held by it in banks. In boarder sense it also includes “near cash assets” such as, marketable securities and time deposits can immediately be sold or converted into cash of the circumstances requires. The term cash management is generally used for management of both cash and near cash assets. (Maheshwari: 2001, p 299)

Cash management involves managing the monies of the firm to maximize cash availability and interest income any idle funds. At one end, the function starts when a customer writes a cheak to pay the firms on its current receivable. The function ends when a supplier, an employee or the government realizes collect funds from the firm on an account payable or accrual. All the activities between these two points fall within the area of cash management. The firm’s effort to

get customers to pay their bills at a certain time fall within account receivable management (Van Horne: 2002, p 429)

Cash management is one part of the key areas of working capital management. Apart from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e., receivables and inventories get eventually converted into cash. (Khan & Jain: 2003, p 7.11)

Cash includes coins, currencies, cheque hold by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "near cash items" are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. (Pradhan: 2004, p 310)

The cash management is one of the main areas of working capital management. The basic objective of cash management is to ensure adequate cash not more or less. It is concerned with managing cash inflows and outflows. The cash management involves formulations of policies and programs. For cash receipts and payment which maximize the value of the firm. The cash management is also called management of money position because it includes not only the management of cash also the management of the near asset such as marketable securities, readily available credit and so on. (Shrestha: 2006, p 373)

The function of cash management starts when a customer writes cheques to pay the firm on its account receivable. The function ends when a supplier, an employee, or government realizes collected funds from the firm on an account payment or accruals. The basic purpose of cash management is to enable a firm to maintain sufficient liquidly and also at the same time improve its profitability. Cash management is concerned with management of cash so as to achieve the generally accepted objectives of the firm. Maximum profitability is consistent with minimum liquidity of the firm. It is the management's ability to recognize cash problems before they rise and to delegate someone the identified solution to carry them out. Cash itself is not an asset capable of causing the profit differential for the firm; it is desirable that cash balances be minimized as much as possible. Yet the maintains of adequate cash balances is an obvious requirement, if a firm's solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintain a balance at the lowest figure adequate to meet current obligations. (Poudel, Baral, Gautum and Rana: 2007, p 406)

Cash management assumes more important than other current asset because cash is the most significant and the least productive asset that a firm holds. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. Therefore, firm should try to maintain the optimum level of cash that maximizes the values of the firm. (Manandhar, Dhakal, Thapa, Koirala and Basnet: 2009, p 6.13).

Cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash itself earns no interest, thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, the same time, to have sufficient cash i) to take trade discount, ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.(Brigham & Ehrhardt: 2009, p 656)

2.6.2. Review of journals

W.J Baumol, At the article "the transaction demand for cash: An inventory theoretic Approach" on quarterly journal of economic (VOL. LXV, Nov,1992) identifies cash maintenance as analogues to inventory maintained and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be investment in the marketable securities.

M.H Miller and Orr .D, in their article " A model of the demand for money in firms" an quarterly journal of economic, (VOL.LXY, Aug. 1996) have developed a model known a Miller-Orr model ,that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Ram M. Saksena at his Article, "Towards more efficient cash management" on quarterly journal of management quality (VOL. NO 5,1974) identified that the term cash management has a meaning according the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash as the means to satisfy

human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest .in through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

2.6.3. Review of Research works:

In last few years, prior to this thesis, some students of M.B.A. and M.B.S. programme have been found conducting research about the cash Management. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

(Subarna Lal Bajracharya: 1990) had conducted a research in the topic “Cash Management in Public Nepalese Enterprises” after completion of the study he has pointed out some findings that are; Cash management in Public enterprises of is preliminary based on traditional practices. Lacking of scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis. Modern practices with respect to debt collection monitoring the payment behavior of customers and relevant banking arrangement in connection with collection receivables have been virtually ignored in many enterprises. Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. Majority of the enterprises did not face any serious liquidity problem. However, this wants because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn’t arise due to the coincidence of delay in payment to creditors.

He has suggested that, cash planning and cash budgeting on a formal basis such as to project cash surplus or cash deficit for a period not to exceeding one year and broken up into shorter intervals. Managing the cash flows is to accelerate the inflows as far as possible to decelerate outflows. He also stressed to maintain optimal level of cash and at last, it can be better invest idle fund in marketable securities.

(Bijay Pradhan: 1997) had conducted a research in the topic "A Study on Cash Management of Salt Trading Corporation Limited" he has conducted a research of six years periods under consideration from F.Y 2047/48 to F.Y 2052/53. After completion of the study he has pointed out some findings that are; The STCL could not make the best use of available cash balance prudently. Cash collection efficiency in the corporation is very low .the collection of trade credit in the corporation is low during the study period. Management has taken liberal credit policy to sales of goods. Cash and bank balance of the study period's minimum of Account receivable. He suggested that cash should be managed effectively. Cash budget cash and funds flow statement should be prepared. Which helps to estimate cash receipt and payment of cash .The Corporation should be adopt suitable credit policy for effective cash management. The surplus of cash balance should be investment in profitable opportunities.

(Biranji Gautom: 1999) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." A case study of Gandaki Noodles Pvt. Ltd.", after completion of the study he has pointed out some findings that are; cash collection efficiency in this company is low. Company has not best use of available cash balance. Company has taken liberal credit policy to sales of noodles. Hence cash balance of the study period was minimum account receivable. Debt collection of the company is low. Cash balance with respect to current assets and total assets has been fluctuating trend. After analysis of findings, he has recommended that, company should to appointed financial expert to fulfill the lack of financial experts. The company should acetate its debtor receivables collection, the dealers and distributors should provide proper incentives for earlier payment. Company should have proper cash planning to estimate the cash receipts and payment. Company should adopt effective credit policy.

(Ramesh Prithi: 2003) had conducted a research in the topic "A study on Cash Management of United Mission Hospital Tansen, UMHT" after completion of the study he has pointed out some findings that are; the cash collection efficiency in UMHT is very low. It is found that management is less concerned to speed of collection of account receivables. Cash balance with respect current assets has been fluctuating trend. Current ratio shows the uncomfortable working situation maybe experienced in payment of current liabilities and day to day operation of the business may suffer. There is no good relationship between cash and revenue, but significant relationship between receivables and cash balance. He recommended to prepare monthly trail

balance, cash and funds flow statement and looking at the organization's inefficiency in the area of internal audit and central system. The UMHT should pay much attention toward collection of account receivable and to decrease average collection period for effective cash management.

(Sabin Prakash Sainju: 2003) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." after completion of the study he has pointed out some findings that are; overall cash management practices have been found disappointing, overall liquidity position of the firm has been found moderately dissatisfactory, overall yearly cash inflows and outflows in RDL is not properly managed. Surplus cash hasn't been properly employed to earn return by investing in short term investment opportunities. Profitable has been found in very weak position and overall cash budgeting practice of RDL is very poor.

(Dilli Raj Bhatt: 2004) had conducted a research in the topic "A Study on Cash Management of Dairy Development Corporation" after completion of the study he has pointed out some findings that are; DDC does not any definite policy regarding how much cash balance to hold in each fiscal year. DDC is able to collect receivables from sundry debtors timely. Liquidity position of the firm has been found dissatisfactory. DDC has not been faced specially shortage of cash .it means DDC able to meet current liabilities. A large portion of DDC's current assets has been tied-up in the most illiquid asset like inventory. Analysis of the liquidity position suggested that current assets have been tied up in slow moving and unsalable inventories. Cash flow and outflow in DDC is not properly managed surplus cash has not been properly employed to earn return by investing in short term investment opportunities. He suggested DDC should determine minimum level of cash balance to hold every year, maintain such minimum level of cash balance as a requirement of precautionary, speculative and compensation motives, besides for daily transactions. Corporation should prepare cash flow statement and cash budget .cash planning manager or experts should be appointed. Idle cash balance should be invested in profitable sectors. There should not be tied up unsalable inventories in current assets. It is the most illiquid current assets, affects the liquidity position of the firm and thus is unfavorable. So it is recommended not to tie up current asset in unsalable inventories.

(Tika Ram Ghimire: 2005) had conducted a research in the topic "Cash Management, A case study of Gorakhkali Rubber Udyog Limited" after completion of the study he has pointed out some findings that are; cash turnover ratio is low which indicates low collection efficiency of

the industry and account receivable turnover ratio is also low. Cash and current liabilities ratio found highly fluctuating that means the industry has been facing problem of cash management. The cash balance of different years shows optimum cash balance is maintained and there is no definite policy applied for cash management. He suggested, company has not maintained optimum cash balance, it should maintain cash balance by matching between surplus and deficiency of cash balance. Industry should prepare cash budget which helps to estimate cash receipt and payment of cash and closing balance of cash .company should keep cash at minimum level and to invest the surplus cash in profitable opportunities .this helps to generate profit for the industry.

(Padeep Koirala: 2006) had conducted a research in the topic "Cash Management in context of Nepal Telecommunication (Nepal Telecom)" after completion of the study he has pointed out some findings that are; company was able to collect more cash from different sources than it targeted in the budget .it shows good position of actual cash collection of the company. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year .but company could not manage surplus in the productive sector. Company has high liquidity which adversely affects profitability .moreover; it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus there was separate budget for investment which was compulsory in nature. Company has also taken external loan from foreign institution which as not required to borrow. It is able to meet it expenses of budget by its own source. On the basis study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus in profitable sectors. If the liquidity of the company is too high, it adversely affects the profitability of the company. So, the company should hold the cash as required to run annual operating expenses .internal sources of company is sufficient to finance whole budgeted expenses of the company. It should not borrow loan from foreign institution because it increases the cost.

(Sundeep Kumar Thapa: 2007) has conducted a research entitled in" Liquidity assessment of Bank of Kathmandu" after completion of the study he has pointed out some findings that are; liquidity position of the company isn't matched with the standard ratio set for the liquidity. The standard current ratio is 2:1 where as the ratio is found only 1.21 in the fiscal year 2062/63 and highest on fiscal year 2058/59 ie1.29 by even that time the ratio was less than standard. He also

found that cash and bank balance to total deposit ratio is not satisfactory as the average ratio found out to be only 0.1408 which seems to be lacking of meeting their standard level. This shows that BOK is not capable to keep more cash balance against its various deposits and thus it defined that liquidity position is not good.

(Kiran Neupane: 2009) has conducted a research entitled in "A study of Cash management of Nepalese Public Enterprises" (A Case study of Salt Trading Corporation Limited.) He has collected the data from secondary source that are published by Salt trading Corporation Limited and related information through the direct interview and questionnaire. He has pointed out some major finding of research work. STCL could not make the best use of available cash balance prudently. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period. The average inventory conversion period into cash is found little more than two months i.e. 62 days which is very slow. The average payable conversion period is faster than average receivable period which isn't a good single for the purpose of managing cash. Management has taken liberal credit policy of sales of goods. Hence the cash &Bank balance of the study period is in minimum. No optimum cash balance is maintained .the cash balance with respect to current asset has been fluctuating trend.

2.6.4. Research Gap

There is gap between present Research and previous Research. There is no Research done on Analysis of Cash management of Finance companies in Nepal. Probability this might be the first research study. This work is different with previous works, study period, some objectives, tools for analysis and the organization. The main issue of this study is to analyze the cash management of finance companies. This study has used to financial and statistical tool for cash management. It mainly concerned with finance companies and data taken in between 2059/60 to 2064/65. This study has been done to analyze the cash position of finance companies, analysis of cash collection and disbursement system and identify the strength and weakness of cash management of finance companies and to provide recommendation to concerned organization for future improvement on the basis of this study.

CHAPTER –II

REVIEW OF LITERATURE

2.7. Theoretical Framework:

2.7.1. Meaning of cash management

Cash is the important current assets for the operation of business. Cash is the basis input needed to keep the business running on a continuous basis; it is also the ultimate output expected by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more or less. Cash shortage will disturb the firm's manufacturing operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability .thus; a major function of the financial manager is to maintain a sound cash position. Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance in its banks accounts. (Pandey: 1992, p. 911)

Cash is the most liquid asset, is of vital importance to daily operation of business firm. Cash is both beginning and the end of the working capital cycle-cash, inventories, receivables and cash. Its effective management is the key determinate of efficient working capital management. Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is them business solvency. It is cash which keeps a business going. Hence; every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or on outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. It is shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through its idle cash is sterile, its retention is not without cost. Holding of cash balance is has an implicit cost in the form of its opportunity costs. The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously. (Keynes: 1936, p. 170)

2.7.2. Motives of holding cash: (Rana: 2000, p. 242-243)

Organization and individual have four primary motives for holding cash and cash back up in from marketable securities.

xiii) Transaction motive:

Transaction refers to the act of giving and taking cash or kinds in daily business activities like purchase and sales of goods or services. If these payments and receipts in terms of cash were perfectly synchronized, a firm would not have to hold cash for transaction motive. But, in real situation, cash inflow and cash outflow cannot be matched exactly. A firm should hold certain level of cash to meet current payment of cash in excess of its receipt during the period.

xiv) Precautionary motive:

A firm should also hold some cash for the payment of unpredictable or unexpected events. A firm may have to face different crises such as strikes and lock-ups from employees, increases in cost of raw materials, funds and labor, fall in market demand and so on. How much cash is held against these crises depends on the degree of predictability associated with future cash flow. Firm may hold very minimum amount of cash for this motive. The precautionary needs for holding cash are usually satisfied by holding near cash items such as, investment in marketable securities, short term government bond so on.

xv) Speculative motive:

Speculative needs for holding cash require that a firm possibly have some profitable opportunities to exploit, which are out of the normal course of business. These opportunities arise in conditions when price of raw material and interest rate on borrowed funds are expected to decline, and purchase of inventory occurs at reduced price on immediate cash payment. These unexpected moments fetch some benefits to the firm. Therefore, firms hold cash also for speculation.

xvi) Compensating balance requirement:

Sometimes, a firm should also hold cash to meet the compensating balance requirement demanded by commercial banks for providing short-term loan. Specially, commercial banks demand that regular borrower should maintain an average checking account balance equal at some percentage of the outstanding loan. The borrower (or firm) cannot be allowed to use it. Bank provides different services to the firm. Compensating balance also represent an indirect charge to bank for providing services. About all this represents the reason why a firm should hold cash.

2.7.3. Efficiency of cash management

"Cash use a number of functions as it makes payment possible. It serves to meet contingencies. But if cash in kept idle it contributes directly nothing to the earning of the corporation. As such corporation must adopt such a policy that makes optimum cash management possible. The financial management of the corporation should try to minimize the corporation's holdings of cash wide still maintaining enough to ensure payment of obligation. For improving the efficiency of cash management, effective method of cash collection and disbursement should be adopted." (Shrestha: 1980, p. 62)

Some method for efficiency of cash management is described below.

xxxi) Speedy collection of cash:

An organization can maintain optimum cash balance if it can speed up its cash collection. Cash collection can be made speedy and effective by reducing the gap between the times a customer pays his bill and the cheque become available for use. The greater deposit float (the amount of cheque sent by customer but not yet collected) takes long time to convert cheque into usable fund. The techniques which can be used to save mailing and processing time are, concentrating banking; luck box system and special handling of movement of cash.

xxxii) Concentration banking:

In this system, numbers of collection centers are established instead of single collection center centralized at the head office of the firms'. A large number of bank accounts are operated in this system in the branches area of the firm. The collection centers will be collected cheques from customers and deposits in their local bank accounts. The collection center will transfer funds at firm's head office each day.

xxxiii) Special handling of cash:

Special handling of cash helps to operate company's funds in profitable use.

xxxiv) Delaying disbursement:

"Quick collection and show disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursements cash results in a faster turnover of cash."(Shrestha: 1980, p. 64)

Speedy collection of receivables and delay disbursement of account payable can reduce the operating requirement. Slow disbursement represents source of funds requiring no interest payments. "Where the underlying objective of collection is maximum acceleration, the objective in disbursement is to slow them down as much as possible." (Van Horne: 1974, p. 426)

xxxv) Cash velocity:

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

$$Cash\ velocity = \frac{Annual\ Sales}{Average\ Cash\ Balance}$$

xxxvi) Minimum cash balance:

Organizations are required to keep a minimum cash balance requirement of a bank, either for the service it renders or consideration of lending arrangement.

xxxvii) Synchronized cash flows:

Situation in which inflow coincides with outflows, thereby permitting a firm to hold transactions balance to a minimum.

xxxviii) Using float:

The different between the balance shown in a firms or individual's cheque book and the balance on the banks records in known as float or cheque written by firms and not deducted from bank records in float.

xxxix) Overdraft system:

A system whereby depositors may write cheques in excess of their balances with their banks, which is automatically extending loans to cover the shortage.

xl) Transferring funds: (Weston & Copeland: 1982, p.771-773)

It is also one effective method for efficiency of cash management .the method of transferring funds is:

j) Depository transfer checks (DTCS)

DTCS provide a means for moving funds from local depository banks into concentration banks. A DTC is payable only to the bank of deposit for credit to the firms specific account.

k) Electronic Depository transfer checks(EDTCS)

An electronic DTC (EDTC) is a paperless electronic image transfer via the automated clearing house (ACH) network developed by Federal Reserve System. The EDTC avoids the use of the mails and has uniform one-business-day clearing time. Central company management generally initiates EDTCS.

l) Wire transfer

Wire transfer of funds between banks makes funds collected at a bank immediately available for use at another bank. It is the fastest way to move cash between banks, eliminating transit float.

2.7.4. Different technique of cash management:

x) Cash planning:

Cash Planning is technique to plan and control the use of cash. It protects financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plan are very crucial in developing the overall operating plans of the firm. Cash planning is a technique to plan for and control the use of cash. (Pandey: 1997, p.42)

xi) Cash budget:

Cash budget is mainly related with cash receipts and disbursement activities. It is the most significant device to planned control cash receipt and payment. A cash budget is a summary statement of the firm expected cash inflows and outflows over a projected time period. A cash budget is most important for the business enterprises to know about time and magnitude size of expected cash flows and cash balance over the projected period. Financial manager can determine to future cash need of the firm by the helps of information provided by cash budget and helps to plan for the financing of these needs exercise control over the cash and liquidates of the firm.

Different firms may take different time period to preparing cash budget. It depends upon situation and natures of the enterprises. If business is affected by seasonable variations they may prepare monthly cash budget. Daily and weekly cash budget should be prepared for determining cash requirement according to nature of the activities and long time cash budget may be prepared which cash flows are relatively stable. So, the firms can take different time to prepare cash budget. (Pandey: 1992, p. 843)

xii) Cash forecasting: (Panday:1997, p 912)

Cash forecasting may be long-term forecasting and short-term forecasting.

Short-term forecasting:

There are two most common methods of short-term cash forecasting.

g. Receipt and disbursement forecast:

Generally, this technique is used after preparing sales and other budget. This method follows all the items of cash receipt and disbursements are listed to exercise close over the changes in cash flows during a predetermined period. As a result it provides absolute magnitudes of expected cash flows within the company. This technique also can be used in long range cash forecasting.

h. The adjusted net income method:

This method is also known as source and use approach. This method of cash forecasting involves the tracing of working capital flows. There are two objectives, which are mainly involves in the approach. To project the company's needs for future date and next to show how much the company generate this money internally and if not how much will have to either borrow or rise in the capital market.

The item can be easily determined from the company's annual operating budget such as net income, depreciation, taxes, dividend etc., in preparing the adjustment net income forecast.

Long term cash forecasts

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

- To indicate as company's future financial needs especially for its working capital requirement.
- To evaluate proposed capital projects. In pin pints the cash required to finance these projects as well as the cash to be generated by the company to support them.
- To improve corporate planning. Long term cash forecast compel each division to plan for future and no formulate project carefully.

2.7.5. Cash management models:

Different analytical models are used in cash management are:

xiii) Baumol model

xiv) Miller model

xv) Orgler's model

xvi) Cash management models

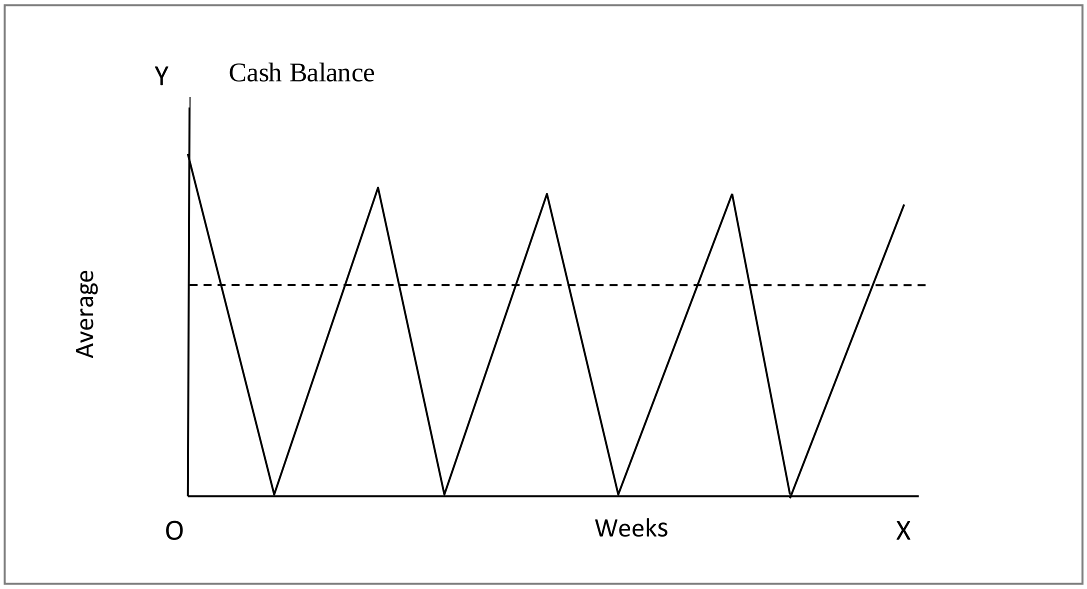
xiii) Baumol model: (Baumol: 1952 p. 545-556)

Baumol model is one of the methods, which can be used for minimizing the opportunity cost of holding cash and maximizing the return on the available funds. The cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

It is simple inventory model that tells something about the management of cash balance. This model is specially based on the following assumption that the cash is used ate constant rate. The periodic cash requirement is more or less and there are some costs such as opportunity costs that increase and other costs such as transaction costs that decrease the cash balance. We can describe it by taking help of following figure.

Figure No. 1

EOQ Model of Cash Balance



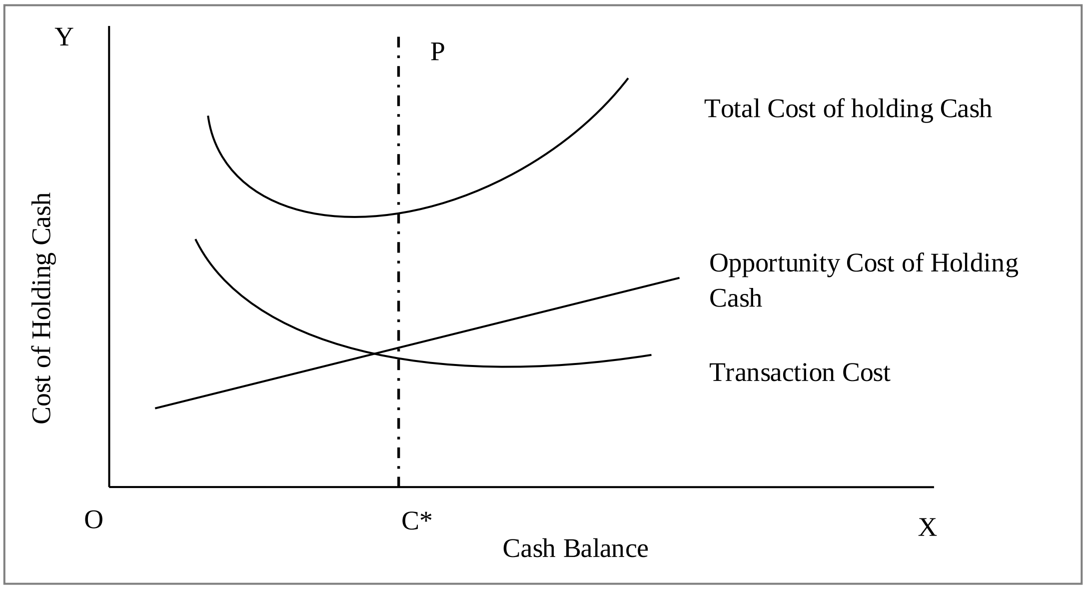
Unlike the case of inventory purchase, the cash transfer does not take the time. Therefore; it is normally not required to maintain safety stock of cash.

The model prescribes an optimal size of cash balance and the optimal size of cash transfers from marketable securities to cash account or borrowing. The objectives of this model are to minimize the total cast which is related with the total of opportunity cost and the transaction cost of a firm.

The relationship between average size of cash balance and various costs associated with the cash management is shown by below figure.

Figure No. 2

Relationship between Cash and various Costs



The optimal size of the cash balance is lies in point C* mathematically, the optimal size of cash transfer from investment account or line of credit C* is determined as follows.

$$C^* = \sqrt{\frac{2bt}{i}}$$

Where,

B = fixed transaction cost per transaction.

T = requirement of cash per period

I = opportunities cost of holding cash or interest rate on borrowing.

In the case of predictable uniform net cash flows, the model can be applied appropriately but not in irregular and uncertain cash flows.

The average cash balance 'Ca' is calculated as:

$$Ca = \frac{C*}{2} + M$$

Where,

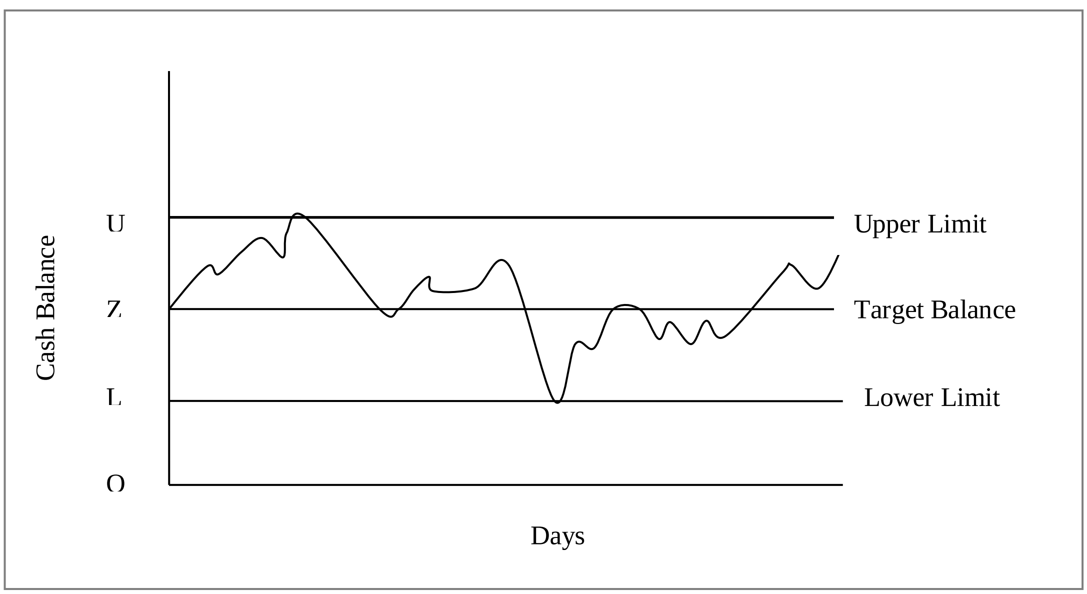
M= minimum balance or cash for precautionary purpose.

xiv) Miller – ORR model: (Miller and ORR: 1966 p. 413-435)

The lot size of cash need depends on the patters and degree of irregularity of cash inflow and outflow. Miller ORR model which is developed by Merton miller and Denial Orr, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa. The model assumes that the daily net cash flows are random in size as well as positive or negative flows and are normally distributed in the long run. According to this model, it sets an upper (U) and Lower (L) limit within when the cash balance is allowed to fluctuate and sets the target cash balance in between these two limits. This model needs of follow is to transfer the amount of cash that is necessary to bring the cash position to its target balance from the investment account whenever the balance gets slide down to the lower limit 'L' to transfer the cash in excess of target balance to the investment account whenever it reaches to the upper limit 'U'. In this model the lower limit is set by managerial decision to meet emergency or as required to maintain compensating balance in the account by the bank. The graphical presentation of the model is given below:

Figure No. 3

Miller Orr Model of Cash Management



Mathematically the model is set as follows:

Target Balance;

$$Z* = \left[\frac{3F\sigma 2}{4i}\right]^{1/3}$$

The model calculated U as:

U = 3z*

Where,

Z* = Target Cash Balance

F = Fixed Translation cost per transacts

I = Daily interest/opportunity cost

σ^2 = Variance of net daily Cash flows

L= Lower limit

xv) Orgler's model: (Orgler: 1970, p. 220)

This model can follows an optimal cash management strategy determined through the use of a multiple linear programming model comprise i) Selection of the appropriate planning horizon. ii) Selection of the appropriate decision variable. iii) Formulation of the cash management strategy itself.

This model uses time horizon of the model basically one-year i.e. 12 month's period for its simplicity. It has four basic set of decision variable which influence cash management of a firm and which must be incorporate into the linear programming model of the firm are i) Payment schedule ii) short time financing iii) Purchase and sale of marketable securities and iv) Cash balance. In this model, its objectives function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period, assumption to be used that (i) all revenue generated is immediately reinvested and (ii) that any cost in immediately financed.

The objectives function, which recognized each co-operation of the firm, generates cash inflow or cash out flows as adding or subtracting profit opportunities for the firms cash management operations. In the objective function, there may be positive or negative coefficient, the decision variables which generate cash inflow, such as payment on receivables have positive coefficient

and which generate cash outflow such as interest on short term borrowing gave negative co-efficient.

In this model the constraints could be (i) institution constraints like labors, raw material, machine, money, energy etc. and (ii) Policy constraints. External factor imposes the institution constraints for its instance. The financial management may be prohibited from selling securities before maturity, in this model constraints can occur during monthly or the entire month in the one year planning horizon etc.

An example of linear programming is given below.

Objective function,

$$Max.profit = a_1x_1 + a_2x_2$$

Subject to:

$$b_1x_1 + b_2x_2 = Production\ constraint$$

$$c_1x_1 + c_2x_2 \leq Cash\ available\ constraints$$

$$d_1x_1 + d_2x_2 \geq Current\ assets\ requirement\ constraints$$

xvi) Cash management model: (Weston and Copeland: 1990, p. 784-785)

In this model, it is assumed that the firm on average is growing and is a net user of cash. Marketable securities represent a buffer stock between episodes of external financing which is drown as required periodically ordering costs are represented by clerical and transactions costs of making transfers between the investment portfolio and the cash account. The holding cost is the interest foregone a cash balance held. Assuming that expenditure occurred evenly over time and that cash replenishment comes in lump sum at periodic intervals. The optimal size of the cash transfer is formulated as follows.

$$C = \sqrt{\frac{2bT}{i}}$$

C = the optimal size of the cash balance

T = the total cash usage for the period of time involved.

b = the most of transaction in the purchase or sales of marketable securities.

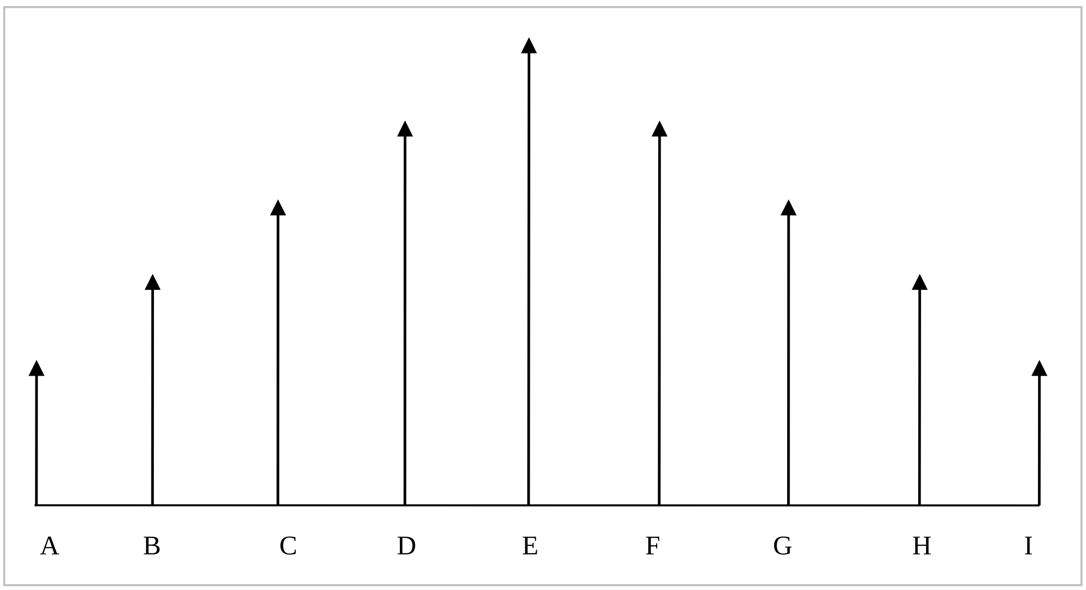
i = the applicable interest rate on marketable securities.

2.7.6. Cash cycle : (Solman and Pringle: 1978, p.178)

The process by which cash is used to purchase materials for producing goods, after production, which are then sold to customers, and they pay bills. The firm receives cash from customers than the cycle is presented. The cycle repeats time to time that is called cash cycle. The several steps are involved in cycle which is given below:

Figure No. 4

Cash Cycle



Where,

A = Materials order

B = Materials received

C = Payment

D = Cheque Clearance

E = Goods Sold

F = Customers mail payment

G = Payment received

H = Cheque Deposited

I = Funds collected

The cash cycle may consume a long time period. If we conduct cash management strategies, we concerned with time period s involves in point B, C, D and F, G ,H ,I it may be mentioned that a firm has no control over the time involved between stage A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. So, the time horizon taken by cash cycle depends upon spiller's policy, payment policy, production process and inventory policy, credit terms and customers payment policy etc.

2.8. Review of Books and Research works:

2.8.1. Review of Books:

In the section an attempt has been made to reviews some book on financial management which deals with management of cash.

Cash a corporate has must be utilized efficiency to meet obligation of interest payment it cash is obtained from borrowing and it is received through issue of shares the corporation has responsibility to owners in assuring them to pay favorable rate of return since cash is not easy to obtain the available cash must be prudently spent without incurring loss. Although it is impossible to formulate a set assets management policy of universal accepted is that cash must be conserved. (Raymond P. Kent, 1964, p. 128)

In the type of financial manager should not only attain toward the aspect of profitability but he should also turn forwards ensuring the liquidity of the corporation. Since every business is a constant debtors and enterprise borrow funds financial institution and purchase merchandise on credit. There by are fewer obligations to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of firms is tarnished at worst the creditor may force the firm to terminate it business.(Soolmon and Flink Donald: 1964, p. 13)

A cash budget shows the planned cash inflow, outflows, and ending position by interim for a specific time span. Most companies should develop the long term and short term cash budget is included in the annual profit plan. a cash budget basically includes two parts (i) the planned cash

receipt (ii) planned cash disbursement, planning cash inflow and outflow give the planed beginning and ending cash position for the budget period planning the cash inflows will include 1) need for financial probable cash deficit or the need for the investment planning to put excess cash to probable uses. (Welesh, Glean A Hillon Ronald W. Gordon: 1964, p. 433)

Some theoretical insights in to current management (Cash management) after their various research studies provides on it. The bond conceptual findings of their studies provide sound knowledge and guidance for the future studies and naturally to this study as well. They explain in the beginning the motives for holding cash specific advantage of adequate cash synchronization of cash flow expending collection and check clearing. Using float cost of cash management determining minimum cash balance compensating balances over draft system cash management. Market securities, arrangement of account receivable credit policy have evaluating changes in credit policy. (Weston and Brigham: 1973, p.138)

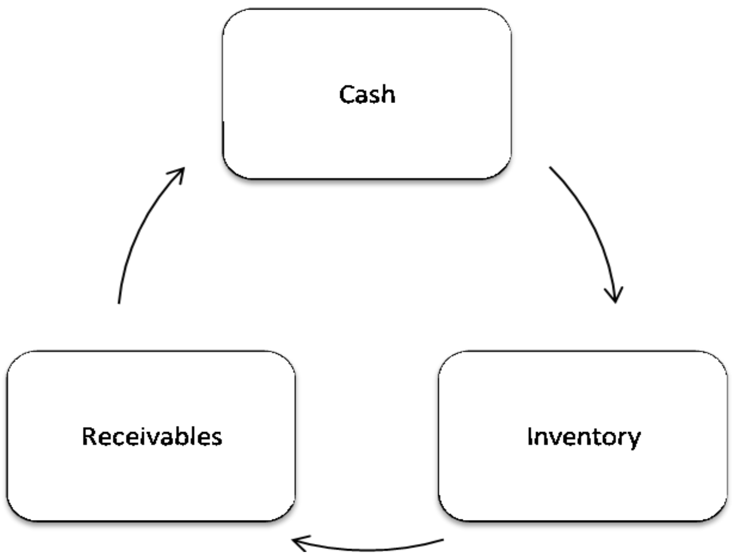
Liquidity is the life blood of a corporation and a want of cash is the only factor which may free it out of business cash flow in corporation by direct cash sales of assets. It flows out indirect purchases and payment to creditors, wages and other costs. Cash also flows in purchase and payment to creditors, wages and other equipment. In the payment of takes interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager’s unable to pay obligation in time, while each situation in unique the one common threats that runs through all corporate in crisis in lack of liquidity. (Jedry & Chiston: 1976, p. 24)

The cash management of corporation is significant enough to have the best use of idle cash balances and to take the advantages from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. The various motives for holding cash and determination of safety level based on normal periods and peak period must be adequately considered. The cash flow balance of corporation can be sufficiently improved by increasing volume of sales and turnover of total assets. But on the whole measure should be taken to have efficient collection combined with disbursement. (Shrestha: 1982, p. 62)

First of all it is obvious that cash is component that correlated with working capital which is known to be current assets. The circulation nature of current assets can be depicted as figure given below.

Figure No. 5

Circulation nature of Current Assets



"A firm begins with cash which is used for purchase o raw material and bought in components. Material and other operating supplies can also be purchased on credit which in turn generates account payable. Further cash is expended to pay the labor and other manufacturing costs and further trade credit obtained to enable production of finished goods which are eventually sold on credit giving rise to accounts receivable. The collection of receivables brings cash in to the firm and creditors are paid. The average time, which elapses between the acquisition of material or services entering in to the manufacturing process and the final cash realization constitutes and operating cycle." (Jain and Narang: 1988, p. 174-175)

We also received from theoretical concept on the component of cash management from book. He has categorized the various component of cash management. These are the functions of cash management managing collection transferring funds concentration banking. Lock box system and other procedure disbursement. Zero balance account, electronic fund transfer, balancing and cash and marketable securities, compensating balance and fees, model for determining optional

cash inventory model stochastic model. A probabilities approach optional level of cash. (Van Horne: 1990, p. 389-415)

Cash is the important aspect of working capital. Cash is the basis needed to keep the business running on in order to keep the firm sufficient liquid and to use excess cash in profitable way. The firm should held sufficient cash; neither more, nor less, cash shortage will disrupt the firms without contributing anything towards the firm profitability. Thus a major function of the financial manager is to maintain a sound cash position. Some conceptual ingredients which are based on his various research studies. We can learn lesson from it and also helpful for this study indeed. He described various concept of cash management. Motive of holding cash, cash planning, cash forecasting and budgeting, and the cash flows are determining the optimum cash balance. (Pandey: 1992, p. 839-869**)**

Cash management strategies are generally built around two goals. (a) To provide cash needed to meet the obligation and (b) to minimize the idle cash held by firm. The financial manager has to strike an acceptable balance between holding too much cash and too little cash. This is the focal point of the cash risk return trade-off. Large cash investments minimize the chances of default but penalize the profitability of the firm. a small cash balance target may free the excess cash balance for investment in marketable securities and thereby enhancing the profitability as well as value of the firm, but simultaneously the chances of running out of cash.(Rustagi:2001,p 921)

The term "cash" with reference to cash management is used in two senses. In a narrower sense it includes coins, currency, notes, cheques, bank overdrafts held by firm with it and the demand deposits held by it in banks. In boarder sense it also includes "near cash assets" such as, marketable securities and time deposits can immediately be sold or converted into cash of the circumstances requires. The term cash management is generally used for management of both cash and near cash assets. (Maheshwari: 2001, p 299)

Cash management involves managing the monies of the firm to maximize cash availability and interest income any idle funds. At one end, the function starts when a customer writes a cheak to pay the firms on its current receivable. The function ends when a supplier, an employee or the government realizes collect funds from the firm on an account payable or accrual. All the activities between these two points fall within the area of cash management. The firm's effort to

get customers to pay their bills at a certain time fall within account receivable management (Van Horne: 2002, p 429)

Cash management is one part of the key areas of working capital management. Apart from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e., receivables and inventories get eventually converted into cash. (Khan & Jain: 2003, p 7.11)

Cash includes coins, currencies, cheque hold by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "near cash items" are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. (Pradhan: 2004, p 310)

The cash management is one of the main areas of working capital management. The basic objective of cash management is to ensure adequate cash not more or less. It is concerned with managing cash inflows and outflows. The cash management involves formulations of policies and programs. For cash receipts and payment which maximize the value of the firm. The cash management is also called management of money position because it includes not only the management of cash also the management of the near asset such as marketable securities, readily available credit and so on. (Shrestha: 2006, p 373)

The function of cash management starts when a customer writes cheques to pay the firm on its account receivable. The function ends when a supplier, an employee, or government realizes collected funds from the firm on an account payment or accruals. The basic purpose of cash management is to enable a firm to maintain sufficient liquidly and also at the same time improve its profitability. Cash management is concerned with management of cash so as to achieve the generally accepted objectives of the firm. Maximum profitability is consistent with minimum liquidity of the firm. It is the management's ability to recognize cash problems before they rise and to delegate someone the identified solution to carry them out. Cash itself is not an asset capable of causing the profit differential for the firm; it is desirable that cash balances be minimized as much as possible. Yet the maintains of adequate cash balances is an obvious requirement, if a firm's solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintain a balance at the lowest figure adequate to meet current obligations. (Poudel, Baral, Gautum and Rana: 2007, p 406)

Cash management assumes more important than other current asset because cash is the most significant and the least productive asset that a firm holds. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. Therefore, firm should try to maintain the optimum level of cash that maximizes the values of the firm. (Manandhar, Dhakal, Thapa, Koirala and Basnet: 2009, p 6.13).

Cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash itself earns no interest, thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, the same time, to have sufficient cash i) to take trade discount, ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.(Brigham & Ehrhardt: 2009, p 656)

2.8.2. Review of journals

W.J Baumol, At the article "the transaction demand for cash: An inventory theoretic Approach" on quarterly journal of economic (VOL. LXV, Nov,1992) identifies cash maintenance as analogues to inventory maintained and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be investment in the marketable securities.

M.H Miller and Orr .D, in their article " A model of the demand for money in firms" an quarterly journal of economic, (VOL.LXY, Aug. 1996) have developed a model known a Miller-Orr model ,that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Ram M. Saksena at his Article, "Towards more efficient cash management" on quarterly journal of management quality (VOL. NO 5,1974) identified that the term cash management has a meaning according the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash as the means to satisfy

human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest .in through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

2.8.3. Review of Research works:

In last few years, prior to this thesis, some students of M.B.A. and M.B.S. programme have been found conducting research about the cash Management. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

(Subarna Lal Bajracharya: 1990) had conducted a research in the topic "Cash Management in Public Nepalese Enterprises" after completion of the study he has pointed out some findings that are; Cash management in Public enterprises of is preliminary based on traditional practices. Lacking of scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis. Modern practices with respect to debt collection monitoring the payment behavior of customers and relevant banking arrangement in connection with collection receivables have been virtually ignored in many enterprises. Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. Majority of the enterprises did not face any serious liquidity problem. However, this wants because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay in payment to creditors.

He has suggested that, cash planning and cash budgeting on a formal basis such as to project cash surplus or cash deficit for a period not to exceeding one year and broken up into shorter intervals. Managing the cash flows is to accelerate the inflows as far as possible to decelerate outflows. He also stressed to maintain optimal level of cash and at last, it can be better invest idle fund in marketable securities.

(Bijay Pradhan: 1997) had conducted a research in the topic "A Study on Cash Management of Salt Trading Corporation Limited" he has conducted a research of six years periods under consideration from F.Y 2047/48 to F.Y 2052/53. After completion of the study he has pointed out some findings that are; The STCL could not make the best use of available cash balance prudently. Cash collection efficiency in the corporation is very low .the collection of trade credit in the corporation is low during the study period. Management has taken liberal credit policy to sales of goods. Cash and bank balance of the study period's minimum of Account receivable. He suggested that cash should be managed effectively. Cash budget cash and funds flow statement should be prepared. Which helps to estimate cash receipt and payment of cash .The Corporation should be adopt suitable credit policy for effective cash management. The surplus of cash balance should be investment in profitable opportunities.

(Biranji Gautom: 1999) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." A case study of Gandaki Noodles Pvt. Ltd.", after completion of the study he has pointed out some findings that are; cash collection efficiency in this company is low. Company has not best use of available cash balance. Company has taken liberal credit policy to sales of noodles. Hence cash balance of the study period was minimum account receivable. Debt collection of the company is low. Cash balance with respect to current assets and total assets has been fluctuating trend. After analysis of findings, he has recommended that, company should to appointed financial expert to fulfill the lack of financial experts. The company should acetate its debtor receivables collection, the dealers and distributors should provide proper incentives for earlier payment. Company should have proper cash planning to estimate the cash receipts and payment. Company should adopt effective credit policy.

(Ramesh Prithi: 2003) had conducted a research in the topic "A study on Cash Management of United Mission Hospital Tansen, UMHT" after completion of the study he has pointed out some findings that are; the cash collection efficiency in UMHT is very low. It is found that management is less concerned to speed of collection of account receivables. Cash balance with respect current assets has been fluctuating trend. Current ratio shows the uncomfortable working situation maybe experienced in payment of current liabilities and day to day operation of the business may suffer. There is no good relationship between cash and revenue, but significant relationship between receivables and cash balance. He recommended to prepare monthly trail

balance, cash and funds flow statement and looking at the organization's inefficiency in the area of internal audit and central system. The UMHT should pay much attention toward collection of account receivable and to decrease average collection period for effective cash management.

(Sabin Prakash Sainju: 2003) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." after completion of the study he has pointed out some findings that are; overall cash management practices have been found disappointing, overall liquidity position of the firm has been found moderately dissatisfactory, overall yearly cash inflows and outflows in RDL is not properly managed. Surplus cash hasn't been properly employed to earn return by investing in short term investment opportunities. Profitable has been found in very weak position and overall cash budgeting practice of RDL is very poor.

(Dilli Raj Bhatt: 2004) had conducted a research in the topic "A Study on Cash Management of Dairy Development Corporation" after completion of the study he has pointed out some findings that are; DDC does not any definite policy regarding how much cash balance to hold in each fiscal year. DDC is able to collect receivables from sundry debtors timely. Liquidity position of the firm has been found dissatisfactory. DDC has not been faced specially shortage of cash .it means DDC able to meet current liabilities. A large portion of DDC's current assets has been tied-up in the most illiquid asset like inventory. Analysis of the liquidity position suggested that current assets have been tied up in slow moving and unsalable inventories. Cash flow and outflow in DDC is not properly managed surplus cash has not been properly employed to earn return by investing in short term investment opportunities. He suggested DDC should determine minimum level of cash balance to hold every year, maintain such minimum level of cash balance as a requirement of precautionary, speculative and compensation motives, besides for daily transactions. Corporation should prepare cash flow statement and cash budget .cash planning manager or experts should be appointed. Idle cash balance should be invested in profitable sectors. There should not be tied up unsalable inventories in current assets. It is the most illiquid current assets, affects the liquidity position of the firm and thus is unfavorable. So it is recommended not to tie up current asset in unsalable inventories.

(Tika Ram Ghimire: 2005) had conducted a research in the topic "Cash Management, A case study of Gorakhkali Rubber Udyog Limited" after completion of the study he has pointed out some findings that are; cash turnover ratio is low which indicates low collection efficiency of

the industry and account receivable turnover ratio is also low. Cash and current liabilities ratio found highly fluctuating that means the industry has been facing problem of cash management. The cash balance of different years shows optimum cash balance is maintained and there is no definite policy applied for cash management. He suggested, company has not maintained optimum cash balance, it should maintain cash balance by matching between surplus and deficiency of cash balance. Industry should prepare cash budget which helps to estimate cash receipt and payment of cash and closing balance of cash .company should keep cash at minimum level and to invest the surplus cash in profitable opportunities .this helps to generate profit for the industry.

(Padeep Koirala: 2006) had conducted a research in the topic "Cash Management in context of Nepal Telecommunication (Nepal Telecom)" after completion of the study he has pointed out some findings that are; company was able to collect more cash from different sources than it targeted in the budget .it shows good position of actual cash collection of the company. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year .but company could not manage surplus in the productive sector. Company has high liquidity which adversely affects profitability .moreover; it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus there was separate budget for investment which was compulsory in nature. Company has also taken external loan from foreign institution which as not required to borrow. It is able to meet it expenses of budget by its own source. On the basis study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus in profitable sectors. If the liquidity of the company is too high, it adversely affects the profitability of the company. So, the company should hold the cash as required to run annual operating expenses .internal sources of company is sufficient to finance whole budgeted expenses of the company. It should not borrow loan from foreign institution because it increases the cost.

(Sundeep Kumar Thapa: 2007) has conducted a research entitled in" Liquidity assessment of Bank of Kathmandu" after completion of the study he has pointed out some findings that are; liquidity position of the company isn't matched with the standard ratio set for the liquidity. The standard current ratio is 2:1 where as the ratio is found only 1.21 in the fiscal year 2062/63 and highest on fiscal year 2058/59 ie1.29 by even that time the ratio was less than standard. He also

found that cash and bank balance to total deposit ratio is not satisfactory as the average ratio found out to be only 0.1408 which seems to be lacking of meeting their standard level. This shows that BOK is not capable to keep more cash balance against its various deposits and thus it defined that liquidity position is not good.

(Kiran Neupane: 2009) has conducted a research entitled in "A study of Cash management of Nepalese Public Enterprises" (A Case study of Salt Trading Corporation Limited.) He has collected the data from secondary source that are published by Salt trading Corporation Limited and related information through the direct interview and questionnaire. He has pointed out some major finding of research work. STCL could not make the best use of available cash balance prudently. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period. The average inventory conversion period into cash is found little more than two months i.e. 62 days which is very slow. The average payable conversion period is faster than average receivable period which isn't a good single for the purpose of managing cash. Management has taken liberal credit policy of sales of goods. Hence the cash &Bank balance of the study period is in minimum. No optimum cash balance is maintained .the cash balance with respect to current asset has been fluctuating trend.

2.8.4. Research Gap

There is gap between present Research and previous Research. There is no Research done on Analysis of Cash management of Finance companies in Nepal. Probability this might be the first research study. This work is different with previous works, study period, some objectives, tools for analysis and the organization. The main issue of this study is to analyze the cash management of finance companies. This study has used to financial and statistical tool for cash management. It mainly concerned with finance companies and data taken in between 2059/60 to 2064/65. This study has been done to analyze the cash position of finance companies, analysis of cash collection and disbursement system and identify the strength and weakness of cash management of finance companies and to provide recommendation to concerned organization for future improvement on the basis of this study.

CHAPTER –II

REVIEW OF LITERATURE

2.9. Theoretical Framework:

2.9.1. Meaning of cash management

Cash is the important current assets for the operation of business. Cash is the basis input needed to keep the business running on a continuous basis; it is also the ultimate output expected by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more or less. Cash shortage will disturb the firm's manufacturing operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability .thus; a major function of the financial manager is to maintain a sound cash position. Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance in its banks accounts. (Pandey: 1992, p. 911)

Cash is the most liquid asset, is of vital importance to daily operation of business firm. Cash is both beginning and the end of the working capital cycle-cash, inventories, receivables and cash. Its effective management is the key determinate of efficient working capital management. Cash is like the blood stream in the human body gives vitality and strength to business enterprises. The steady and healthy circulation of cash throughout the entire business operation is them business solvency. It is cash which keeps a business going. Hence; every enterprise has to hold necessary cash for its existence. In a business firm ultimately, a transaction results in either an inflow or on outflow of cash. In an efficient managed business, static cash balance situation generally does not exist. Adequate supply of cash is necessary to meet the requirement of the business. It is shortage may stop the business operations and may degenerate a firm into a state of technical insolvency and even of liquidation. Through its idle cash is sterile, its retention is not without cost. Holding of cash balance is has an implicit cost in the form of its opportunity costs. The highest the level of idle cash the greater is the cost of holding it in the manner of loss of interest, which could have been earned either by investing it in securities or by reducing the burden of interest charges by paying off the loans taken previously. (Keynes: 1936, p. 170)

2.9.2. Motives of holding cash: (Rana: 2000, p. 242-243)

Organization and individual have four primary motives for holding cash and cash back up in from marketable securities.

xvii) Transaction motive:

Transaction refers to the act of giving and taking cash or kinds in daily business activities like purchase and sales of goods or services. If these payments and receipts in terms of cash were perfectly synchronized, a firm would not have to hold cash for transaction motive. But, in real situation, cash inflow and cash outflow cannot be matched exactly. A firm should hold certain level of cash to meet current payment of cash in excess of its receipt during the period.

xviii) Precautionary motive:

A firm should also hold some cash for the payment of unpredictable or unexpected events. A firm may have to face different crises such as strikes and lock-ups from employees, increases in cost of raw materials, funds and labor, fall in market demand and so on. How much cash is held against these crises depends on the degree of predictability associated with future cash flow. Firm may hold very minimum amount of cash for this motive. The precautionary needs for holding cash are usually satisfied by holding near cash items such as, investment in marketable securities, short term government bond so on.

xix) Speculative motive:

Speculative needs for holding cash require that a firm possibly have some profitable opportunities to exploit, which are out of the normal course of business. These opportunities arise in conditions when price of raw material and interest rate on borrowed funds are expected to decline, and purchase of inventory occurs at reduced price on immediate cash payment. These unexpected moments fetch some benefits to the firm. Therefore, firms hold cash also for speculation.

xx) Compensating balance requirement:

Sometimes, a firm should also hold cash to meet the compensating balance requirement demanded by commercial banks for providing short-term loan. Specially, commercial banks demand that regular borrower should maintain an average checking account balance equal at some percentage of the outstanding loan. The borrower (or firm) cannot be allowed to use it. Bank provides different services to the firm. Compensating balance also represent an indirect charge to bank for providing services. About all this represents the reason why a firm should hold cash.

2.9.3. Efficiency of cash management

"Cash use a number of functions as it makes payment possible. It serves to meet contingencies. But if cash in kept idle it contributes directly nothing to the earning of the corporation. As such corporation must adopt such a policy that makes optimum cash management possible. The financial management of the corporation should try to minimize the corporation's holdings of cash wide still maintaining enough to ensure payment of obligation. For improving the efficiency of cash management, effective method of cash collection and disbursement should be adopted." (Shrestha: 1980, p. 62)

Some method for efficiency of cash management is described below.

xli) Speedy collection of cash:

An organization can maintain optimum cash balance if it can speed up its cash collection. Cash collection can be made speedy and effective by reducing the gap between the times a customer pays his bill and the cheque become available for use. The greater deposit float (the amount of cheque sent by customer but not yet collected) takes long time to convert cheque into usable fund. The techniques which can be used to save mailing and processing time are, concentrating banking; luck box system and special handling of movement of cash.

xlii) Concentration banking:

In this system, numbers of collection centers are established instead of single collection center centralized at the head office of the firms'. A large number of bank accounts are operated in this system in the branches area of the firm. The collection centers will be collected cheques from customers and deposits in their local bank accounts. The collection center will transfer funds at firm's head office each day.

xliii) Special handling of cash:

Special handling of cash helps to operate company's funds in profitable use.

xliv) Delaying disbursement:

"Quick collection and show disbursement accomplish the corporation with adequate cash in hand for longer periods. Effective control of disbursements cash results in a faster turnover of cash."(Shrestha: 1980, p. 64)

Speedy collection of receivables and delay disbursement of account payable can reduce the operating requirement. Slow disbursement represents source of funds requiring no interest payments. "Where the underlying objective of collection is maximum acceleration, the objective in disbursement is to slow them down as much as possible." (Van Horne: 1974, p. 426)

xlv) Cash velocity:

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

$$Cash\ velocity = \frac{Annual\ Sales}{Average\ Cash\ Balance}$$

xlvi) Minimum cash balance:

Organizations are required to keep a minimum cash balance requirement of a bank, either for the service it renders or consideration of lending arrangement.

xlvii) Synchronized cash flows:

Situation in which inflow coincides with outflows, thereby permitting a firm to hold transactions balance to a minimum.

xlviii) Using float:

The different between the balance shown in a firms or individual's cheque book and the balance on the banks records in known as float or cheque written by firms and not deducted from bank records in float.

xlix) Overdraft system:

A system whereby depositors may write cheques in excess of their balances with their banks, which is automatically extending loans to cover the shortage.

l) Transferring funds: (Weston & Copeland: 1982, p.771-773)

It is also one effective method for efficiency of cash management .the method of transferring funds is:

m) Depository transfer checks (DTCS)

DTCS provide a means for moving funds from local depository banks into concentration banks. A DTC is payable only to the bank of deposit for credit to the firms specific account.

n) Electronic Depository transfer checks(EDTCS)

An electronic DTC (EDTC) is a paperless electronic image transfer via the automated clearing house (ACH) network developed by Federal Reserve System. The EDTC avoids the use of the mails and has uniform one-business-day clearing time. Central company management generally initiates EDTCS.

o) Wire transfer

Wire transfer of funds between banks makes funds collected at a bank immediately available for use at another bank. It is the fastest way to move cash between banks, eliminating transit float.

2.9.4. Different technique of cash management:

xiii) Cash planning:

Cash Planning is technique to plan and control the use of cash. It protects financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plan are very crucial in developing the overall operating plans of the firm. Cash planning is a technique to plan for and control the use of cash. (Pandey: 1997, p.42)

xiv) Cash budget:

Cash budget is mainly related with cash receipts and disbursement activities. It is the most significant device to planned control cash receipt and payment. A cash budget is a summary statement of the firm expected cash inflows and outflows over a projected time period. A cash budget is most important for the business enterprises to know about time and magnitude size of expected cash flows and cash balance over the projected period. Financial manager can determine to future cash need of the firm by the helps of information provided by cash budget and helps to plan for the financing of these needs exercise control over the cash and liquidates of the firm.

Different firms may take different time period to preparing cash budget. It depends upon situation and natures of the enterprises. If business is affected by seasonable variations they may prepare monthly cash budget. Daily and weekly cash budget should be prepared for determining cash requirement according to nature of the activities and long time cash budget may be prepared which cash flows are relatively stable. So, the firms can take different time to prepare cash budget. (Pandey: 1992, p. 843)

xv) Cash forecasting: (Panday:1997, p 912)

Cash forecasting may be long-term forecasting and short-term forecasting.

Short-term forecasting:

There are two most common methods of short-term cash forecasting.

i. Receipt and disbursement forecast:

Generally, this technique is used after preparing sales and other budget. This method follows all the items of cash receipt and disbursements are listed to exercise close over the changes in cash flows during a predetermined period. As a result it provides absolute magnitudes of expected cash flows within the company. This technique also can be used in long range cash forecasting.

j. The adjusted net income method:

This method is also known as source and use approach. This method of cash forecasting involves the tracing of working capital flows. There are two objectives, which are mainly involves in the approach. To project the company's needs for future date and next to show how much the company generate this money internally and if not how much will have to either borrow or rise in the capital market.

The item can be easily determined from the company's annual operating budget such as net income, depreciation, taxes, dividend etc., in preparing the adjustment net income forecast.

Long term cash forecasts

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

- To indicate as company's future financial needs especially for its working capital requirement.
- To evaluate proposed capital projects. In pin pints the cash required to finance these projects as well as the cash to be generated by the company to support them.
- To improve corporate planning. Long term cash forecast compel each division to plan for future and no formulate project carefully.

2.9.5. Cash management models:

Different analytical models are used in cash management are:

xvii) Baumol model

xviii) Miller model

xix) Orgler's model

xx) Cash management models

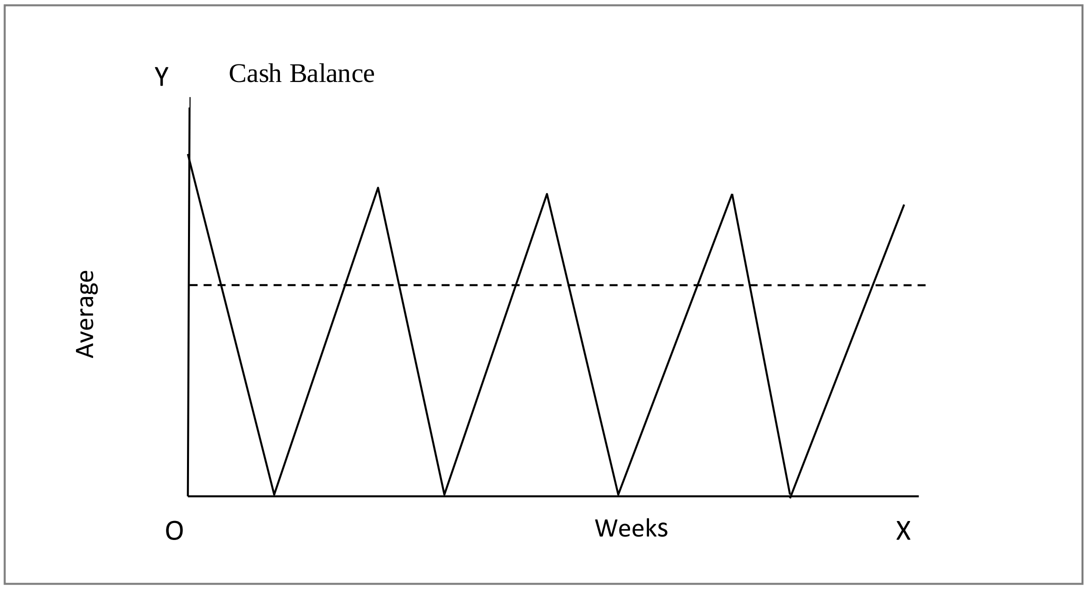
xvii) Baumol model: (Baumol: 1952 p. 545-556)

Baumol model is one of the methods, which can be used for minimizing the opportunity cost of holding cash and maximizing the return on the available funds. The cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

It is simple inventory model that tells something about the management of cash balance. This model is specially based on the following assumption that the cash is used ate constant rate. The periodic cash requirement is more or less and there are some costs such as opportunity costs that increase and other costs such as transaction costs that decrease the cash balance. We can describe it by taking help of following figure.

Figure No. 1

EOQ Model of Cash Balance



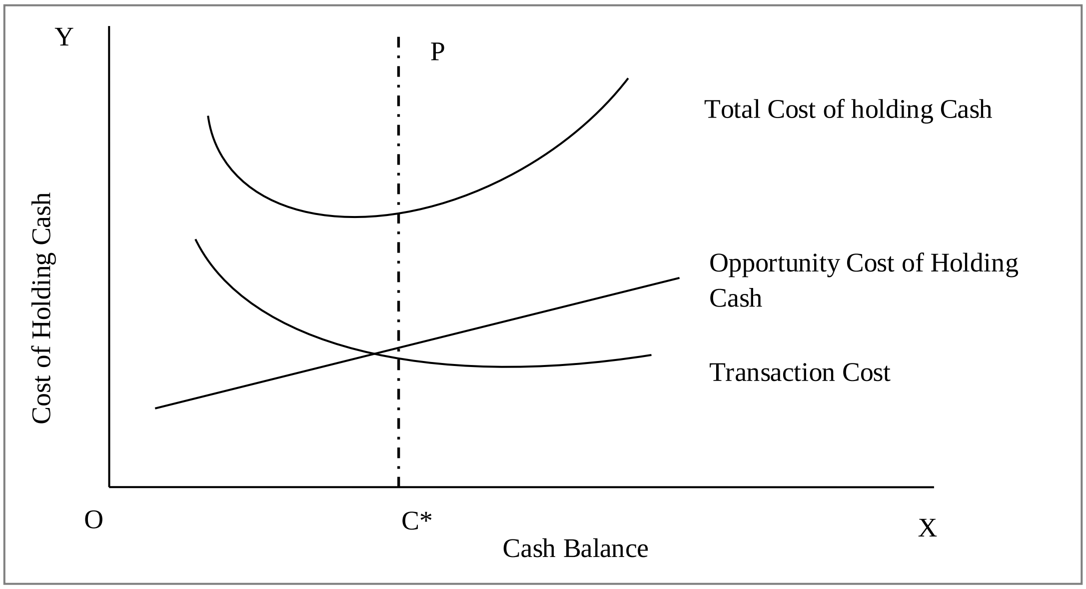
Unlike the case of inventory purchase, the cash transfer does not take the time. Therefore; it is normally not required to maintain safety stock of cash.

The model prescribes an optimal size of cash balance and the optimal size of cash transfers from marketable securities to cash account or borrowing. The objectives of this model are to minimize the total cast which is related with the total of opportunity cost and the transaction cost of a firm.

The relationship between average size of cash balance and various costs associated with the cash management is shown by below figure.

Figure No. 2

Relationship between Cash and various Costs



The optimal size of the cash balance is lies in point C* mathematically, the optimal size of cash transfer from investment account or line of credit C* is determined as follows.

$$C^* = \sqrt{\frac{2bt}{i}}$$

Where,

B = fixed transaction cost per transaction.

T = requirement of cash per period

I = opportunities cost of holding cash or interest rate on borrowing.

In the case of predictable uniform net cash flows, the model can be applied appropriately but not in irregular and uncertain cash flows.

The average cash balance 'Ca' is calculated as:

$$Ca = \frac{C*}{2} + M$$

Where,

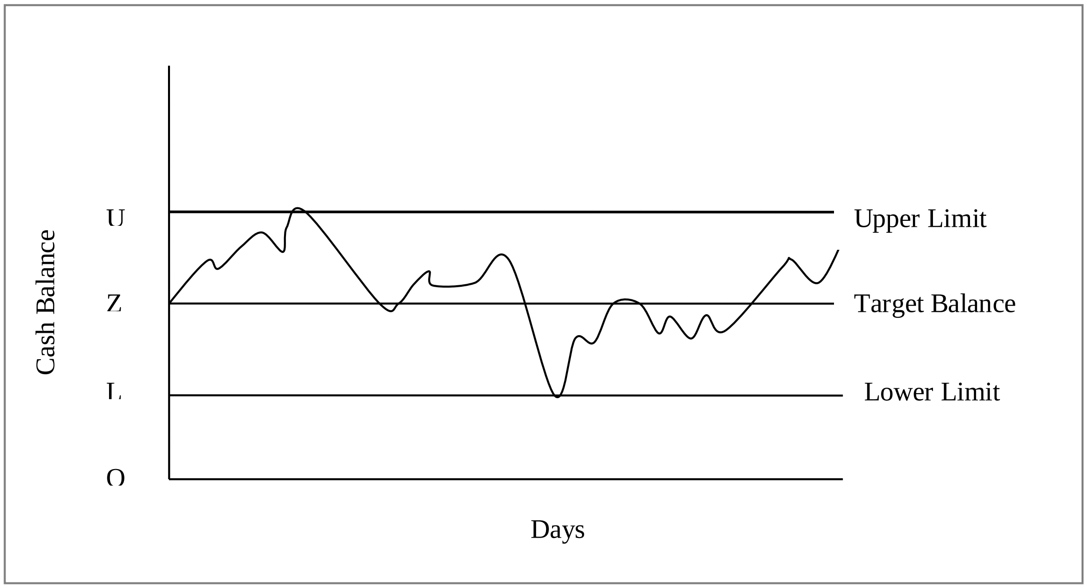
M= minimum balance or cash for precautionary purpose.

xviii) Miller – ORR model: (Miller and ORR: 1966 p. 413-435)

The lot size of cash need depends on the patters and degree of irregularity of cash inflow and outflow. Miller ORR model which is developed by Merton miller and Denial Orr, that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice versa. The model assumes that the daily net cash flows are random in size as well as positive or negative flows and are normally distributed in the long run. According to this model, it sets an upper (U) and Lower (L) limit within when the cash balance is allowed to fluctuate and sets the target cash balance in between these two limits. This model needs of follow is to transfer the amount of cash that is necessary to bring the cash position to its target balance from the investment account whenever the balance gets slide down to the lower limit 'L' to transfer the cash in excess of target balance to the investment account whenever it reaches to the upper limit 'U'. In this model the lower limit is set by managerial decision to meet emergency or as required to maintain compensating balance in the account by the bank. The graphical presentation of the model is given below:

Figure No. 3

Miller Orr Model of Cash Management



Mathematically the model is set as follows:

Target Balance;

$$Z* = \left[\frac{3F\sigma 2}{4i}\right]^{1/3}$$

The model calculated U as:

U = 3z*

Where,

Z* = Target Cash Balance

F = Fixed Translation cost per transacts

I = Daily interest/opportunity cost

σ^2 = Variance of net daily Cash flows

L= Lower limit

xix) Orgler's model: (Orgler: 1970, p. 220)

This model can follows an optimal cash management strategy determined through the use of a multiple linear programming model comprise i) Selection of the appropriate planning horizon. ii) Selection of the appropriate decision variable. iii) Formulation of the cash management strategy itself.

This model uses time horizon of the model basically one-year i.e. 12 month's period for its simplicity. It has four basic set of decision variable which influence cash management of a firm and which must be incorporate into the linear programming model of the firm are i) Payment schedule ii) short time financing iii) Purchase and sale of marketable securities and iv) Cash balance. In this model, its objectives function is to minimize the horizon value of the net revenues from the cash budget over the entire planning period, assumption to be used that (i) all revenue generated is immediately reinvested and (ii) that any cost in immediately financed.

The objectives function, which recognized each co-operation of the firm, generates cash inflow or cash out flows as adding or subtracting profit opportunities for the firms cash management operations. In the objective function, there may be positive or negative coefficient, the decision variables which generate cash inflow, such as payment on receivables have positive coefficient and which generate cash outflow such as interest on short term borrowing gave negative co-efficient.

In this model the constraints could be (i) institution constraints like labors, raw material, machine, money, energy etc. and (ii) Policy constraints. External factor imposes the institution constraints for its instance. The financial management may be prohibited from selling securities before maturity, in this model constraints can occur during monthly or the entire month in the one year planning horizon etc.

An example of linear programming is given below.

Objective function,

$$Max.profit = a_1x_1 + a_2x_2$$

Subject to:

$b_1x_1 + b_2x_2 = Production\ constraint$

$c_1x_1 + c_2x_2 \leq Cash\ available\ constraints$

$$d_1x_1 + d_2x_2 \geq Current\ assets\ requirement\ constraints$$

xx) **Cash management model:** (Weston and Copeland: 1990, p. 784-785)

In this model, it is assumed that the firm on average is growing and is a net user of cash. Marketable securities represent a buffer stock between episodes of external financing which is drown as required periodically ordering costs are represented by clerical and transactions costs of making transfers between the investment portfolio and the cash account. The holding cost is the interest foregone a cash balance held. Assuming that expenditure occurred evenly over time and that cash replenishment comes in lump sum at periodic intervals. The optimal size of the cash transfer is formulated as follows.

$$C = \sqrt{\frac{2bT}{i}}$$

C = the optimal size of the cash balance

T = the total cash usage for the period of time involved.

b = the most of transaction in the purchase or sales of marketable securities.

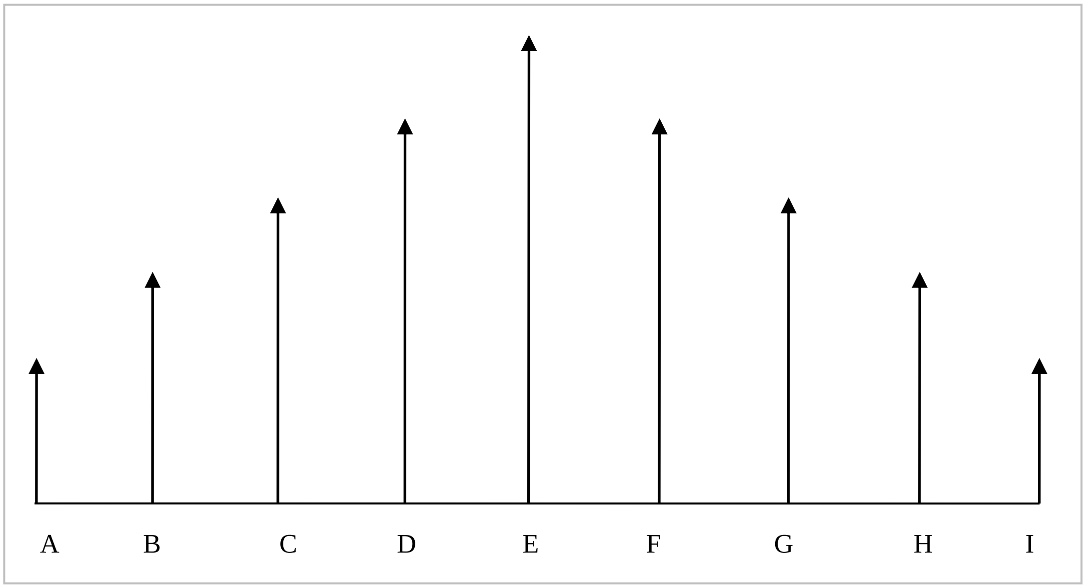
i = the applicable interest rate on marketable securities.

2.9.6. Cash cycle : (Solman and Pringle: 1978, p.178)

The process by which cash is used to purchase materials for producing goods, after production, which are then sold to customers, and they pay bills. The firm receives cash from customers than the cycle is presented. The cycle repeats time to time that is called cash cycle. The several steps are involved in cycle which is given below:

Figure No. 4

Cash Cycle



Where,

A = Materials order

B = Materials received

C = Payment

D = Cheque Clearance

E = Goods Sold

F = Customers mail payment

G = Payment received

H = Cheque Deposited

I = Funds collected

The cash cycle may consume a long time period. If we conduct cash management strategies, we concerned with time period s involves in point B, C, D and F, G ,H ,I it may be mentioned that a firm has no control over the time involved between stage A and B the lag between D and E is determined by the production process and inventory policy. The time period between E and F is determined by credit terms and the payment policy of customers. So, the time horizon taken by cash cycle depends upon spiller's policy, payment policy, production process and inventory policy, credit terms and customers payment policy etc.

2.10. Review of Books and Research works:

2.10.1. Review of Books:

In the section an attempt has been made to reviews some book on financial management which deals with management of cash.

Cash a corporate has must be utilized efficiency to meet obligation of interest payment it cash is obtained from borrowing and it is received through issue of shares the corporation has responsibility to owners in assuring them to pay favorable rate of return since cash is not easy to obtain the available cash must be prudently spent without incurring loss. Although it is impossible to formulate a set assets management policy of universal accepted is that cash must be conserved. (Raymond P. Kent, 1964, p. 128)

In the type of financial manager should not only attain toward the aspect of profitability but he should also turn forwards ensuring the liquidity of the corporation. Since every business is a constant debtors and enterprise borrow funds financial institution and purchase merchandise on credit. There by are fewer obligations to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of firms is tarnished at worst the creditor may force the firm to terminate it business.(Soolmon and Flink Donald: 1964, p. 13)

A cash budget shows the planned cash inflow, outflows, and ending position by interim for a specific time span. Most companies should develop the long term and short term cash budget is included in the annual profit plan. a cash budget basically includes two parts (i) the planned cash receipt (ii) planned cash disbursement, planning cash inflow and outflow give the planed beginning and ending cash position for the budget period planning the cash inflows will include

1) need for financial probable cash deficit or the need for the investment planning to put excess cash to probable uses. (Welesh, Glean A Hillon Ronald W. Gordon: 1964, p. 433)

Some theoretical insights in to current management (Cash management) after their various research studies provides on it. The bond conceptual findings of their studies provide sound knowledge and guidance for the future studies and naturally to this study as well. They explain in the beginning the motives for holding cash specific advantage of adequate cash synchronization of cash flow expending collection and check clearing. Using float cost of cash management determining minimum cash balance compensating balances over draft system cash management. Market securities, arrangement of account receivable credit policy have evaluating changes in credit policy. (Weston and Brigham: 1973, p.138)

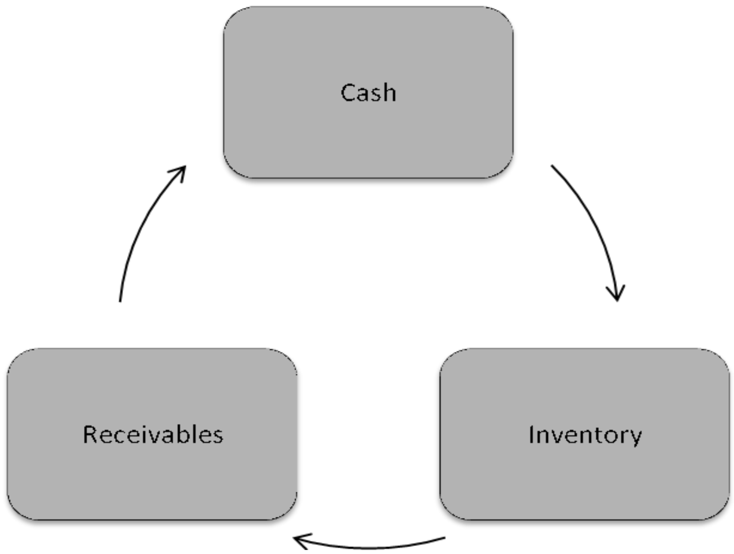
Liquidity is the life blood of a corporation and a want of cash is the only factor which may free it out of business cash flow in corporation by direct cash sales of assets. It flows out indirect purchases and payment to creditors, wages and other costs. Cash also flows in purchase and payment to creditors, wages and other equipment. In the payment of takes interest on important bearing on the overall liquidity position and failure of maintaining sufficient degree of liquidity may cause interruption of regular operation. Besides making corporate manager’s unable to pay obligation in time, while each situation in unique the one common threats that runs through all corporate in crisis in lack of liquidity. (Jedry & Chiston: 1976, p. 24)

The cash management of corporation is significant enough to have the best use of idle cash balances and to take the advantages from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. The various motives for holding cash and determination of safety level based on normal periods and peak period must be adequately considered. The cash flow balance of corporation can be sufficiently improved by increasing volume of sales and turnover of total assets. But on the whole measure should be taken to have efficient collection combined with disbursement. (Shrestha: 1982, p. 62)

First of all it is obvious that cash is component that correlated with working capital which is known to be current assets. The circulation nature of current assets can be depicted as figure given below.

Figure No. 5

Circulation nature of Current Assets



"A firm begins with cash which is used for purchase o raw material and bought in components. Material and other operating supplies can also be purchased on credit which in turn generates account payable. Further cash is expended to pay the labor and other manufacturing costs and further trade credit obtained to enable production of finished goods which are eventually sold on credit giving rise to accounts receivable. The collection of receivables brings cash in to the firm and creditors are paid. The average time, which elapses between the acquisition of material or services entering in to the manufacturing process and the final cash realization constitutes and operating cycle." (Jain and Narang: 1988, p. 174-175)

We also received from theoretical concept on the component of cash management from book. He has categorized the various component of cash management. These are the functions of cash management managing collection transferring funds concentration banking. Lock box system and other procedure disbursement. Zero balance account, electronic fund transfer, balancing and cash and marketable securities, compensating balance and fees, model for determining optional cash inventory model stochastic model. A probabilities approach optional level of cash. (Van Horne: 1990, p. 389-415)

Cash is the important aspect of working capital. Cash is the basis needed to keep the business running on in order to keep the firm sufficient liquid and to use excess cash in profitable way. The firm should held sufficient cash; neither more, nor less, cash shortage will disrupt the firms without contributing anything towards the firm profitability. Thus a major function of the financial manager is to maintain a sound cash position. Some conceptual ingredients which are based on his various research studies. We can learn lesson from it and also helpful for this study indeed. He described various concept of cash management. Motive of holding cash, cash planning, cash forecasting and budgeting, and the cash flows are determining the optimum cash balance. (Pandey: 1992, p. 839-869**)**

Cash management strategies are generally built around two goals. (a) To provide cash needed to meet the obligation and (b) to minimize the idle cash held by firm. The financial manager has to strike an acceptable balance between holding too much cash and too little cash. This is the focal point of the cash risk return trade-off. Large cash investments minimize the chances of default but penalize the profitability of the firm. a small cash balance target may free the excess cash balance for investment in marketable securities and thereby enhancing the profitability as well as value of the firm, but simultaneously the chances of running out of cash.(Rustagi:2001,p 921)

The term “cash” with reference to cash management is used in two senses. In a narrower sense it includes coins, currency, notes, cheques, bank overdrafts held by firm with it and the demand deposits held by it in banks. In boarder sense it also includes “near cash assets” such as, marketable securities and time deposits can immediately be sold or converted into cash of the circumstances requires. The term cash management is generally used for management of both cash and near cash assets. (Maheshwari: 2001, p 299)

Cash management involves managing the monies of the firm to maximize cash availability and interest income any idle funds. At one end, the function starts when a customer writes a cheak to pay the firms on its current receivable. The function ends when a supplier, an employee or the government realizes collect funds from the firm on an account payable or accrual. All the activities between these two points fall within the area of cash management. The firm’s effort to get customers to pay their bills at a certain time fall within account receivable management (Van Horne: 2002, p 429)

Cash management is one part of the key areas of working capital management. Apart from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e., receivables and inventories get eventually converted into cash. (Khan & Jain: 2003, p 7.11)

Cash includes coins, currencies, cheque hold by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "near cash items" are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. (Pradhan: 2004, p 310)

The cash management is one of the main areas of working capital management. The basic objective of cash management is to ensure adequate cash not more or less. It is concerned with managing cash inflows and outflows. The cash management involves formulations of policies and programs. For cash receipts and payment which maximize the value of the firm. The cash management is also called management of money position because it includes not only the management of cash also the management of the near asset such as marketable securities, readily available credit and so on. (Shrestha: 2006, p 373)

The function of cash management starts when a customer writes cheques to pay the firm on its account receivable. The function ends when a supplier, an employee, or government realizes collected funds from the firm on an account payment or accruals. The basic purpose of cash management is to enable a firm to maintain sufficient liquidly and also at the same time improve its profitability. Cash management is concerned with management of cash so as to achieve the generally accepted objectives of the firm. Maximum profitability is consistent with minimum liquidity of the firm. It is the management's ability to recognize cash problems before they rise and to delegate someone the identified solution to carry them out. Cash itself is not an asset capable of causing the profit differential for the firm; it is desirable that cash balances be minimized as much as possible. Yet the maintains of adequate cash balances is an obvious requirement, if a firm's solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintain a balance at the lowest figure adequate to meet current obligations. (Poudel, Baral, Gautum and Rana: 2007, p 406)

Cash management assumes more important than other current asset because cash is the most significant and the least productive asset that a firm holds. The aim of cash management should be to maintain adequate cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way. Therefore, firm should try to maintain the optimum level of cash that maximizes the values of the firm. (Manandhar, Dhakal, Thapa, Koirala and Basnet: 2009, p 6.13).

Cash is often called ‘non earning assets’. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash itself earns no interest, thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, yet, the same time, to have sufficient cash i) to take trade discount, ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.(Brigham & Ehrhardt: 2009, p 656)

2.10.2. Review of journals

W.J Baumol, At the article “the transaction demand for cash: An inventory theoretic Approach” on quarterly journal of economic (VOL. LXV, Nov,1992) identifies cash maintenance as analogues to inventory maintained and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be investment in the marketable securities.

M.H Miller and Orr .D, in their article “ A model of the demand for money in firms” an quarterly journal of economic, (VOL.LXY, Aug. 1996) have developed a model known a Miller-Orr model ,that takes into account the realistic pattern of cash flows and prescribed when and how much to transfer from cash to investment account and vice-versa.

Ram M. Saksena at his Article, “Towards more efficient cash management” on quarterly journal of management quality (VOL. NO 5,1974) identified that the term cash management has a meaning according the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash as the means to satisfy human want, the lawyer view that cash is the legal tender money issued by determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid items among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest .in through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

2.10.3. Review of Research works:

In last few years, prior to this thesis, some students of M.B.A. and M.B.S. programme have been found conducting research about the cash Management. Some of them, which are supposed to be relevant, have been reviewed and presented in this section.

(Subarna Lal Bajracharya: 1990) had conducted a research in the topic "Cash Management in Public Nepalese Enterprises" after completion of the study he has pointed out some findings that are; Cash management in Public enterprises of is preliminary based on traditional practices. Lacking of scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis. Modern practices with respect to debt collection monitoring the payment behavior of customers and relevant banking arrangement in connection with collection receivables have been virtually ignored in many enterprises. Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. Majority of the enterprises did not face any serious liquidity problem. However, this wants because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay in payment to creditors.

He has suggested that, cash planning and cash budgeting on a formal basis such as to project cash surplus or cash deficit for a period not to exceeding one year and broken up into shorter intervals. Managing the cash flows is to accelerate the inflows as far as possible to decelerate outflows. He also stressed to maintain optimal level of cash and at last, it can be better invest idle fund in marketable securities.

(Bijay Pradhan: 1997) had conducted a research in the topic "A Study on Cash Management of Salt Trading Corporation Limited" he has conducted a research of six years periods under consideration from F.Y 2047/48 to F.Y 2052/53. After completion of the study he has pointed out some findings that are; The STCL could not make the best use of available cash balance prudently. Cash collection efficiency in the corporation is very low .the collection of trade credit in the corporation is low during the study period. Management has taken liberal credit policy to sales of goods. Cash and bank balance of the study period's minimum of Account receivable. He suggested that cash should be managed effectively. Cash budget cash and funds flow statement should be prepared. Which helps to estimate cash receipt and payment of cash .The Corporation should be adopt suitable credit policy for effective cash management. The surplus of cash balance should be investment in profitable opportunities.

(Biranji Gautom: 1999) had conducted a research in the topic "Cash Management in Public Manufacturing Enterprises of Nepal." A case study of Gandaki Noodles Pvt. Ltd.", after completion of the study he has pointed out some findings that are; cash collection efficiency in this company is low. Company has not best use of available cash balance. Company has taken liberal credit policy to sales of noodles. Hence cash balance of the study period was minimum account receivable. Debt collection of the company is low. Cash balance with respect to current assets and total assets has been fluctuating trend. After analysis of findings, he has recommended that, company should to appointed financial expert to fulfill the lack of financial experts. The company should acetate its debtor receivables collection, the dealers and distributors should provide proper incentives for earlier payment. Company should have proper cash planning to estimate the cash receipts and payment. Company should adopt effective credit policy.

(Ramesh Prithi: 2003) had conducted a research in the topic "A study on Cash Management of United Mission Hospital Tansen, UMHT" after completion of the study he has pointed out some findings that are; the cash collection efficiency in UMHT is very low. It is found that management is less concerned to speed of collection of account receivables. Cash balance with respect current assets has been fluctuating trend. Current ratio shows the uncomfortable working situation maybe experienced in payment of current liabilities and day to day operation of the business may suffer. There is no good relationship between cash and revenue, but significant relationship between receivables and cash balance. He recommended to prepare monthly trail balance, cash and funds flow statement and looking at the organization‘s inefficiency in the area of internal audit and central system. The UMHT should pay much attention toward collection of account receivable and to decrease average collection period for effective cash management.

(Sabin Prakash Sainju: 2003) had conducted a research in the topic “Cash Management in Public Manufacturing Enterprises of Nepal.” after completion of the study he has pointed out some findings that are; overall cash management practices have been found disappointing, overall liquidity position of the firm has been found moderately dissatisfactory, overall yearly cash inflows and outflows in RDL is not properly managed. Surplus cash hasn’t been properly employed to earn return by investing in short term investment opportunities. Profitable has been found in very weak position and overall cash budgeting practice of RDL is very poor.

(Dilli Raj Bhatt: 2004) had conducted a research in the topic “A Study on Cash Management of Dairy Development Corporation” after completion of the study he has pointed out some findings that are; DDC does not any definite policy regarding how much cash balance to hold in each fiscal year. DDC is able to collect receivables from sundry debtors timely. Liquidity position of the firm has been found dissatisfactory. DDC has not been faced specially shortage of cash .it means DDC able to meet current liabilities. A large portion of DDC’s current assets has been tied-up in the most illiquid asset like inventory. Analysis of the liquidity position suggested that current assets have been tied up in slow moving and unsalable inventories. Cash flow and outflow in DDC is not properly managed surplus cash has not been properly employed to earn return by investing in short term investment opportunities. He suggested DDC should determine minimum level of cash balance to hold every year, maintain such minimum level of cash balance as a requirement of precautionary, speculative and compensation motives, besides for daily transactions. Corporation should prepare cash flow statement and cash budget .cash planning manager or experts should be appointed. Idle cash balance should be invested in profitable sectors. There should not be tied up unsalable inventories in current assets. It is the most illiquid current assets, affects the liquidity position of the firm and thus is unfavorable. So it is recommended not to tie up current asset in unsalable inventories.

(Tika Ram Ghimire: 2005) had conducted a research in the topic “Cash Management, A case study of Gorakhkali Rubber Udyog Limited” after completion of the study he has pointed out some findings that are; cash turnover ratio is low which indicates low collection efficiency of the industry and account receivable turnover ratio is also low. Cash and current liabilities ratio found highly fluctuating that means the industry has been facing problem of cash management. The cash balance of different years shows optimum cash balance is maintained and there is no definite policy applied for cash management. He suggested, company has not maintained optimum cash balance, it should maintain cash balance by matching between surplus and deficiency of cash balance. Industry should prepare cash budget which helps to estimate cash receipt and payment of cash and closing balance of cash .company should keep cash at minimum level and to invest the surplus cash in profitable opportunities .this helps to generate profit for the industry.

(Padeep Koirala: 2006) had conducted a research in the topic "Cash Management in context of Nepal Telecommunication (Nepal Telecom)" after completion of the study he has pointed out some findings that are; company was able to collect more cash from different sources than it targeted in the budget .it shows good position of actual cash collection of the company. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year .but company could not manage surplus in the productive sector. Company has high liquidity which adversely affects profitability .moreover; it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus there was separate budget for investment which was compulsory in nature. Company has also taken external loan from foreign institution which as not required to borrow. It is able to meet it expenses of budget by its own source. On the basis study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus in profitable sectors. If the liquidity of the company is too high, it adversely affects the profitability of the company. So, the company should hold the cash as required to run annual operating expenses .internal sources of company is sufficient to finance whole budgeted expenses of the company. It should not borrow loan from foreign institution because it increases the cost.

(Sundeep Kumar Thapa: 2007) has conducted a research entitled in" Liquidity assessment of Bank of Kathmandu" after completion of the study he has pointed out some findings that are; liquidity position of the company isn't matched with the standard ratio set for the liquidity. The standard current ratio is 2:1 where as the ratio is found only 1.21 in the fiscal year 2062/63 and highest on fiscal year 2058/59 ie1.29 by even that time the ratio was less than standard. He also found that cash and bank balance to total deposit ratio is not satisfactory as the average ratio found out to be only 0.1408 which seems to be lacking of meeting their standard level. This shows that BOK is not capable to keep more cash balance against its various deposits and thus it defined that liquidity position is not good.

(Kiran Neupane: 2009) has conducted a research entitled in “A study of Cash management of Nepalese Public Enterprises” (A Case study of Salt Trading Corporation Limited.) He has collected the data from secondary source that are published by Salt trading Corporation Limited and related information through the direct interview and questionnaire. He has pointed out some major finding of research work. STCL could not make the best use of available cash balance prudently. The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period. The average inventory conversion period into cash is found little more than two months i.e. 62 days which is very slow. The average payable conversion period is faster than average receivable period which isn’t a good single for the purpose of managing cash. Management has taken liberal credit policy of sales of goods. Hence the cash &Bank balance of the study period is in minimum. No optimum cash balance is maintained .the cash balance with respect to current asset has been fluctuating trend.

2.10.4. Research Gap

There is gap between present Research and previous Research. There is no Research done on Analysis of Cash management of Finance companies in Nepal. Probability this might be the first research study. This work is different with previous works, study period, some objectives, tools for analysis and the organization. The main issue of this study is to analyze the cash management of finance companies. This study has used to financial and statistical tool for cash management. It mainly concerned with finance companies and data taken in between 2059/60 to 2064/65. This study has been done to analyze the cash position of finance companies, analysis of cash collection and disbursement system and identify the strength and weakness of cash management of finance companies and to provide recommendation to concerned organization for future improvement on the basis of this study.

CHAPTER III

RESEARCH METHODOLOGY

3.1. Introduction:

This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. 'Research Methodology' is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. "Research methodology" refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view".

Methodology states the method with which data have been extracted and discuses the tools that have been used in interpretation of such data to fulfill the objectives. This research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what date have been collected, what particular method has been adopted, why the hypothesis has been formulated etc. (Joshi: 2002, p 19)

It consists of research design, population and sample study, sources of data, data processing procedure and technique of analysis of data this study is more analytical and empirical. It covers quantitative methodology using financial and statistical tools. The study is mainly based on secondary data gathered from respective annual reports of finance Company especially from profit and loss account, balance sheet and other publications made by the finance Company.

3.2. Research Design:

A well settled research design is necessary to fulfill the objective of the study. It means definite procedures and techniques are used that guide to study and propounds ways for research viability. This study aims to evaluate managerial efficiencies and performance regarding cash management of Financial Institutions. This study tries to make comparison and to establish relationship between two or more variables. So it could be termed an analytical and descriptive study. So as to facilitate the assessment, we collected Six years data (2059/60-2064/65) of PFCL and BFCL and are tabulated and different statistical as well as financial tools are used to analyze and to find out needed result.

3.3. Sources of Data:

The study is mainly based on secondary data, which are collected from their respective annual reports especially from profit and loss accounts, balance sheet and other publications made by the financial institution. Likewise, some other related information are gathered from related finance company, banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited, Ministry of Finance, National Planning Commission etc.

3.4. Data collection procedures:

The secondary data has been collected from annual reports of finance companies. This study is based on secondary sources of data and the annual financial statements have been collected from the fiscal year 2059/60 to 2064/65 and were in the firm pointed books of balance sheet. Other related data are also collected and used in this thesis. Other related data are also collected from the head office and used in this thesis.

3.5. Data Processing Procedures:

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated under different heads. After tabulation, they are analyzed by applying both financial and statistical tools.

3.6. Population and Sample:

At present, there are 70 finance companies are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population.

To carry out this study, Pashchimanchal Finance Company and Butwal Finance Company have been taken as a sample for the study. Financial statement of 6 years from 2059/60 to 2064/65 has been taken as sample data.

3.7. Tools and Techniques of Analysis:

Different tool and techniques are used to analysis the numerical data. For this study, financial and statistical tools have been used.

3.8. Financial and Statistical Tools for analysis of data:

In this research study various financial tools are employed for the analysis. There are various ratios but in this study some selected ratios among them are used.

3.8.1. Ratio analysis:

In financial analysis, ratio is used as an index of measure for evaluating the financial position and performance of the firm. Ratio analysis refers to the quantitative relationship between two sets of arithmetical data. Ratio analysis serves the mode of financial analysis of various accounting data extracted from different financial statements. Ratio analysis provides the information relation to strengths and weaknesses of financial data in relation to others. Hence ratio analysis is supposed to be the most important tools of analyzing financial statements. There are various types of financial ratios that can be used to make a comparative analysis of financial statements. For purpose, operational efficiency, the rate of returned on capital employed and activity, efficiency ratios are calculated under presentation and data analysis chapter.

3.8.1.1. Analysis of cash turnover:

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

$$Cash\ turnover = \frac{Sale}{Cash\ in\ hand/bank}$$

It measures the speed with a cash moves through as enterprises operation.

3.8.1.2. Account Receivable Turnover:

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

$$Receivable\ turnover = \frac{Sales}{Account\ Receivable}$$

In indicates the number of times the receivable are turned over during the year .it gives the general measure of the productivity of the receivable measure. If the ratio is high the working capital becomes higher and if the ratio is low the working capital becomes lower.

3.8.1.3. Collection of Account:

$$Collection\ of\ account = 1 - \frac{Receivable}{Sales} \times 100$$

3.8.1.4. Account Receivables to cash bank balance:

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

$$AR\ to\ Cash/bank\ balance = \frac{Cash\ and\ Bank\ Balance}{Account\ Receivable}$$

3.8.1.5. Analysis of cash to current liabilities:

$$Cash\ to\ current\ liabilities = \frac{Cash\ and\ Bank\ Balance}{Current\ Liabilities}$$

3.8.1.6. Current Ratio:

It is the relationship of current asset and current liabilities.

$$Current\ Ratio\ = \frac{Current\ assets}{Current\ Liabilities}$$

3.8.2. Average collection period (ACP) :

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

$$Average\ collection\ period = \frac{Days\ in\ year}{Receivable\ turnover}$$

3.8.3. Cash and bank balance to Saving Deposit ratio:

This measures the ability of finance companies to pay back the amount of saving deposit. Finance companies are required to maintain optimal balance in the form of cash and bank balance must liquid asset. It is computed as.

$$Cash\ \&\ bank\ balance\ to\ Saving\ Deposit = \frac{Cash\ \&\ bank\ Balance}{Saving\ Deposit}$$

3.8.4. Cash and bank balance to Total Deposit ratio:

It measures the ability of finance companies honoring total deposits. The forgoing ratio considers amount to pay back immediately while it takes care of all account holders. It is computed as.

$$Cash\ \&\ bank\ balance\ to\ Total\ Deposit = \frac{Cash\ \&\ bank\ Balance}{Total\ Deposit}$$

3.8.5. Straight line trend, correlation and regression:

3.8.5.1. Straight line trend:

There are many method of time series analysis but only the method of least square or straight lien trend will be applied to evaluate the financial performance of the company as well as t forecast the numerical values of any variable for future based on past data's. The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular punctuations, the trend value increases or decreases by constant absolute amount 'b' per unit of time. Hence, the linear trend values from a series in arithmetic progression, the common difference being 'b' the slope of trend line" (Gupta: 1992, p. 181)

The straight line trend is represented by equation

$Yc=a+bX$

Where,

Yc = Trend value of y variables

Y = Variables which is assumed to depend up on time

a = Computed trend value of the y variable when $x = 0$

b = Slope of the trend line or the amount of change in y corresponding to the change in x by one unit

x = the variable which represents time ($x = 1$ year)

The following two simultaneous equations must the solved to find out the value of a, b and x to estimate the trend equation.

$\sum y = Na + b\sum x$

$\sum xy = a\sum x + \sum x^2$

Where, N is the number of years or any period which the data are given.

The normal equations are obtained by using above two conditions and some mathematical manipulation.

To simplify the calculation the mid-point in time is taken as origin, so that:

$\sum x = 0$, then the above two normal equations will be reduced to:

$\sum y = Na$

$$\therefore a = \frac{\sum y}{N}$$

$\sum xy = b \sum x^2$

$$\therefore b = \frac{\sum xy}{\sum x^2}$$

3.8.5.2. Karl Pearson's Coefficient of Correlation (r):

Correlation analysis is the statistical tools that; we can use to describe the degree to which one variable is linearly to another. The correlation helps in determining the degree of relationship between two or more variable but not shows the causes and effect relationship. In business, correlation analysis enables the executive to estimate costs, sales or price may be functionally related. Some of the guesswork can be removed from decision when the relationship between a variable to be estimated and the one or more other variable on which it depends are closed and reasonably in variant.

In this study, the Karl person's coefficient correlation has been used to determine the relationship between different financial variables of finance companies.

The formula for computing Karl person's coefficient correlation 'r' is as follows.

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

Where,

$x = x - \bar{x}$

$y = y - \bar{y}$

x & y = variables

The value of coefficient of correlation 'r' always lies between -1 and +1

When,

r = +1, it shows perfectly positive correlation between variables

r = 0, it shows no correlation between variables.

r = -1, it shows perfectly negative correlation between variables

3.8.5.3. Standard deviation:

The standard deviation is the most important and widely used measure of dispassion or variability. The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ it is also called "root mean-squared deviation ." the S.D or the roots mean squared deviation is the squared root of the mean of the square deviation from their mean of set of values.

The standard deviation is an absolute measure of dispersion the greater the standard deviation the greater the amount of dispersions of a distribution. A small standard deviation indicates a high degree of uniformity or homogeneity of the data, a large standard deviation indicates just the opposite. The fundamental formula for the standard deviation, which has been used in our analysis, is as follows:

$$S.D(\sigma) = \sqrt{\frac{\sum x^2}{n}}$$

SD is applied where necessary to analyze the cash management system of selected financial institutions.

3.8.5.4. Probable Error (P.E)r of Correlation Coefficient:

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of correlation coefficient ‘r ‘

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

If ‘r’ is less than its P.E, it is not at all significant.

If ‘r’ is more than 6 times, its P.E and greater than is ± 0.5 then it is considered significant.

3.8.5.5. Regression Line:

Regression is the determination of statistical relationship between two or more variables. In simple regression there are only two variables one is independent variables that affects the behavior of dependent variable. Regression can only interpreted on what exists physically i.e. there must be a physical way in which independent variable(x) cab effect dependent variable(y).(Kothari,1989)

The computation of regression analysis is formula is as follows.

Regression line of (x) variable on (y) variable (i.e. ‘x’ on ‘y’)

$$(x - \bar{x}) = r\ \frac{\sigma x}{\sigma y}(y - \bar{y})$$

2) Regression line of (y) variable on (x) variable (i.e. ‘y’on ‘x’)

$$(y - \bar{y}) = r\ \frac{\sigma y}{\sigma y}(x - \bar{x})$$

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Introduction:

One of the major responsibilities of management is to plan, control and safeguard the resources of the organization. Cash is a very important asset of the organization. So the management of cash is important in enterprises, whether the organization is large or small, profit making or nonprofit making organization. The basis objectives of this study it is to have a true insight into "cash management" of selected finance company. For accomplishment of these objectives, a definite course of research methodology has been followed, which has been described in chapter iii. Now in this section an effort has been made to assess and analyze the actual cash management in selected finance company. Analysis of individual data itself is crucial for the decision purpose. Ration analysis, average collection period, straight line trend, correlation and regression are based on the data provided by the selected finance companies in their respective period, which has been presented and analyzed here. Analysis of the data is based on the deployment of various financial and statistical tools, so main focus of the study is to analyze these factors, which influence the cash management analysis. Recent Nepalese market movement has been analyzed and diagnosed with special reference to the financial sector.

4.2. Analysis of cash balance:

Management of cash plays a significant role in current assets of Nepalese Financial institutions. The total cash includes cash in hand, cash at bank and cash in transit. The data below shows the cash position of the selected financial institutions during the period under study.

Table No. 1

Analysis of Cash & Bank balance

(Rs. in millions)

Finance company	Fiscal year	Cash & bank balance	increase/ (decrease) %
BFCL	2059/60	49.04	
	2060/61	86.77	76.94
	2061/62	92.19	6.25
	2062/63	109.91	19.22
	2063/64	34.29	(68.80)
	2064/65	44.50	29.77
PFCL	2059/60	65.87	
	2060/61	97.98	48.74
	2061/62	92.45	(5.64)
	2062/63	78.42	(15.17)
	2063/64	82.21	4.83
	2064/65	145.99	77.57

Source: Annual Reports of PFCL & BFCL

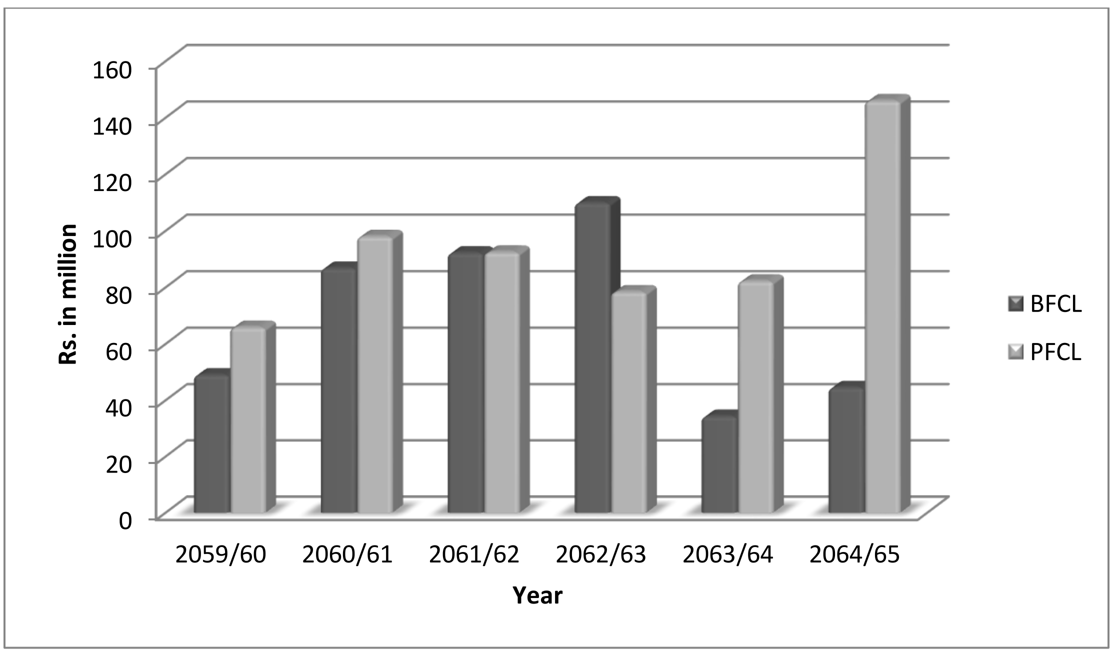
The cash holding of the Butwal Finance Company (BFCL) shows increasing trend as it increased by 76.94% in 2060/61 as compared to 2059/60.it is increased by 6.25% as compared to cash& bank balance for the year 2061/62.it is increased strongly compared to year 2062/63 by19.22% as compared to year 2061/62.there was strong decline in the year 2063/64 by -68.80% as compared to year 2062/63.then highly increased by 29.70% in the year 2064/65 as compared to the year 2063/64.this shows the level of cash balance is changing of the year.

The position of cash holding of the Pashchimanchal Finance Company Limited (PFCL), above table shows increasing cash & bank balance in2060/61 as compared to 2059/60,which is increased by48.74%.there are declining position of cash &bank balance to-5.64% &-15.17% in the year 2061/62 and 2062/63 respectively as compared with related last years. then it is highly increased by 4.83% in the year 2063/64 as compared to the year 2062/63and highly increased to 77.57% for the year 2064/65.it shows the level of cash balance is changing for the years.

The whole this figure shows no definite policy of cash management while in some years. It has negligible cash and bank balance while in other year it has excessive maintenance of cash and bank balance. More over the BFCL and PFCL have not planned cash inflow and outflow forecasts. It is crucial important for the organization to keep careful over that cash management of determine how much cash flow throw-off becomes available and also investment the opportunities for the use of cash.

Figure No. 6

Bar diagram of Cash and Bank balance



The above diagram of cash balance of BFCL shows lowest cash balance is in the years 2063/64. For the first three years the cash balance is increasing trend. The highest cash balance is in the year 2062/63.Cash &bank balance of PFCL shows lowest is in the year 2059/60. The level of cash balance of PFCL is fluctuating on every study years. The highest cash &bank balance of PFCL is in the year 2064/65. These means both the financial institutions have the problem of cash management.

4.3. Straight Line Trend of Cash and Bank Balance:

Fitting the straight-line trend by least square for variation in Cash Balance of BFCL:

Table No. 2

The Straight-line trend in Cash Balance of BFCL

Fiscal Year	cash (y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	xy	Trend
2059/60	49.04	-2.50	-20.41	6.25	-122.60	81.06
2060/61	86.77	-1.50	17.32	2.25	-130.16	76.41
2061/62	92.19	-0.50	22.74	0.25	-46.10	71.77
2062/63	109.91	0.50	40.46	0.25	54.96	67.13
2063/64	34.29	1.50	-35.16	2.25	51.43	62.49
2064/65	44.50	2.50	-24.95	6.25	111.24	57.85
N=6	416.71	0.00	0.00	$\sum x^2$=17.50	$\sum$xy= -81.23	416.71

Source: Annual Reports of PFCL & BFCL

$\bar{x} = \frac{\varepsilon x}{N}$ $\bar{y} = \frac{\varepsilon y}{N}$

$\bar{x} = \frac{21}{6}$ $\bar{y} = \frac{416.71}{6}$

$\bar{x} = 3.5$ $\bar{y} = 69.45$

Straight line trend: Yc = a + bx

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

$$b = \frac{-81.23}{17.5}$$

b = -4.64

$\bar{y}$ = a + b$\bar{x}$

69.45 = a + (-4.64 × 3.5)

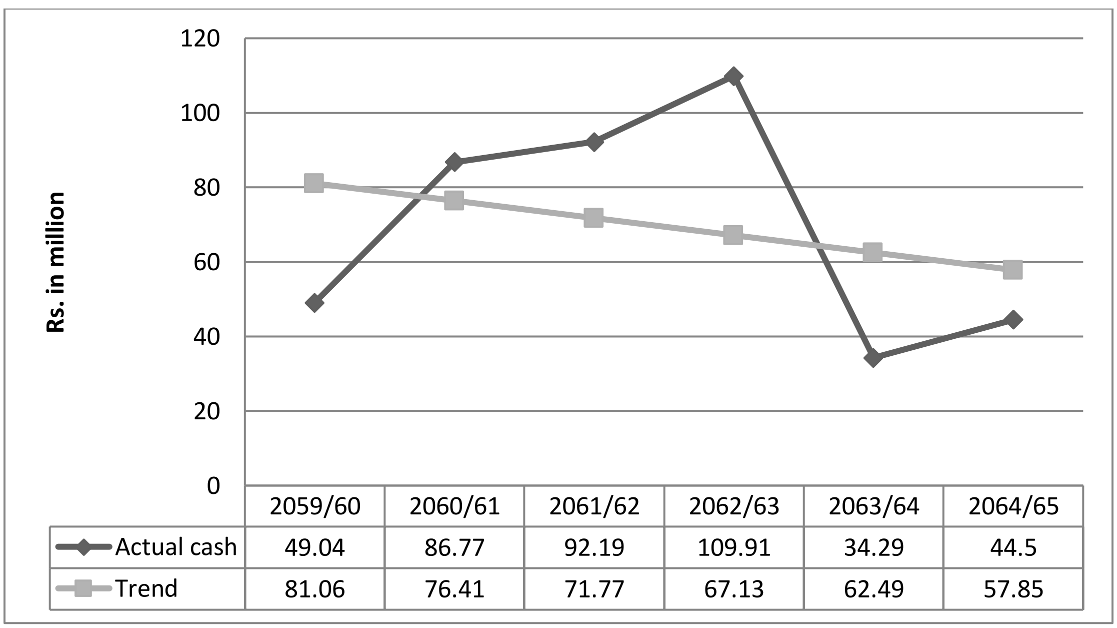
a = 85.70

The trend equation of cash &bank balance is obtained as Yc=85.70-4.64x.where Y is denoted for cash and bank balance and x for time variables. The y intercept is 85.7, which is nothing but an average amount of cash &bank balance during the six years of study period. The slope of trend line is -4.64, which indicates that cash & bank balance of BFCL has been decreasing at the rate of R.s 4640000 each year.

Figure No. 7

Trend Analysis of Cash and Bank balance of BFCL

(Rs. in millions)



From the above table, we can see that actual cash &bank balance was 49.04million in the base year 2059/60, and it was reached to R.S 86.77million in fiscal year 2060/61.while the trend of cash &bank balance are slowly decreasing .the trend value of cash &bank balance was R.S 81.06 million in fiscal year 2059/60base year and decrease to R.S 57.85 million in fiscal year 2064/65.

And also fitting the straight-line trend by least square for variation of Cash Balance of PFCL.

Table No. 2

The Straight-line trend in Cash Balance of PFCL

Fiscal Year	cash (y)	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	xy	Trend
2059/60	65.87	-2.50	-27.95	6.25	-164.68	69.59
2060/61	97.98	-1.50	4.16	2.25	-146.97	79.28
2061/62	92.45	-0.50	-1.37	0.25	-46.23	88.97
2062/63	78.42	0.50	-15.40	0.25	39.21	98.67
2063/64	82.21	1.50	-11.61	2.25	123.32	108.36
2064/65	145.99	2.50	52.17	6.25	364.98	118.06
N=6	562.93	0.00	0.00	$\sum x^2$=17.50	$\sum$xy=169.64	562.93

Source: Annual Reports of PFCL & BFCL

$\bar{x} = \frac{\varepsilon x}{N}$

$\bar{x} = \frac{21}{6}$

$\bar{x} = 3.5$

$\bar{y} = \frac{\varepsilon y}{N}$

$\bar{y} = \frac{562.93}{6}$

$\bar{y} = 93.82$

Straight line trend: Yc = a + bx

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

$$b = \frac{169.64}{17.5}$$

b = 9.69

We know,

$\bar{y} = a + b\bar{x}$

$93.82 = a + (9.69 \times 3.5)$

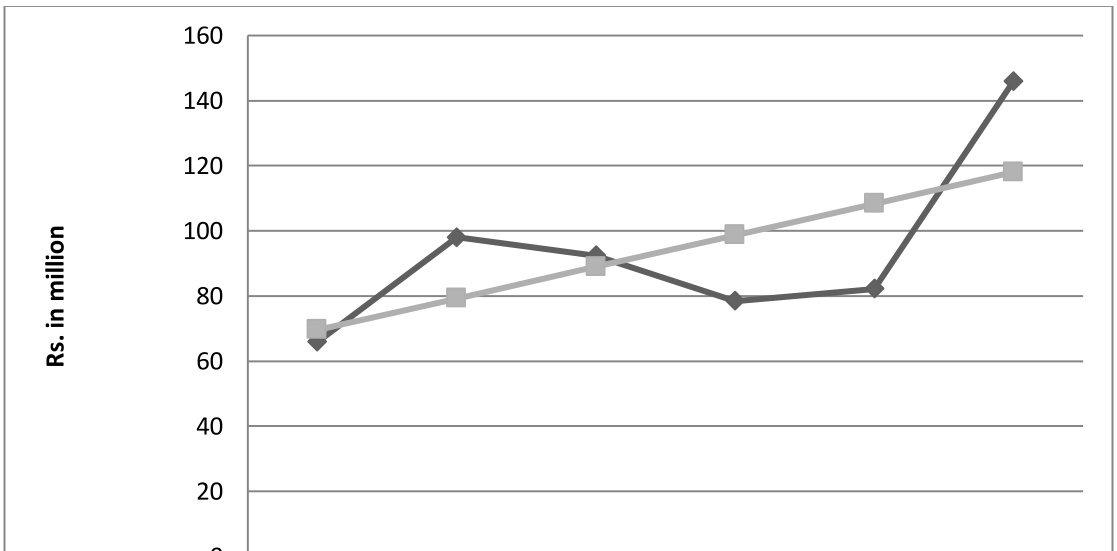
$a = 59.89$

The trend equation of cash & bank balance is obtained as Yc=59.89+9.69x. Where Y is denoted for cash and bank balance and x for time variables. The y intercept is 59.89, which is nothing but an average amount of cash &bank balance during the six years of study period. The slope of trend line is 9.69, which indicates that cash & bank balance of PFCL has been increasing at the rate of Rs. 9690000 each year.

Figure No. 8

Trend Analysis of Cash and Bank balance of PFCL

(Rs. in millions)



	2059/60	2060/61	2061/62	2062/63	2063/64	2064/65
Actual Cash	65.87	97.98	92.45	78.42	82.21	145.99
Trend	69.59	79.28	88.98	98.67	108.36	118.06

From the above table, we can see that actual cash &bank balance was 65.87million in the base year 2059/60, and it was reached to R.S 145.99 million in fiscal year 2064/65. While the trend of cash & bank balance are slowly increasing .the trend value of cash & bank balance was R.S

69.59 million in fiscal year 2059/60 base year and increase to Rs. 118.06 million in fiscal year 2064/65.

4.4. Analysis of cash turnover:

Cash turnover ratio represents how quickly the cash is received from its revenue. Higher turnover is the signal of good liquidity and vice versa. The following table shows the cash turnover during the study period of PFCL and BFCL.

Table No. 4

Analysis of cash turnover

(Rs. in millions)

Finance company	Fiscal year	Cash & bank balance	Sales	Cash turnover times
BFCL	2059/60	49.04	55.65	1.13
	2060/61	86.77	73.06	0.84
	2061/62	92.19	83.91	0.91
	2062/63	109.91	84.57	0.77
	2063/64	34.29	88.24	2.57
	2064/65	44.50	110.11	2.47
	Total	416.70	495.54	1.19
	Average	69.45	82.59	1.19
PFCL	2059/60	65.87	91.32	1.39
	2060/61	97.98	91.10	0.93
	2061/62	92.45	95.23	1.03
	2062/63	78.42	97.07	1.24
	2063/64	82.21	109.17	1.33
	2064/65	145.99	112.11	0.77

	Total	562.93	596.00	1.06
	Average	93.82	99.33	1.06

Source: Annual Reports of PFCL & BFCL

Above table shows BFCL has higher cash turnover ratio is 2.57 times in the year 2063/64. The average cash turnover is 1.19 times during the study period. The turnover ratio is lower than average in the year 2060/61, 2061/62 and 2062/63. This shows cash turnover is very week in the BFCL. The lowest cash turnover is 0.77 times in the fiscal year 2062/63. PFCL has highest cash turnover ratio is1.39 times in the fiscal year 2059/60. The average cash turnover ratio is 1.06 times. During the study period the turnover ratio is higher than average in the year 2061/62, 2062/63and 2063/64, it shows proper cash collection efficiency. But the turnover ratio is lower than average in the year 2060/61, 2064/65. This shows cash turnover is very week in the year. The lowest cash turnover is 0.77 times in the fiscal year 2064/65. Above calculation indicates that the BFCL and PFCL are unable to collect cash from its sales. There is no fixed trend of cash turnover for these companies during the study period.

The bar diagram which is used to show the position of cash and bank balance and sales of the companies.

Figure No. 9

Cash and Bank Balance and sales of BFCL

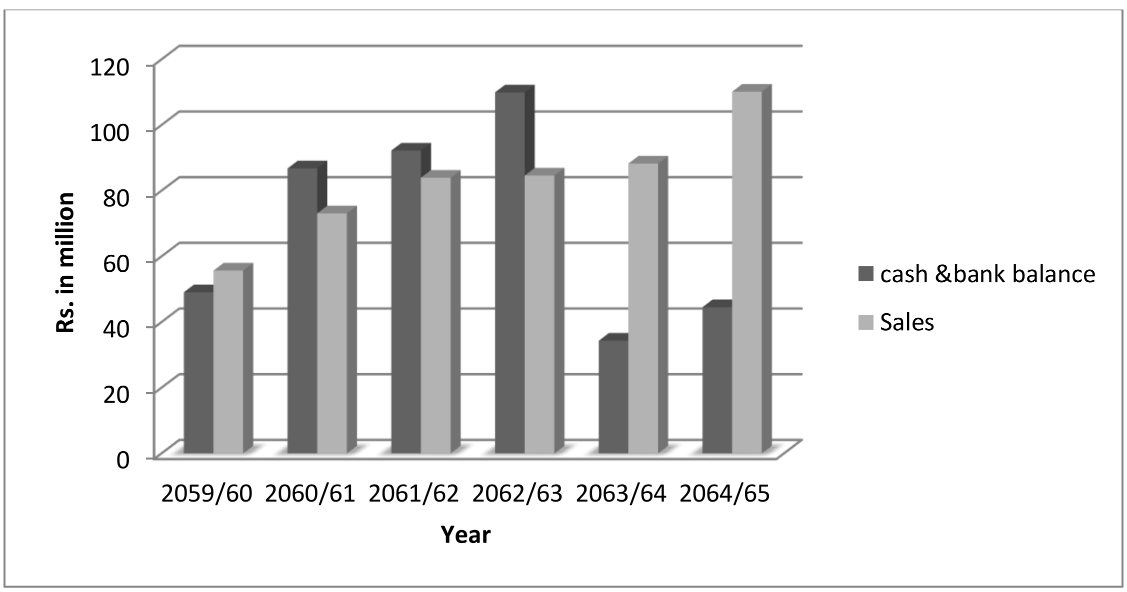
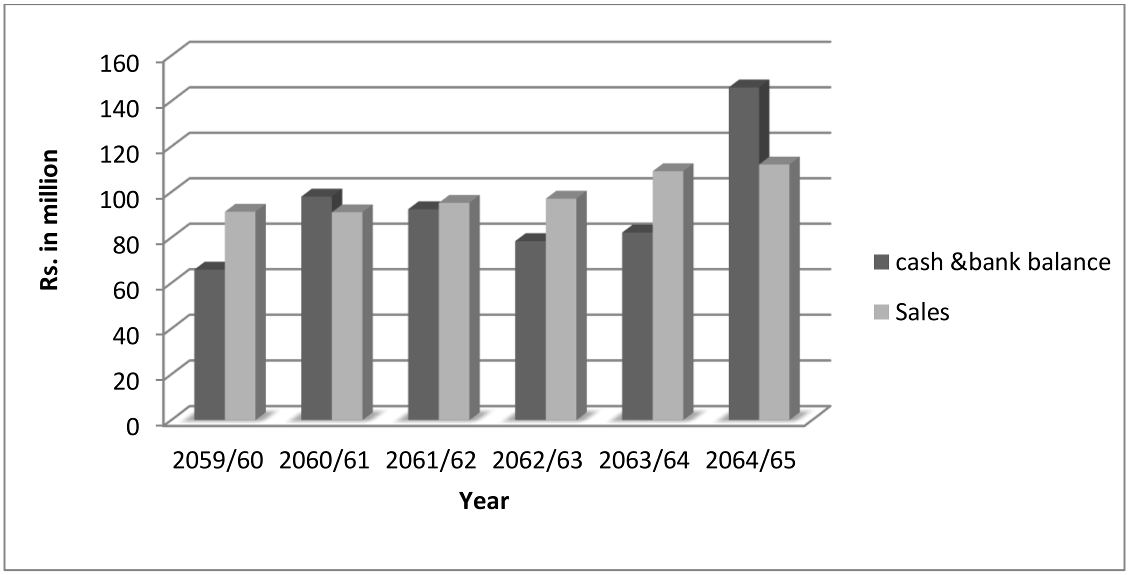


Figure No. 10

Cash and Bank Balance and sales of PFCL



4.5. Analysis of Current Ratio:

It is the ratio of current assets to current liabilities. It is also called working capital. Generally current assets should be twice the current liabilities. If the ratio is higher than 2, it is very comfortable for the creditors but it is indicator of idle funds and if the ratio is less than 2, difficulty maybe experienced in the payment of current liabilities and day to day operations of the business may suffer. The current ratio of the BFCL and PFCL are shown below.

Table No. 5

Analysis of Current ratio

(Rs. in millions)

Finance Company	Fiscal years	Current Assets	Current Liabilities	Current ratio (times)
BFCL	2059/60	398.82	398.61	1.00
	2060/61	506.73	527.41	0.96
	2061/62	655.59	633.73	1.03
	2062/63	699.50	686.18	1.02
	2063/64	672.12	683.60	0.98
	2064/65	871.32	855.00	1.02

PFCL	2059/60	514.27	504.57	1.02
	2060/61	596.13	622.52	0.96
	2061/62	642.04	659.90	0.97
	2062/63	661.28	683.57	0.97
	2063/64	697.63	708.02	0.99
	2064/65	781.62	753.12	1.04

Source: Annual Reports of PFCL & BFCL

The analysis of current ratio of financial companies shows that BFCL has current ratio less than one year 2060/61 and 2063/64 for the study period. The highest ratio is 1.03 times in the year 2061/62 and lowest ratio is 0.96 times in the year 2060/61. PFCL has current ratio greater than one in the year 2059/60 and 2064/65. PFCL has current ratio less than one for many years. The data shows that BFCL and PFCL have current ratio less than two in the study period indicating that there is cash shortage and poor management of cash.

4.6. Analysis of Account Receivable:

The bank operates its transactions both on cash and credit basis. it is also deals with other various related banks .when the bank extends credit to its customers and various banks ,book debts are credited .debtors or account receivables are to be converted in to cash over a short period and therefore are included in the current assets. Account receivable turnover in relationship between actual sales and collection period. If turnover is high then there would be little blocking of fund in turnover and vice versa.

Table No. 6

Analysis of Account receivable and sales

(Rs. in millions)

Finance Company	Fiscal years	Receivables	Sales	Ratio (times)	Total collection %
BFCL	2059/60	13.02	55.65	4.27	76.6
	2060/61	18.28	73.06	4.00	75.0

	2061/62	20.68	83.91	4.06	75.4
	2062/63	27.44	84.57	3.08	67.5
	2063/64	44.54	88.24	1.98	49.5
	2064/65	40.62	110.11	2.71	63.1
	Total	164.58	495.54	3.01	66.8
PFCL	2059/60	21.39	91.32	4.27	76.57
	2060/61	23.98	91.10	3.80	73.68
	2061/62	28.84	95.23	3.30	69.72
	2062/63	30.18	97.07	3.22	68.91
	2063/64	31.02	109.17	3.52	71.59
	2064/65	28.77	112.11	3.90	74.34
	Total	164.17	596.00	3.63	72.45

Source: Annual Reports of PFCL & BFCL

Above table shows BFCL has higher Receivables turnover ratio is 4.27 times in the year 2059/60. The average Receivable turnover is 3.01 times during the study period. The turnover ratio is lower than average in the year 2063/64, 2064/65. This shows Receivable turnover is very week in the BFCL. The lowest Receivable turnover is 1.98 times in the fiscal year 2063/64. Analysis shows that highest total collection is 76.6% in the year 2059/60. The average total collection percentage is 66.8% during the study period. Total collection is lower than average in the year 2063/64, 2064/65. Most satisfactory receivable management has been observed in year 2059/60, 2060/61, and 2061/62.

Above table shows PFCL has higher Receivables turnover ratio is 4.27 times in the year 2059/60. The average Receivable turnover is 3.63 times during the study period. The turnover ratio is lower than average in the year 2060/61, 2061/62 and 2063/64. This shows Receivable turnover is very week in the PFCL. The lowest Receivable turnover is 3.22 times in the fiscal year 2062/63. Analysis shows that highest total collection is 76.57% in the year 2059/60. The average total collection percentage is 72.45% during the study period. Total collection is lower than average in the year 2061/62, 2062/63 and 2063/64. Most satisfactory receivable management has been observed in year 2059/60, 2060/61, and 2064/65. The above analysis shows that the efficiency of trade credit management. The higher the turnover ratio and shorter the average collection period the better the trade credit management and the better liquidity of debtors, as short collection period and higher turnover ratio imply timely payment on the part of debtors. On the other hand low turnover ratio and long collection period reflects the payments by debtors are delayed. Therefore short collection period and higher turnover ratio is profitable.

The formula, which can be ascertained the average collection period, is given below.

$$\text{Average Collection Period} = \frac{Months\ (Days\ in\ years)}{Receivable\ turnover}$$

The average collection period of BFCL and PFCL are given below:

Table No. 7

Analysis of Average collection period of BFCL and PFCL

Finance Company	Fiscal years	Receivables turnover	Days in year	Average collection period
BFCL	2059/60	4.27	365	85
	2060/61	4.00	365	91
	2061/62	4.06	365	90
	2062/63	3.08	365	118
	2063/64	1.98	365	184
	2064/65	2.71	365	135
			Total	704
			Average	117
PFCL	2059/60	4.27	365	86
	2060/61	3.80	365	96
	2061/62	3.30	365	111

	2062/63	3.22	365	113
	2063/64	3.52	365	104
	2064/65	3.90	365	94
			Total	603
			Average	100

Source: Annual Reports of PFCL & BFCL

Table no shows that the average collection period of BFCL was 85 days for the year 2059/60, which is shorter period during the study year. In the year 2060/61, 2061/62 2062/63, 2063/64 and 2064/65 the average collection days are 91, 90, 118, 184 and 135 respectively. The average collection period however reached to a184 days in year 2063/64. Average collection period with in the study period of BFCL is in increasing trend. This shows that management is less concerned to collect debt timely.

Above table shows the average collection period of PFCL was 86 days for the year 2059/60, which is shorter period during the study year. In the year 2060/61, 2061/62 2062/63, 2063/64 and 2064/65 the average collection days are 96, 111, 113, 104 and 94 respectively. The average collection period however reached to 113 days in year 2062/63. Average collection period with in the study period of PFCL is in increasing trend. This shows that management is less concerned to collect debt timely.

An excessively long collection period implies a true liberal and inefficient credit and collection performances this certainly delays the collection of cash and empire the corporation debt paying ability. The changes of bad debts losses are also increased. On the other hand to a low collection period is not necessary favorable it indicates a very restrictive credit and collection policy. Because of the fear of bad debts losses, the company sells only to those customers whose financial condition are sound and who are very prompt in making payment.

An avoiding the bad debts losses, such policy can success but severely curtails the sales as a consequence overall profit goes down. In such a situation company should relax its credit and collection policy to enhance the sells level and improve the profitability thus the average collection period previews to analyze that, what would be effect of sales, profit and liquidity. The company's present credit and collection policy is change and can initially test other company's collection period against its own credit terms and conditions to determine the debtor's ability to collect and measure credit and collection efficiency. Then the company can measure the company's ratio against other company to certain its competitive strength and weakness relative to credit terms and overall financial accomplishment.

The bar diagrams shows the position of account receivable and sales of the company.

Figure No. 11

Account Receivable and sales of BFCL

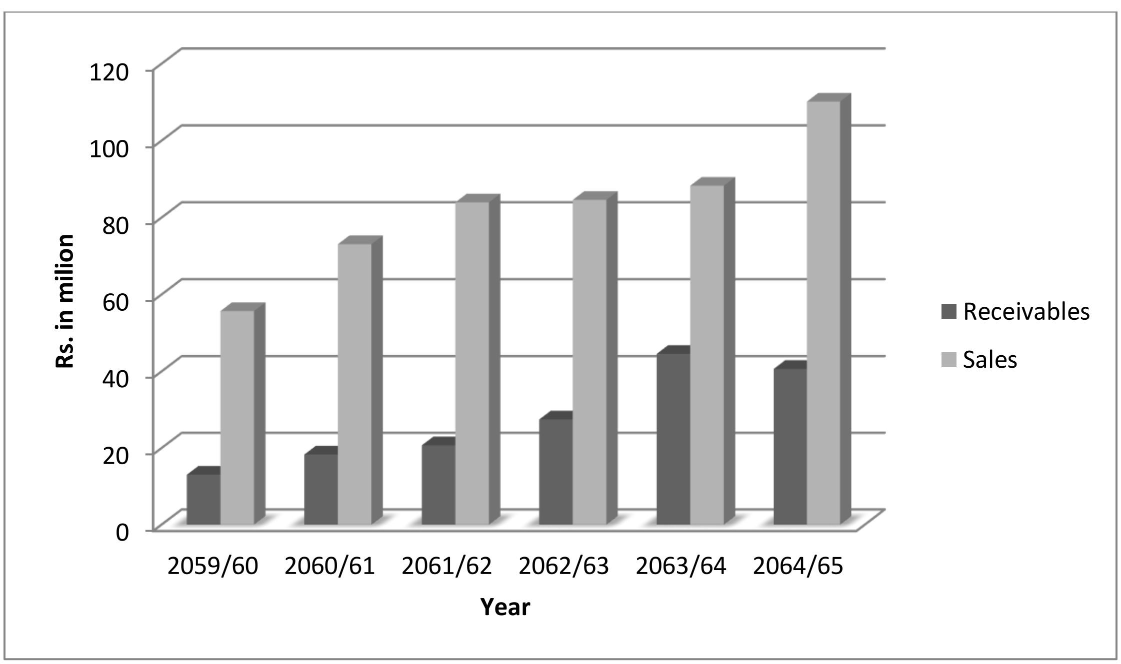
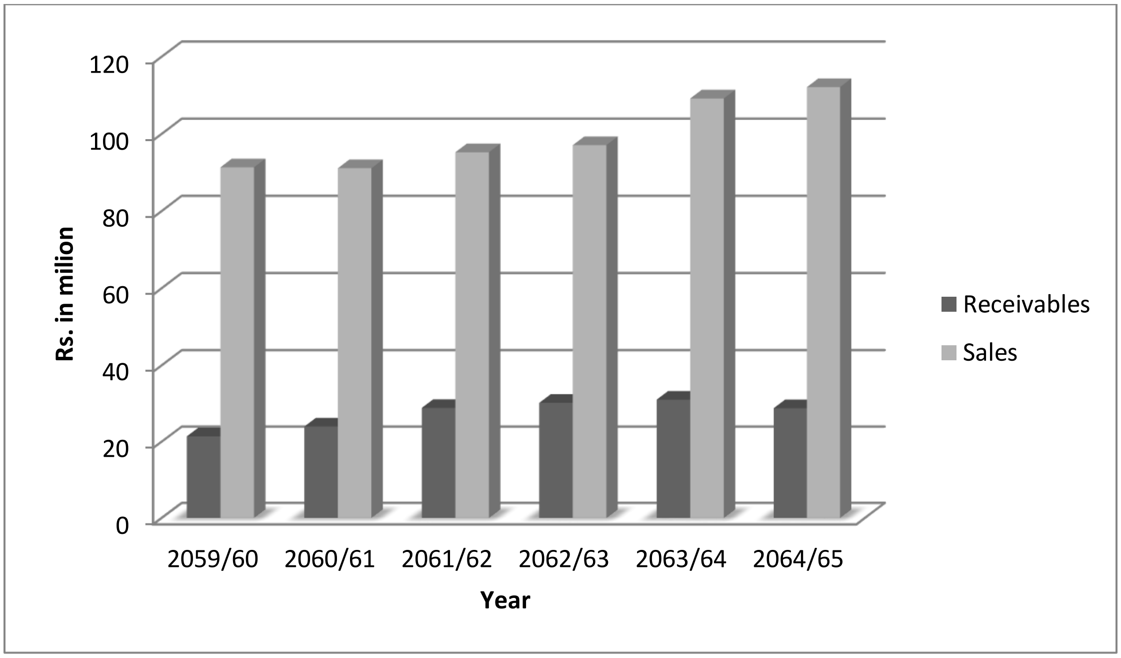


Figure No. 12

Account Receivable and sales of PFCL



4.7. Analysis of Account receivable to cash and bank balance:

Cash and bank balance measures the relationship between level of cash and bank balance to Account receivable over a period of time. The greater the account receivable better the cash turnover would be provided that, cash and bank balance can maintain at a desirable level. The following table shows the relationship of account receivable to cash and bank balance.

Table No. 8

Analysis of Account receivable to Cash and bank balance

(Rs. in millions)

Finance Company	Fiscal years	Receivables	Cash & bank balance	% of A/R
BFCL	2059/60	13.02	49.04	376.67
	2060/61	18.28	86.77	474.65

	2061/62	20.68	92.19	445.87
	2062/63	27.44	109.91	400.51
	2063/64	44.54	34.29	76.99
	2064/65	40.62	44.50	109.54
	Total	164.58	416.71	253.19
PFCL	2059/60	21.39	65.87	307.93
	2060/61	23.98	97.98	408.66
	2061/62	28.84	92.45	320.61
	2062/63	30.18	78.42	259.84
	2063/64	31.02	82.21	265.03
	2064/65	28.77	145.99	507.53
	Total	164.17	562.93	342.89

Source: Annual Reports of PFCL & BFCL

The above table shows that percentage of account receivable to cash and bank balance of BFCL is every study period in fluctuation. This is 376.67%, 474.64%, 445.87%, 400.51%, 76.99% and 109.54% in the year 2059/60, 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 respectively. During the study period cash and bank balance is minimum of account receivable in the year 2063/64, but in the other year it is greater than AR being not proportionately, which shows that management is less concerned or speed up collection of account receivables. The above table shows that percentage of account receivable to cash and bank balance of PFCL is every study period in fluctuation. This is 307.93%, 408.66%, 320.61%, 259.84%, 259.03%, and 507.53 % in the year 2059/60, 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 respectively which indicated that the cash balance held excessive and has been idle. The erratic fluctuations suggest that the banks has not been following a definite policy regarding how much cash balance to hold at fiscal year.

The bar diagrams show position of AR and Cash/Bank Balance.

Figure No. 13

Account Receivable and Cash and Bank balance of BFCL

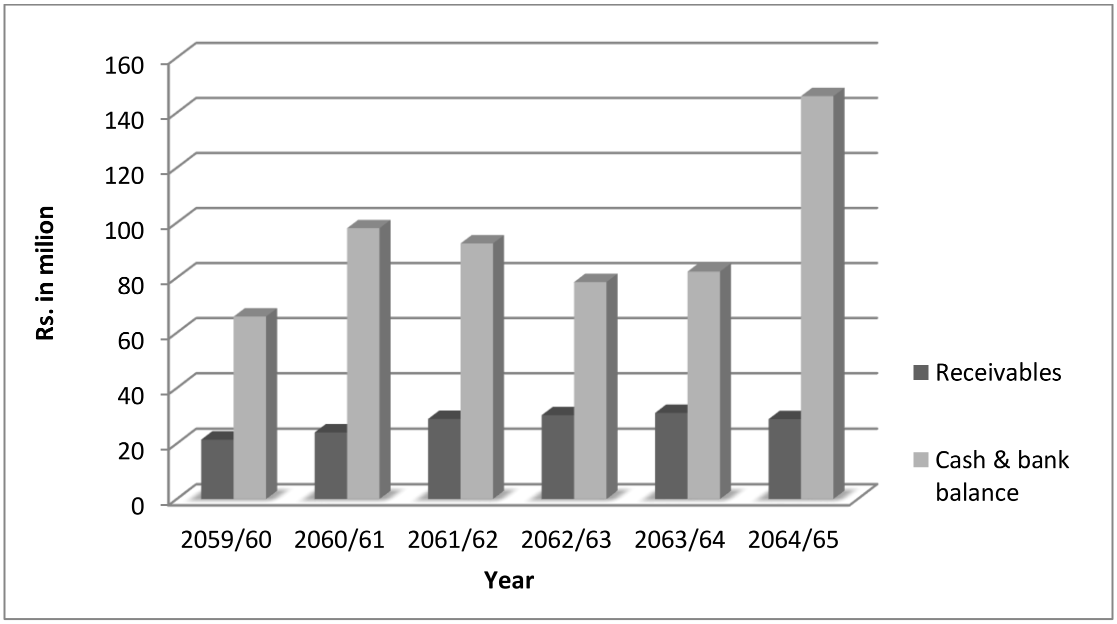
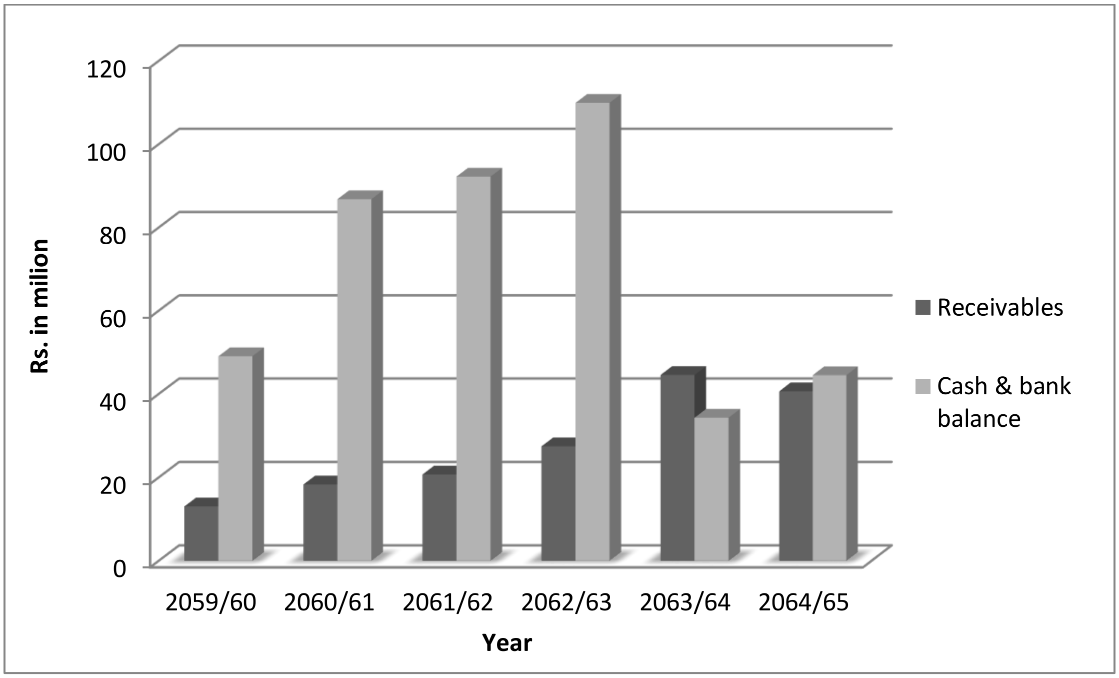


Figure No. 14

Account Receivable and Cash and Bank balance of PFCL



4.8. Analysis of investment in cash and bank balance on current Asset and total Asset.

The ratio of cash and bank balance to current assets and total assets indicates the proportion of cash balance in the current assets and total assets. Stable pattern of ratio for different fiscal years indicate that the finance companies have been following a systematic policy regarding how much cash balance to hold at the fiscal year's end.

Table No. 9

Analysis of investment in cash and bank balance on current Assets and total Assets

Butwal Finance Company Limited (Rs. in millions)

Fiscal years	Cash & bank balance	Current Assets	% of Cash and bank balance on current Assets	Fixed assets (FA)	Total Assets (CA+FA)	% of Cash &Bank Balance on TA
2059/60	49.04	398.82	12.30	36.24	435.06	11.27
2060/61	86.77	506.73	17.12	81.16	587.89	14.76
2061/62	92.19	655.59	14.06	44.89	700.48	13.16
2062/63	109.91	699.50	15.71	61.79	761.29	14.44
2063/64	34.29	672.12	5.10	137.76	809.88	4.23
2064/65	44.50	871.32	5.11	138.96	1010.29	4.40

Pashchimanchal Finance Company Limited (Rs. in millions)

Fiscal years	Cash & bank balance	Current Assets	% of Cash and bank balance on current Assets	Fixed assets (FA)	Total Assets (CA+FA)	% of Cash &Bank Balance on TA
2059/60	65.87	514.27	12.81	53.56	567.84	11.60
2060/61	97.98	596.13	16.44	89.84	685.97	14.28
2061/62	92.45	642.04	14.40	86.75	728.78	12.69
2062/63	78.42	661.28	11.86	104.97	766.25	10.23
2063/64	82.21	697.63	11.78	108.90	806.52	10.19
2064/65	145.99	781.62	18.68	105.16	886.77	16.46

Source: Annual Reports of PFCL & BFCL

Above table indicates that the cash and bank balance with respect to Current asset of BFCL has fluctuating trend. During the study period it is the lowest 5.1% for the year 2063/64 and highest 17.12% for the year 2060/61. In the average the projection of cash and bank balance to current assets for the study period is 10.95%.while comparing with the average, it found that percentage of cash &bank balance to current assets is lower for the year 2063/64, 2064/65. Thus cash position of BFCL is not satisfactory. The cash and bank balance with respect to total assets has also fluctuating trend. It is the lower 4.23% for the year 2063/64 and highest 14.76% for the year2060/61. It may be because the volume of cash and bank balance is fluctuating in every year. While at the same time, fixed assets are in increasing trend. On the average it is 11.63% during the study period, which is greater than for the year 2059/60, 2063/64, 2064/65 and less than in the year 2060/61, 2061/62 and 2062/63. Among the components of current assets cash and bank balance hold the minimum proportion. In the day to day business operation of the company must be required. Thus, shortage of cash losses the golden opportunity to invest, which maybe, causes the lack of proper cash management of the company.

It indicates that the cash and bank balance with respect to current asset of PFCL has fluctuating trend. During the study period it is the lowest 11.78% for the year 2063/64 and highest 18.68% for the year 2064/65. In the average the projection of cash and bank balance to current assets for the study period is 14.46%.while comparing with the average, it found that percentage of cash & bank balance to current assets is lower for the year 2061/62, 2062/63 and 2063/64. Thus cash position of PFCL is not satisfactory. The cash and bank balance with respect to total assets has also fluctuating trend. It is the lower 10.19% for the year 2063/64 and highest 16.46% for the year 2064/65. It may be because the volume of cash and bank balance is fluctuating in every year. While at the same time, fixed assets are in increasing trend. On the average it is 12.36% during the study period, which is greater than for the year 2062/63, 2063/64 and less than in the year 2059/60, 2060/61, 2061/62 and 2064/65. Among the components of current assets cash and bank balance hold the minimum proportion. In the day to day business operation of the company must be required. Thus, shortage of cash losses the golden opportunity to invest, which maybe, causes the lack of proper cash management of the company.

4.9. Analysis of cash to current liabilities:

Among the technique of measuring company liquidity the ratio of cash to current liabilities indicates the amount of cash (in percentage) available to pay the current obligation of the firm. In general, a low percentage of cash to current liabilities may be regarded as a favorable indicates. However, a very low ratio is also not desirable as it may lead to corporate insolvency.

Table No. 10

Analysis of cash to current liabilities

(Rs. in millions)

Finance Company	Fiscal year	Cash & bank balance	Current Liabilities	%
BFCL	2059/60	49.04	398.61	12.30
	2060/61	86.77	527.41	16.45
	2061/62	92.19	633.73	14.55
	2062/63	109.91	686.18	16.02
	2063/64	34.29	683.60	5.02
	2064/65	44.50	855.00	5.20
PFCL	2059/60	65.87	504.57	13.06
	2060/61	97.98	622.52	15.74
	2061/62	92.45	659.90	14.01
	2062/63	78.42	683.57	11.47
	2063/64	82.21	708.02	11.61
	2064/65	145.99	753.12	19.38

Source: Annual Reports of PFCL & BFCL

Above table shows that the ratios are fluctuate from the lowest of 5.02% to highest of 16.45% in the year 2063/64 and 2060/61 in BFCL. During the study period in 2059/60, 2061/62, 2062/63 and 2064/65 the level of cash in relation to current liabilities are 12.30%, 14.55% ,16.02% and 5.20% respectively. The lowest of 11.47% to highest of 19.38% is in the year 2062/63 and 2064/65 in PFCL. During the study period in 2059/60, 2061/62 and 2063/64 the level of cash in relation to current liabilities are 13.06%, 15.74% and 11.61% respectively.

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

The analysis of cash and bank balance to current liabilities of BFCL and PFCL shows that there is no any fixed trend of ratio over the study period. The ratio is highly fluctuating during the study period. From the calculation of data presented in the above table indicates that BFCL being unable to meet its payment of current liabilities in time due to low ratio. PFCL indicate excess cash balance held idle due to high ratio.

Since the fluctuation is inconsistent, it could be stated that the finance company has been facing situations of cash excess and deficit in making payments during the fiscal years under study. This clearly indicated that finance company has not been following a systematic cash management practice. The bar diagram shows the position of cash & bank balance and current liabilities.

Figure No. 15

Cash and Bank balance and Current Liabilities of BFCL

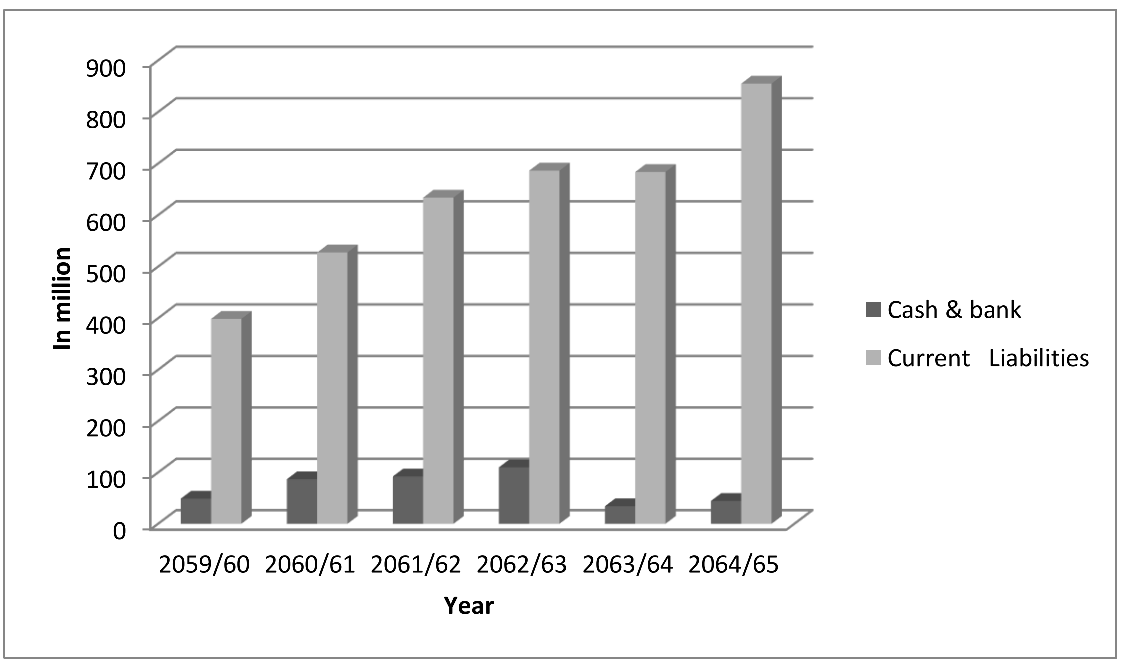
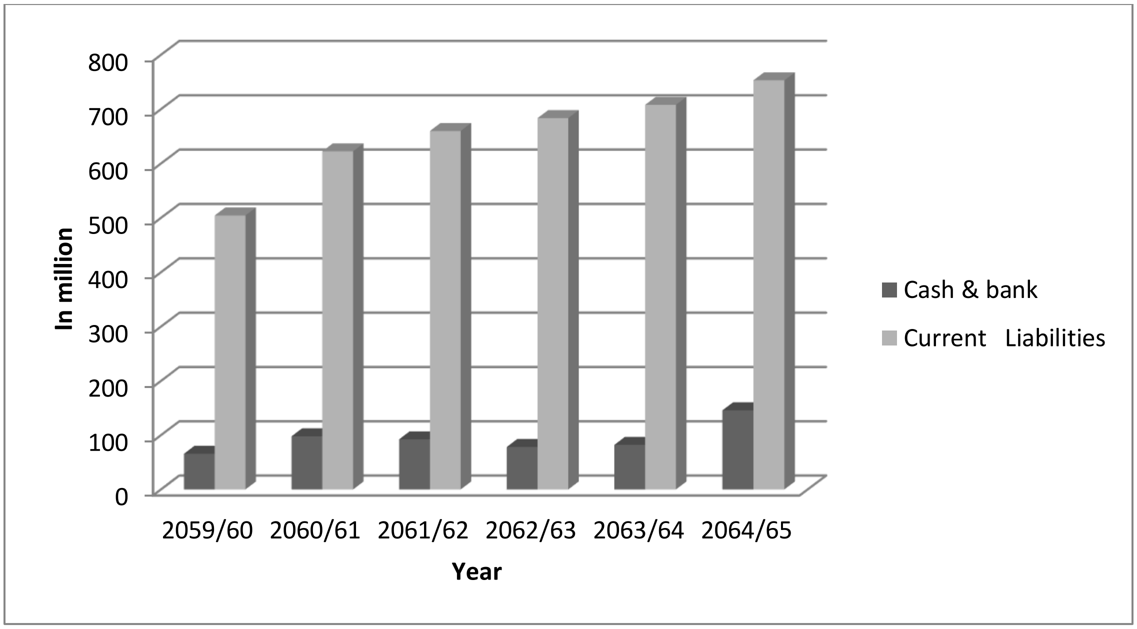


Figure No. 16

Cash and Bank balance and Current Liabilities of PFCL



4.10. Correlation and regression analysis:

4.10.1. <u>Correlation(r) between cash balance and actual sales</u> :

To find out the correlation between sales and cash balance Karl Pearson's co-efficient of correlation(r) is determined .For purpose actual sales (x) are assumed to be dependent variable and Cash balance (y) are assumed to be independent variable. It is assumed that actual sales will increases as cash balance will increase or vice versa. It means there should be positive correlation between cash balance and actual sales. Significance of correlation (r) is tested with probable error of 'r'.

Finance Company	Co-efficient of Correlation (r)	Relationship	R Squire R^2	Prob. Of error	6 PE	Significant/ insignificant
BFCL	-0.141	Direct	0.020	0.270	1.619	Insignificant
PFCL	0.616	Direct	0.380	0.171	1.024	

As presented in table, there is direct relationship between cash balance and total sales of BFCL and PFCL. The correlation coefficient of BFCL is -0.141, which shows high degree of negative relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.020, which indicates that 2% variation is explained the dependent variable actual sales due to change in the value of independent variable cash balance.

Probable error of correlation coefficient has also calculated to measure the significant of the relationship between cash balance and total sales. As far as significant of relationship is concerned, the data related to BFCL show that there is insignificant relationship between cash balance and actual sales because r is less than 6P.E.

Correlation coefficient of PFCL is 0.616, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.380, which indicates that 38% variation is explained the dependent variable actual sales due to change in the value of independent variable cash balance. Probable error of correlation coefficient has also calculated to measure the significant of the relationship between cash balance and total sales. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is more than P.E, it is less than 6P.E.

Regression Analysis of cash balance and actual sales:

Regression Equation: Y = a+bx

Cash = a+b* Sales

Finance company	No.of observation	Constant (a)	Regression Co-efficient (b)
BFCL	6	13.14	-0.24

PFCL	6	-93.97	1.89

Here, cash and actual sales denote cash (dependent variable) and actual sales (independent variable) respectively.

The table, clear to say that actual sales have indirect influence on Cash of BFCL, as the regression coefficient is Negative. Regression coefficient is-0.24, which indicates that a one rupee increase in actual sales leads to an average of about Rs-0.24decreases in cash

It is clear to say that actual sales have direct influence on cash of PFCL, as the regression coefficient is positive. Regression coefficient is 1.89, which indicates that a one rupee increase in actual sales leads to an average of about Rs 1.89 increase in cash.

4.10.2. Correlation(r) between Account receivable and actual sales:

Finance Company	Co-efficient of Correlation(r)	Relationship	R Squire R^2	Prob. Of error	6 PE	Significant/ insignificant
BFCL	0.814	Direct	0.662	0.093	0.558	significant
PFCL	0.676	Direct	0.457	0.149	0.897	

As presented in table, there is direct relationship between Account receivable and total sales of BFCL and PFCL. The correlation coefficient of BFCL is 0.814, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.662 which indicates that 66.2% variation is explained the dependent variable receivable due to change in the value of independent variable sales.

Probable error of correlation coefficient has also calculated to measure the significant of the relationship between Account receivable and total sales. The data related to BFCL show that there is significant relationship between receivables and actual sales because r is greater than 6 P.E.

Correlation coefficient of PFCL is 0.676, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.457, which indicates that 45.7% variation is explained the dependent variable receivables due to change in the value of independent variable sales. Probable error of correlation coefficient has also calculated to measure the significant of the relationship between receivables and total sales. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is more than P.E, it is less than 6P.E.

Regression Analysis of Receivables and actual sales:

Regression Equation: Y=a+bx

Here, Receivables = a+b* Sales

Finance company	No. of observation	Constant (a)	Regression Co-efficient (b)
BFCL	6	-20.04	0.57
PFCL	6	-0.76	0.28

Here, dependent variable is Receivable and independent variable is actual sales. The table is clear to say that Actual sales have direct influence on Receivable of BFCL, as the regression coefficient is positive. Regression coefficient is 0.57, which indicates that a one rupee increase in Actual sales leads to an average of about Rs 0.57 increases in Receivables. Likewise, Actual sales have direct influence on receivables of PFCL, as the regression coefficient is positive.

Regression coefficient is 0.28, which indicates that a one rupee increase in Actual sales leads to an average of about Rs 0.28 increases in receivable.

4.10.3. Correlation(r) between Account receivable and Cash Balance:

Finance Company	Co-efficient of Correlation(r)	Relationship	R Squire R^2	Prob. Of error	6 PE	Significant/ insignificant
BFCL	-0.486	Direct	0.237	0.210	1.260	insignificant
PFCL	0.260	Direct	0.067	0.257	1.541	

As presented in table, there is direct relationship between Account receivable and Cash balances of BFCL and PFCL. The correlation coefficient of BFCL is -0.486, which shows high degree of negative relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R2 is 0.237 which indicates that 23.72% variation is explained the dependent variable receivable due to change in the value of independent variable cash balance.

Probable error of correlation coefficient has also calculated to measure the significant of the relationship between Account receivable and cash balance. The data related to BFCL show that there is insignificant relationship between receivables and cash balance because r is less than 6P.E.

Correlation coefficient of PFCL is 0.260, which shows high degree of positive relationship. Coefficient of determination is measure of the degree of linear association or correlation between two variables. The value of R^2 is 0.067, which indicates that 6.7% variation is explained the dependent variable receivables due to change in the value of independent variable cash balance. Probable error of correlation coefficient has also calculated to measure the significant of the relationship between receivables and total sales. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is less than P.E., it is less than 6P.E. s

Regression Analysis of Receivables and Cash balance:

Regression equation: Y = a+bx

Here,

Cash balance = a+b*Receivables

Finance company	No. of observation	Constant (a)	Regression Co-efficient (b)
BFCL	6	101.81	-1.18
PFCL	6	41.77	1.90

Here, dependent variable is Cash balance and independent variable is receivables.

The table is clear to say that Receivables have indirect influence on cash balance of BFCL, as the regression coefficient is negative. Regression coefficient is -1.18, which indicates that a one rupee increase in receivables leads to an average of about Rs -1.18 decreased in cash balance. Likewise, Receivables have direct influence on cash balance of PFCL, as the regression coefficient is positive. Regression coefficient is 1.90, which indicates that a one rupee increase in receivables leads to an average of about Rs 0.28 increases in cash balance.

4.11. Cash &Bank balance to Deposit Ratio:

This Ratio evaluates ability of Finance Company to satisfy the demand of depositors. The depositors are opening different accounts in the Finance company and there is time constraint in drawing back the deposits. This study is undertaken cash and bank balance to deposit excluding fixed deposit as well as including.

4.11.1. Cash &Bank balance to Saving Deposit Ratio:

This measures the ability of bank to pay back the amount of different accounts holder except fixed deposit. Finance Company is required to maintain optimal balance in the form of cash and bank balance must liquid assets.

A high ratio refers the ability of Finance Companies to honor the large withdrawals by the depositors. Too high ratio is harmful as in the current ratio as it is none performing assets, which bear cost.

Table No. 11

Analysis of Cash & bank Balance and Saving Deposits

(Rs. in millions)

Finance Company	Fiscal years	Cash & Bank balance	Saving Deposits	Ratio
BFCL	2059/60	49.04	129.33	0.38
	2060/61	86.77	163.52	0.53
	2061/62	92.19	146.45	0.63
	2062/63	109.91	262.47	0.42
	2063/64	34.29	264.53	0.13
	2064/65	44.50	360.11	0.12
	Total	416.71	1326.40	0.31
	Average	69.45	221.07	0.31
PFCL	2059/60	65.87	56.75	1.16
	2060/61	97.98	85.86	1.14
	2061/62	92.45	135.06	0.68
	2062/63	78.42	178.60	0.44
	2063/64	82.21	210.50	0.39
	2064/65	145.99	220.84	0.66

	Total	562.93	887.61	0.63
	Average	93.82	147.93	0.63

Source: Annual Reports of PFCL & BFCL

The above study shows that the Cash &Bank balance to saving deposits of BFCL has fluctuating trend. During the study period it is lowest 0.12 for the year 2064/65 and highest 0.63 for the year 2061/62. In a average the projection of cash &Bank balance to saving deposits for the study period is 0.31. While comparing with the average, it is found that the ratio of cash &Bank balance to saving deposits is lower in the year 2063/64 and 2064/65 and highest in 2059/60, 2060/61, 2061/62 and 2062/63.

The Cash &Bank balance to saving deposits of PFCL has fluctuating trend. During the study period it is lowest 0.39 for the year2063/64 and highest 1.16 for the year 2059/60.in a average the projection of cash & Bank balance to saving deposits for the study period is 0.63. While comparing with the average, it is found that the ratio of cash & Bank balance to saving deposits is lower in the year 2062/63 and 2063/64 and highest in 2059/60, 2060/61, 2061/62 and 2064/65.

The above analysis helps to conclude that the BFCL hold less cash balance. The higher ratio shows that ability of financial institutes immediate funds to cover its current calls and saving deposit. But large amount of idles cash and bank balance badly effect the profitability of finance companies as well as low ratio of BFCL can considered as a plus point of company but at the same time low cash balance reduces rapidity of company to repay its deposits whenever demanded by its customers. PFCL has previously maintained unnecessary largest portion of deposit 1.16. In the form of cash &bank balance which build credit of finance company, finance company fail to grab favorable investment opportunity. However, it has been rapidly reducing the ratio more variation. It has highest ratio that implies that it is sacrificing income-generating sector that negatively enhances its profitability.

4.11.2. Cash &Bank balance to Total Deposit Ratio:

It measures the ability of bank honoring the total deposits. The forgoing ratio considers amount to be paid back immediately while it takes care of all the account holders.

Table No. 12

Analysis of Cash & bank Balance and Total Deposits

(Rs. in millions)

Finance Company	Fiscal years	Cash & Bank balance	Total Deposits	Ratio
BFCL	2059/60	49.04	353.53	0.14
	2060/61	86.77	478.83	0.18
	2061/62	92.19	589.96	0.16
	2062/63	109.91	644.15	0.17
	2063/64	34.29	645.16	0.05
	2064/65	44.50	799.93	0.06
	Total	416.71	3511.56	0.12
	Average	69.45	585.26	0.12
PFCL	2059/60	65.87	408.92	0.16
	2060/61	97.98	517.63	0.19
	2061/62	92.45	556.03	0.17
	2062/63	78.42	615.05	0.13
	2063/64	82.21	652.56	0.13
	2064/65	145.99	701.44	0.21
	Total	562.93	3,451.64	0.16

	Average	93.82	575.27	0.16

Source: Annual Reports of PFCL & BFCL

The above study shows that the Cash & Bank balance to Total deposits of BFCL has fluctuating trend. During the study period it is lowest 0.05 for the year 2064/65 and highest 0.18 for the year 2060/61. In a average the projection of cash & Bank balance to total deposits for the study period is 0.12. while comparing with the average, it is found that the ratio of cash & Bank balance to total deposits is lower in the year 2063/64 and 2064/65 and highest in 2059/60, 2060/61, 2061/62and 2062/63.

The Cash & Bank balance to Total deposits of PFCL has fluctuating trend. During the study period it is lowest 0.13 for the year 2062/63, 2063/64 and highest 0.21 for the year 2064/65. In a average the projection of cash & Bank balance to total deposits for the study period is 0.16. while comparing with the average, it is found that the ratio of cash &Bank balance to saving deposits is lower in the year 2062/63 and 2063/64 and highest in 2059/60, 2060/61, 2061/62and 2064/65.

4.12. Major finding of the study:

The major findings of the study out six years for BFCL and PFCL from the analysis are summarized below:

1. Cash balance of BFCL shows in the year 2059/60 to 2064/65 are 49.04 million, 86.77 million, 92.19 million, 109.91 million, 34.29 million and 44.50 million respectively. Cash balances of PFCL shows in the year 2059/60 to 2064/65 are 65.87 million, 97.98 million, 92.45 million, 78.42 million, 82.21 million and 145.99 million respectively.

2. Sales of BFCL shows in the year 2059/60 to 2064/65 are 55.65 million, 73.06 million, 83.91 million, 84.57 million, 88.24 million and 110.11 million respectively. Sales of PFCL shows in the year 2059/60 to 2064/65 are 91.32 million, 91.10 million, 95.23 million, 97.07 million, 109.17 million and 112.11 million respectively.

3. Cash turnover times of BFCL in the year 2059/60 to 2064/65 are 1.13 times, 0.84 times, 0.91 times, 0.77 times, 2.57 times and 2.47 times respectively. Cash turnover times of PFCL in the year 2059/60 to 2064/65 are 1.39 times, 0.93 times, 1.03 times, 1.24 times, 1.33 times and 0.77 times respectively.

4. Trend value of cash &bank balance of BFCL during the study year 2059/60 to 2064/65 are 81.06 million, 76.41 million, 71.77 million, 67.13 million, 62.49 million and 57.85 million respectively. Trend value of cash &bank balance of PFCL during the study year 2059/60 to 2064/65 are 69.59 million, 79.28 million, 88.97 million, 98.67 million, 108.36 million and 118.06 million respectively.

5. Current assets of BFCL shows in the year 2059/60 to 2064/65 are 398.82 million, 506.73 million, 655.59 million, 699.50 million, 672.12 million and 871.32 million respectively. Current assets of PFCL shows in the year 2059/60 to 2064/65 are 514.27 million, 596.13 million, 642.04 million, 661.28 million, 697.63 million and 781.62 million respectively.

6. Current Liabilities of BFCL shows in the year 2059/60 to 2064/65 are 398.61 million, 527.41 million, 633.73 million, 686.18 million, 683.60 million and 655 million respectively. Current liabilities of PFCL shows in the year 2059/60 to 2064/65 are 504.57 million, 622.52 million, 659.90 million, 683.57 million, 708.02 million and 753.12 million respectively.

7. Current Ratio of BFCL for the year 2059/60 to 2064/65 are 1 times, 0.96 times, 1.03 times, 1.02 times, 0.98 times and 1.02 times respectively. Current Ratio of PFCL in the year 2059/60 to 2064/65 are 1.02 times, 0.96 times, 0.97 times, 0.97 times, 0.99 times and 1.04 times respectively.

8. Receivables of BFCL shows in the year 2059/60 to 2064/65 are 13.02 million, 18.28 million, 20.68 million, 27.44 million, 44.54 million and 40.62 million respectively. Receivables of PFCL shows in the year 2059/60 to 2064/65 are 21.39 million, 23.98 million, 28.84 million, 30.18 million, 31.02 million and 28.77 million respectively.

9. Receivables turnover Ratio of BFCL for the year 2059/60 to 2064/65 are 4.27 times, 4 times, 4.06 times, 3.08 times, 1.98 times and 2.71 times respectively. Receivables turnover Ratio of PFCL in the year 2059/60 to 2064/65 are 4.27 times, 3.80 times, 3.3 times, 3.22 times, 3.52 times and 3.90 times respectively

10. Total collection percentage of BFCL for the year 2059/60 to 2064/65 are 76.6% , 75%, 75.4%, 67.5%, 49.5% and 63.1% respectively. Total collection percentages of PFCL for the year 2059/60 to 2064/65 are 76.57%, 73.68% 69.72 %, 68.91%, 71.59% and 74.34% respectively.

11. Average collection period of BFCL for the year 2059/60 to 2064/65 are 85 days, 91 days, 90 days, 118 days, 184 days and 135 days respectively. Average collection period of PFCL for the year 2059/60 to 2064/65 are 86 days, 96 days, 111 days, 113 days, 104 days and 94 days respectively.

12. Percentage of Account Receivable to cash & bank balance of BFCL for the year 2059/60 to 2064/65 are 3765.67%, 474.65%, 445.87%, 400.51%, 76.99% and 109.54% respectively. Percentage of Account Receivable to cash & bank balance of PFCL for the year 2059/60 to 2064/65 are 307.93%, 408.66%, 320.61%, 259.84%, 265.03% and 507.53% respectively.

13. Percentage of cash & bank balance on current assets of BFCL for the year 2059/60 to 2064/65 are 12.30%, 17.12%, 14.06%, 15.71%, 5.10% and 5.11% respectively. Percentage of cash & bank balance on current assets of PFCL for the year 2059/60 to 2064/65 are 12.81%, 16.44%, 14.40%, 11.86%, 11.78% and 18.68% respectively.

14. Fixed assets of BFCL shows in the year 2059/60 to 2064/65 are 36.24 million, 81.16 million, 44.89 million, 61.79 million, 137.76 million and 138.96 million respectively. Fixed assets of PFCL shows in the year 2059/60 to 2064/65 are 53.56 million, 89.84 million, 86.75 million, 104.97 million, 108.9 million and 105.16 million respectively

15. Total assets of BFCL shows in the year 2059/60 to 2064/65 are 435.06 million, 587.89 million, 700.48 million, 761.29 million, 809.88 million and 1010.29 million respectively. Total assets of PFCL shows in the year 2059/60 to 2064/65 are 567.84 million, 685.97 million, 728.78 million, 766.25 million, 806.52 million and 886.77 million respectively.

16. Percentage of cash & bank balance on Total assets of BFCL for the year 2059/60 to 2064/65 are 11.27%, 14.76%, 13.16%, 14.44%, 4.23% and 4.40% respectively. Percentage of cash & bank balance on Total assets of PFCL for the year 2059/60 to 2064/65 are 11.60%, 14.28%, 12.69%, 10.23%, 10.19% and 16.46% respectively.

17. Percentage of cash & bank balance to current liabilities of BFCL for the year 2059/60 to 2064/65 are 12.30%, 16.45%, 14.55%, 16.02%, 5.02% and 5.2% respectively. Percentage of cash & bank balance to current liabilities of PFCL for the year 2059/60 to 2064/65 are 13.06%, 15.74%, 14.01%, 11.47%, 11.61% and 19.38% respectively.

18. Correlation between cash balance and Actual sales of BFCL is -0.141. R^2, Probable error and 6 P.E of BFCL are 0.020, 0.270 and 1.619 respectively. Correlation between cash balance and Actual sales of PFCL is 0.616. R^2, Probable error and 6 P.E of PFCL are 0.380, 0.171 and 1.024 respectively.

19. Regression Co-efficient of Cash balance and actual sales of BFCL is -0.24 and Regression Co-efficient of Cash balance and actual sales of PFCL is 1.89.

20. Correlation between Account receivable and Actual sales of BFCL is 0.814. R^2, Probable error and 6 P.E of BFCL are 0.662, 0.093 and 0.558 respectively. Correlation between Account receivable and Actual sales of PFCL is 0.676. R^2, Probable error and 6 P.E of PFCL are 0.457, 0.149 and 0.897 respectively.

21. Regression Co-efficient of Account receivable and actual sales of BFCL is 0.57 and Regression Co-efficient of Account receivable and actual sales of PFCL is 0.28.

22. Correlation between Account receivable and Cash balance of BFCL is -0.486. R^2, Probable error and 6 P.E of BFCL are 0.237, 0.210 and 1.260 respectively. Correlation between Account receivable and Cash balance of PFCL is 0.260. R^2, Probable error and 6 P.E of PFCL are 0.067, 0.257 and 1.541 respectively.

23. Regression Co-efficient of Account receivable and Cash balance of BFCL is -1.18 and Regression Co-efficient of Account receivable and Cash balance of PFCL is 1.90.

24. Saving Deposits of BFCL shows in the year 2059/60 to 2064/65 are 129.33 million, 163.52 million, 146.45 million, 262.47 million, 264.53 million and 360.11 million respectively. Saving Deposits of PFCL shows in the year 2059/60 to 2064/65 are 56.75 million, 85.86 million, 135.06 million, 178.60 million, 210.50 million and 220.84 million respectively.

25. Percentage of cash & bank balance to saving deposits of BFCL for the year 2059/60 to 2064/65 are 0.38 times, 053 times, 0.63 times, 0.42 times, 0.13 times and 0.12 times

respectively. Percentage of cash & bank balance to saving deposits of PFCL for the year 2059/60 to 2064/65 are 1.16 times, 1.14 times, 0.68 times, 0.44 times, 0.39 times and 0.66 times respectively.

26. Total Deposits of BFCL shows in the year 2059/60 to 2064/65 are 353.53 million, 478.83 million, 589.96 million, 644.15 million, 645.16 million and 799.93 million respectively. Total Deposits of PFCL shows in the year 2059/60 to 2064/65 are 408.92 million, 517.63 million, 556.03 million, 615.05 million, 652.56 million and 701.44 million respectively.

27. Percentage of cash & bank balance to Total Deposits of BFCL for the year 2059/60 to 2064/65 are 0.14 times, 0.18 times, 0.16 times, 0.17 times, 0.05 times and 0.06 times respectively. Percentage of cash & bank balance to Total Deposits of PFCL for the year 2059/60 to 2064/65 are 0.16 times, 0.19 times, 0.17 times, 0.13 times, 0.13 times and 0.21 times respectively.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary:

This study of cash management on the context of the finance company is possibly the first of its kind. The basic objectives of this study are to analysis the cash management of financial companies. To carry out this study Pashchimanchal Finance company Limited and Butwal Finance company Limited have been taken as sample for the study. To fulfill this objective and other specific objectives described in chapter first. The first chapter covers background of the study, evolution of bank and financial institutions and some objectives related to this study.

To make this study more effective related literature has been reviewed. This chapter includes of previous related studies like books, journal and research works and thesis. The review of literature provides the foundation of knowledge in order to undertake this research more accurately.

The third chapter has been related in Research methodology. Analysis of data is based on the use of various financial and statistical tools as designed in research methodology chapter. This chapter includes research design, source of data, data collection procedures, data processing procedures, financial and statistical tools have been shortly explained. For the purpose of the study, the necessary data on cash and other related variable are collected from secondary sources like Balance sheet and Income Statement for the period 2059/60 to 2064/65 was got from annual report of PFCL and BFCL.

The presentation and analysis of data has been made to analysis and their interpretation has been done in chapter four. To make this thesis more understandable, data and information are presented in different table, diagram with different important financial and statistical tool were applied to analyze. After tabulation of available data in a systematic manner, various important financial and statistical tools were applied to achieve the objective of the study. The major findings of the study are also included in the presentation and analysis chapter.

5.2. Conclusion:

By analyzing the above major findings, we can easily draw some important conclusion, which are as follows.

1. Cash balance of BFCL shows lowest cash balance is in the years 2063/64. For the first three years the cash balance is increasing trend. The highest cash balance is in the year 2062/63. Cash &bank balance of PFCL shows lowest is in the year 2062/63. The level of cash balance of PFCL is fluctuating on every study years. The highest cash & bank balance of PFCL is in the year 2064/65. This shows that level of cash balance is changing during the study period. There is no fixed trend for finance company.
2. BFCL has higher cash turnover ratio is 2.57 times in the year 2063/64. The average cash turnover is 1.19 times during the study period. PFCL has highest cash turnover ratio is1.33 times in the fiscal year 2063/64. The average cash turnover ratio is 1.06 times. It indicates that the BFCL and PFCL are unable to collect cash from its sales. There is no fixed trend of cash turnover for these companies during the study period.
3. The analysis of current ratio of financial companies shows that BFCL has current ratio less than one for all the study period. The highest ratio is 0.94 in the year 2061/62 and lowest ratio is 0.83 in the year 2063/64. PFCL has current ratio greater than one in the year 2059/60 and 2064/65. PFCL has current ratio less than one for many years. The data shows that BFCL and PFCL have current ratio less than two in the study period indicating that there is cash shortage and poor management of cash.
4. The highest average collection period within study period of both finance company show that management less concerned to collect debt timely. The average collection period of both finance companies is increasing trend. The highest average collection period of BFCL has reached to 184 days in year 2063/64 and the highest average collection period of PFCL has increasing to113 days in year 2062/63.
5. Percentage of account receivable to cash and bank balance of BFCL is every study period in fluctuation. The highest percentage is 474.64% in the year 2060/61 and lowest percentage is 76.99% in the year 2063/64 of BFCL. During the study period cash and bank balance is minimum of account receivable in the year 2063/64, but in the other year it is greater than AR being not proportionately, which shows that management is less concerned or speed up collection of account receivables . Percentage of account receivable to cash and bank balance of PFCL is every study period in fluctuation. The highest percentage is 507.53% in the year

2064/65 and lowest percentage is 259.03% in the year 2062/63of PFCL. This indicated that the cash balance held excessive and has been idle.

6. The cash and bank balance with respect to current assets has also fluctuating trend of both finance companies. While comparing to average, it found that percentage of cash & bank balance to current assets is lower for the year 2063/64, 2064/65. Thus cash position of BFCL is not satisfactory. In case of PFCL, comparing with average, it found that percentage of cash & bank balance to current assets is lower for the year 2061/62, 2062/63 and 2063/64. Thus cash position of PFCL is not satisfactory.
7. The cash & bank balance with respect to fixed assets are in increasing trend of both finance companies. It is the lower 4.23% for the year 2063/64 and highest 14.76% for the year2060/61. It may be because the volume of cash and bank balance is fluctuating in every year of BFCL. PFCL has lower ratio is 10.19% for the year 2063/64 and highest 16.46% for the year2064/65. It may be because the volume of cash and bank balance is fluctuating in every year.
8. Cash and bank balance to current liabilities of BFCL and PFCL shows that there is no any fixed trend of ratio over the study period. The ratio is highly fluctuating during the study period. From the calculation indicates that BFCL being unable to meet its payment of current liabilities in time due to low ratio. PFCL indicate excess cash balance held idle due to high ratio.
9. The trend line shows the cash balance of BFCL is decreasing in future. Cash & bank balance of BFCL has been decreasing at the rate of Rs. 4640000 each year. Trend line also shows the cash balance of PFCL is increasing trend in future. Cash & bank balance of PFCL has been increasing at the rate of Rs. 9690000 each year.
10. Correlation coefficient of BFCL is -0.141, which shows high degree of negative relationship. The value of R2 is 0.020, which indicates that 2% variation is explained the dependent variable actual sales due to change in the value of independent variable cash balance. Correlation coefficient of PFCL is 0.616, which shows high degree of positive relationship. The value of R^2 is 0.380, which indicates that 38% variation is explained the dependent variable actual sales due to change in the value of independent variable cash balance.
11. Both the finance company has direct relationship between Account receivable and total sales. The correlation coefficient of BFCL is 0.814, which shows high degree of positive

relationship. The value of R^2 is 0.662 which indicates that 66.2% variation is explained the dependent variable receivable due to change in the value of independent variable sales. The data related to BFCL show that there is significant relationship between receivables and actual sales because r is greater than 6 P.E. Correlation coefficient of PFCL is 0.676, which shows high degree of positive relationship. The value of R2 is 0.457, which indicates that 45.7% variation is explained the dependent variable receivables due to change in the value of independent variable sales. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is more than P.E, it is less than 6P.E.

12. There is direct relationship between Account receivable and Cash balances of BFCL and PFCL. The correlation coefficient of BFCL is -0.486, which shows high degree of negative relationship. The value of R^2 is 0.237 which indicates that 23.72% variation is explained the dependent variable receivable due to change in the value of independent variable cash balance. The data related to BFCL show that there is insignificant relationship between receivables and cash balance because r is less than 6P.E.Correlation coefficient of PFCL is 0.260, which shows high degree of positive relationship. The value of R^2 is 0.067, which indicates that 6.7% variation is explained the dependent variable receivables due to change in the value of independent variable cash balance. As far as significant of relationship is concerned, it is difficult to say anything about the significance of the relationship since through r is less than P.E., it is less than 6P.E.
13. Actual sales have indirect influence on Cash of BFCL, as the regression coefficient is Negative. Regression coefficient is -0.24, which indicates that a one rupee increase in actual sales leads to an average of about Rs-0.24 decreases in cash. It is also shows that actual sales have direct influence on cash of PFCL, as the regression coefficient is positive. Regression coefficient is 1.89, which indicates that a one rupee increase in actual sales leads to an average of about Rs. 1.89 increase in cash.
14. Actual sales have direct influence on Receivable of BFCL, as the regression coefficient is positive. Regression coefficient is 0.57, which indicates that a one rupee increase in Actual sales leads to an average of about Rs 0.57 increases in Receivables. Likewise, Actual sales have direct influence on receivables of PFCL, as the regression coefficient is positive.

Regression coefficient is 0.28, which indicates that a one rupee increase in Actual sales leads to an average of about Rs. 0.28 increases in receivable.

15. Receivables have indirect influence on cash balance of BFCL, as the regression coefficient is negative. Regression coefficient is -1.18, which indicates that a one rupee increase in receivables leads to an average of about Rs -1.18 decreased in cash balance. Likewise, Receivables have direct influence on cash balance of PFCL, as the regression coefficient is positive. Regression coefficient is 1.90, which indicates that a one rupee increase in receivables leads to an average of about Rs. 0.28 increases in cash balance.
16. Cash and bank balance to saving deposits of both finance companies is fluctuating trend. During the study period, BFCL has lowest ratio 0.12 for the year 2064/65 and highest 0.63 for the year 2061/62. while comparing with the average, it is found that the ratio of cash & bank balance to saving deposits is lower in the year 2063/64 and 2064/65 and highest in 2059/60, 2060/61, 2061/62 and 2062/63. During the study period, PFCL has lowest ratio 0.39 for the year 2063/64 and highest 1.16 for the year 2059/60. while comparing with the average, it is found that the ratio of cash & bank balance to saving deposits is lower in the year 2062/63 and 2063/64 and highest in 2059/60, 2060/61, 2061/62and 2064/65.
17. Cash &Bank balance to Total deposits of BFCL has fluctuating trend. During the study period it is lowest 0.05 for the year 2064/65 and highest 0.18 for the year 2060/61. While comparing with the average, it is found that the ratio of cash & bank balance to total deposits is lower in the year 2063/64 and 2064/65 and highest in 2059/60, 2060/61, 2061/62 and 2062/63.The cash & bank balance to Total deposits of PFCL has fluctuating trend. During the study period it is lowest 0.13 for the year 2062/63, 2063/64 and highest 0.21 for the year 2064/65. while comparing with the average, it is found that the ratio of cash & bank balance to saving deposits is lower in the year 2062/63 and 2063/64 and highest in 2059/60, 2060/61, 2061/62 and 2064/65.

5.3. Recommendation:

Based on the analysis and interpretation of data, this followings are the suggestions that have been recommended for further improvement of cash management of finance companies.

1. Cash planning and cash budgeting is needed on a formal basis so as to project cash surplus or cash deficit for a period not exceeding one year and broken up into shorter periods.

2. Management of cash flows is needed so as to accelerate the inflows and as far as possible decelerate outflows.
3. Optimizing the level of cash balance is needed by matching the cash of holding excess cash and the danger of cash deficiency.
4. Investing idle cash balance is needed taking into account the cost of administering investment in marketable securities.
5. Cash planning manager or experts should be appointed .the lack of knowledge of modern financial management‘s tool and technique among existing employees in the banking sector is one of the causes of poor financial performance of the banks. Therefore, commercial banks must ensure to upgrade the current financial management skill.
6. Idle cash should be investment in profitable sector. The finance companies should manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash funds in profitable opportunities.
7. Finance companies should first identify the cash needs for operation and cash budget should be developed monthly, quarterly and yearly basis.
8. The finance companies should give attention toward collection of account receivable and try to decrease average collection period for effective cash management.
9. There should be a policy to have proper cash planning to estimate the cash receipts and payment it helps to minimize the problem of excess or deficit cash balance.
10. Finance company should be provided the attractive schemes to all small, medium and higher level customers in enjoying depositing, borrowing and other services. Company should be provided the attractive schemes to house wives, students and job holders to deposit in finance company.
11. Company should be provided the quick services to its clients in depositing, withdrawn, loan providing procedure and other services. Company should provide broad and reliable service in cheapest cost. Company should be better to extend its investment in loan and advance gradually in the risk free sector in order to yield certain income for minimizing total market risk.
12. Company should operate its branches in different areas for expand its market areas. Company should be provided ATM card, Debit Card, Credit Card, ABBS service, Remittance service and other services.

13. Due to increasing competition in this sector, both finance companies are facing more competition from recently established finance companies, development banks, joint venture banks, cooperative organization and etc. In such as situation the business should be more clients oriented, market oriented, service oriented, and step forward on new business activities and should offer a complete range of financial services. The company should strive to increase fee-based income by providing service to their clients.
14. Company should develop the objectives, goals and strategies, preparation of a strategic long-term plan, preparation of a tactical short-term plan, continuous leadership to attain the goals and plans and a dynamic control system.

Appendix 1

Butwal Finance Co. Ltd.

Comparative Balance Sheet

(Rs. In millions)

PARTICULARS	059/60	060/61	061/62	062/63	063/64	064/65
TOTAL ASSETS						
FIXED ASSETS	10.44	10.02	12.16	11.57	12.43	33.42
INVESTMENTS	25.80	71.14	32.73	50.23	125.33	105.55
TOTAL FIXED ASSETS	36.24	81.16	44.89	61.79	137.76	138.96
CURRENT ASSETS						
CASH AND BANK BALANCE	49.04	86.77	92.19	109.91	34.29	44.50
LOAN AND ADVANCE	324.24	395.67	488.80	521.89	542.75	657.87
OTHER CURRENT ASSETS	25.54	24.28	74.60	67.70	95.08	168.96
TOTAL CURRENT ASSETS	398.82	506.73	655.59	699.50	672.12	871.32
TOTAL ASSETS	435.06	587.89	700.48	761.29	809.88	1010.29
TOTAL LIABILITIES						
SHARE CAPITAL						
EQUITY SHARE CAPITAL	30.00	50.00	50.00	57.50	63.25	69.67
BONOUS SHARE	0.00	0.00	0.00	0.00	0.00	0.00
RIGHT SHARE	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL SHARE CAPITAL	30.00	50.00	50.00	57.50	63.25	69.67
RESERVE FUNDS						
GENERAL RESERVES	4.43	5.24	6.55	8.28	9.88	12.50
UNDISTRIBUTED P\L	2.02	5.25	10.21	9.33	9.64	13.12

TOTAL RESERVES	6.45	10.49	16.75	17.61	19.51	25.61
BORROWING	0.00	0.00	0.00	0.00	43.51	60.00
CURRENT LIABILITIES						
DEPOSITS						
FIXED DEPOSITS	224.20	315.31	443.52	381.68	380.62	439.82
SAVING DEPOSITS	129.33	163.52	146.45	262.47	264.53	360.11
TOTAL DEPOSITS	353.53	478.83	589.96	644.15	645.16	799.93
STAFF BONOUS PAYABLE	0.71	0.78	1.07	1.25	1.17	1.93
DIVIDEND PAYABLE	0.00	0.32	0.55	0.43	0.46	0.77
SUNDRY CREDITORS	1.68	1.94	5.28	3.68	6.01	17.97
OTHER LIABILITIES	40.61	42.57	36.86	36.19	30.53	32.85
TAX PAYABLE	2.08	2.97	0.00	0.49	0.28	1.56
TOTAL CURRENT LIABILITIES	398.61	527.41	633.73	686.18	683.60	855.00
TOTAL LIABILITIES	435.06	587.89	700.48	761.29	809.88	1010.29

(Sources: 6 years annual report)

Appendix 2

Pashchimachal Finance Co. Ltd.

Comparative Balance Sheet

(Rs. In millions)

PARTICULARS	059/60	060/61	061/62	062/63	063/64	064/65
TOTAL ASSETS						
FIXED ASSETS	25.54	41.82	41.75	40.37	38.27	35.24
INVESTMENTS	28.03	48.03	45.00	64.60	70.63	69.91
TOTAL FIXED ASSETS	53.56	89.84	86.75	104.97	108.90	105.16
CURRENT ASSETS						
CASH AND BANK BALANCE	65.87	97.98	92.45	78.42	82.21	145.99
DEMAND AMT.	-	-	-	-	-	-
LOAN AND ADVANCE	402.59	453.26	496.31	563.17	599.99	613.60
OTHER CURRENT ASSETS	45.82	44.89	53.27	17.48	11.44	13.00
NON BANKING ASSETS	-	-	-	2.21	3.99	9.03
TOTAL CURRENT ASSETS	514.27	596.13	642.04	661.28	697.63	781.62
TOTAL ASSETS	567.84	685.97	728.78	766.25	806.52	886.77
TOTAL LIABILITIES						
SHARE CAPITAL						
EQUITY SHARE CAPITAL	40.00	40.00	440.00	50.60	55.66	72.17
BONOUS SHARE	-	-	-	-	-	-
RIGHT SHARE	-	-	-	-	-	-
TOTAL SHARE CAPITAL	40.00	40.00	440.00	50.60	55.66	72.17
RESERVE FUNDS						
GENERAL RESERVES	15.48	18.50	20.99	22.42	25.75	32.81

UNDIST RIBUTED P\L	7.75	4.95	3.90	4.59	0.53	14.24
DEVIDEND	-	-	-	5.06	16.51	14.43
TOTAL RESERVES	23.24	23.45	24.88	32.08	42.79	61.48
BORROWING	0.03	-	-	-	0.05	-
CURRENT LIABILITIES						
DEPOSITS						
FIXED DEPOSITS	352.17	431.77	420.97	178.60	210.50	480.61
SAVING DEPOSITS	56.75	85.86	135.06	436.46	442.06	220.84
TOTAL DEPOSITS	408.92	517.63	556.03	615.05	652.56	701.44
STAFF BONOUS PAYABLE	3.53	2.13	2.19	1.40	2.50	5.39
DIVIDEND PAYABLE	0.46	0.87	0.85	0.94	1.33	0.91
SUNDRY CREDITORS	5.10	3.86	6.68	9.38	6.22	4.66
OTHER LIABILITIES	76.08	90.92	86.90	55.63	43.45	36.06
TAX PAYABLE	10.48	7.11	7.25	1.15	1.97	4.65
TOTAL CURRENT LIABILITIES	504.57	622.52	659.90	683.57	708.02	753.12
TOTAL LIABILITIES	567.84	685.97	1,124.78	766.25	806.52	886.77

(Sources: 6 years annual report)

Appendix 3

Butwal Finance Co. Ltd.

Comparative Profit and Loss Account

(Rs. In millions)

S. N.	PARTICULARS	059/60	060/61	061/62	062/63	063/64	064/65
A	**OPERATING INCOMES**						
	INTEREST EARNED	51.99	67.93	75.68	78.71	82.21	99.60
	COMMISSION AND DISCOUNT	0.14	0.34	3.06	1.66	2.35	3.50
	OTHER INCOMES	3.51	4.80	5.17	4.20	3.68	7.01
	TOTAL OPERATING INCOMES	55.65	73.06	83.91	84.57	88.24	110.11
B	**OPERATING EXPENSES**						
	INTEREST EXPENSES	37.08	47.95	55.51	54.56	53.20	59.56
	SALARY AND ALLOWANCES	3.50	3.68	4.33	5.42	5.32	7.42
	OTHER OPERATING EXPENSES	6.09	6.41	8.77	8.64	9.95	14.05
	TOTAL OPERATING EXPENSES	46.67	58.03	68.61	68.62	68.47	81.02
	TOTAL OPERATING PROFITS(A-B)	8.98	15.04	15.30	15.94	19.76	29.09
C	**PROVISIONS**						
	PROVISION OF BAD DEBTS	1.24	4.24	4.80	2.17	6.68	7.22
	NON OPERATING EXPENSES	-	-	-	0.04	0.23	0.56
	NON OPERATING INCOMES	-	(0.02)	(0.25)	(0.02)	-	0.10
	RECOVERY PROVISION OF BAD DEBTS	0.39	2.88	-	-	-	(0.03)

	TOTAL PROVISION	1.63	7.10	4.55	2.19	6.91	7.85
	GROSS PROFIT	7.35	7.93	10.75	13.75	12.85	21.24
D	STAFF BONOUS	0.71	0.78	1.07	1.25	1.17	1.93
	NET PROFITS	6.64	7.15	9.67	12.50	11.69	19.31
E	**TAX AND DUTIES**						
	INCOME TAX	2.08	2.97	3.14	3.69	3.68	6.08
	SPECIAL DUTIES	0.21	0.15	-	-	-	-
	ADDED INCOME TAXES LAST YEAR	-	-	0.11	0.15	0.02	0.11
	ADDED SPECIAL CHARGES	-	-	-	-	-	-
	TOTAL TAX AND DUTIES	2.29	3.12	3.25	3.84	3.70	6.19
	NET PROFITS AFTER TAX	4.35	4.04	6.42	8.66	7.98	13.11

(Sources: 6 years annual report)

Appendix 4

Pashchimachal Finance Co. Ltd.

Comparative Profit and Loss Account

(Rs. In millions)

S. N	PARTICULARS	059/60	060/61	061/62	062/63	063/64	064/65
A	**OPERATING INCOMES**						
	INTEREST EARNED	85.79	86.06	89.40	89.99	101.72	104.95
	COMMISSION AND DISCOUNT	0.09	0.08	0.11	0.11	0.09	0.08
	OTHER INCOMES	5.44	4.96	5.72	6.98	7.36	7.08
	TOTAL OPERATING INCOMES	91.32	91.10	95.23	97.07	109.17	112.11
B	**OPERATING EXPENSES**						
	INTEREST EXPENSES	37.08	47.95	55.51	54.56	53.20	59.56
	SALARY AND ALLOWANCES	3.50	3.68	4.33	5.42	5.32	7.42
	OTHER OPERATING EXPENSES	6.09	6.41	8.77	8.64	9.95	14.05
	TOTAL OPERATING EXPENSES	46.67	58.03	68.61	68.62	68.47	81.02
	TOTAL OPERATING PROFITS (A-B)	44.65	33.08	26.62	28.45	40.70	31.09
C	**PROVISIONS**						
	PROVISION OF BAD DEBTS	1.24	4.24	4.80	2.17	6.68	7.22
	NON OPERATING EXPENSES	-	-	-	0.04	0.23	0.56
	NON OPERATING INCOMES	-	(0.02)	(0.25)	(0.02)	-	0.10
	RECOVERY PROV. OF BAD DEBTS	0.39	2.88	-	-	-	(0.03)

	TOTAL PROVISION	1.63	7.10	4.55	2.19	6.91	7.85
	GROSS PROFIT	43.03	25.97	22.07	26.26	33.79	23.24
D	**STAFF BONOUS**	0.71	0.78	1.07	1.25	1.17	1.93
	NET PROFITS	42.31	25.19	20.99	25.01	32.62	21.31
E	**TAX AND DUTIES**						
	INCOME TAX	2.08	2.97	3.14	3.69	3.68	6.08
	SPECIAL DUTIES	0.21	0.15	-	-	-	-
	INCOME TAXES LAST YEAR	-	-	0.11	0.15	0.02	0.11
	SPECIAL CHARGES LAST YEAR	-	-	-	-	-	-
	TOTAL TAX AND DUTIES	2.29	3.12	3.25	3.84	3.70	6.19
	NET PROFITS AFTER TAX	40.02	22.08	17.74	21.17	28.92	15.12

(Sources: 6 years annual report)

VITAE -SHEET

A. PERSONAL DETAILS

Name : Prachin Man Shakya

Permanent Address : Butwal - 5, Golpark, Rupandehi

Contact No. : 9847093040, 071-549895

Date of Birth : 2039/05/11

Nationality : Nepali

Religion : Buddhist

Marital status : Unmarried

Occupation : Teaching

B- EDUCATIONAL QUALIFICATION:

S.N.	Board/Institution	Level	Passed Year	Division/ Percentage	Major Subject
1	HMG Board (Butwal Seconary School, Butwal)	S.L.C	2054	2nd (49.14)	Opt. Math, Science, Health Education
2	T.U. (Lumbini Banijya Campus, Butwal)	PCL.	2001	2nd (51.20)	Account, Economics, Marketing
3	T.U. (Lumbini Banijya Campus, Butwal)	BBS	2004	2nd (54.64)	Account, Taxation, Marketing, Economics
4	T.U. (Lumbini Banijya Campus,	M.B.S.	On thesis	-	Account & Taxation

	Butwal)				

BIBLIOGRAPHY

1. Books

Baumal, W. J. (1952). *Economic Theory and Operation Analysis.* New Delhi: Prentice-Hall of India Private Limited.

Gupta, S.P.(1991). *Statistical Methods,* 6th Edition. New Delhi: Sultan Chand and Sons Publications.

Jain, S. P., and Narang ,K.L. (1988). *Financial and Management Accountancy.* New Delh: India Kalyani Publishers.

Jerry, E. Goldress., and Roger, W. Christon. (1976). *Management in Crises, Management Review.* New York: American Management Association.

Joshi, P. R. (1982) *Research Methodology,* Kathmandu: Buddha Academic publication and distributors Pvt. Ltd.

Kent, Raymond P. (1964). *Corporate Financial Management.* USA: Richard D. Irwin Inc., Illinois.

Keynes, J.M. (1936). *General Theory of Employment, Interest and Money.* New York: Hourourt Brace, Jovanvich.

Khan, M.Y., and Jain, P.K. (2003). *Financial Management, Text and Problems* : New Delhi :Tata Mc Graw –Hill Publishing Company Limited.

Kothari, C.R. (1994). *Quantitative Techniques.* New Delhi: Vikas Publishing House P. Ltd.

Maheshwori, Dr. S. N. (2001). *Financial Management, Principle and Practice.* New Delhi: Sulatanchand and Sons Publishers.

Manandar K. D., Dhakal A. P., Thapa K., Koirala N., and Basnet J. B. (2009). *Managerial Finance*. Kathmandu: Khanal Publication Pvt. Ltd.

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

Pandey, I.M. (1992). ***Financial Management*****. New Delhi: Vikas Publishing House.**

Pandey, I.M. (1997). ***Financial Management*****. New Delhi: Vikas Publishing House.**

Paudel, R. B., Baral, K. J., Gautam, R. R. and Rana, S. B. (2007). ***Corporate Financial Management,*** **Kathmandu: Asmita Publishers.**

Pradhan, Surendra (2000). ***Basics of Financial Management.*** **Kathmandu :Educational Enterprises Pvt. Ltd.**

Pradhan,DR. Radheshyam.(2004).***FinancialManagement*****.Kathmandu:Buddha Academic Publishers and Distributors Pvt. Ltd.**

Rana, Surya (2000). ***Financial Management*****. Kathmandu: Ratna Pustak Bhandar.**

Rustagi, R. P. (2001). ***Financial Management.*** **New Delhi: Galgotia Publishing Company.**

Shrestha, K. N., & Manandhar K. D.(1999). ***Statistics and Quantitative Techniques for Management,*****.Kathmandu: Valley Publishers.**

Shrestha, M. K. (2006). ***Financial Management, Theory and Practice.*** **Kathmandu: Curriculum Development Center, T.U.**

Solomon, A.F., & Donald Grusewald.(1964). ***Management Finance.*** **New York: John Wiley Co. Inc.**

Solomon, E., and Pringle, J.J.(1978). ***An Introduction to Financial Management.*** **New Delhi :Prentice-Hall of India Private Limited.**

Van Horne, James C. (1974). ***Corporate Financial Management,*** **New Delhi: Prentice-Hall of India Pvt. Ltd.**

Van Horne, James C. (2002). ***Financial Management and Policy.*** **New Delhi: Prentice-Hall of India Pvt. Ltd.**

Welsch Glenn A., Hilton Ronald W., & Gordon Paul N.(2001). ***Budgeting Profit Planning and Control*****. New Delhi :Prentice-Hall Of India Pvt. Ltd.**

Weston J. Fred & Brigham F. Eugene. (1990) ***Managerial Finance,*** **Tokyo: Holf Satundass,.**

Weston J. Fred, Besley Scott & Brigham F. Eugene. (1973). ***Essentials of Managerial Finance,*** **New York: The Dreyden Press.**

Weston J. Fred., & Copeland ,Thomas E. (1982). ***Managerial Finance.*** **New York :The Dryden Press.**

Wolf, H .K., & Pant, P .R. (2000). ***Social Science and Thesis Writing.*** **Kathmandu: Sewa Printing Press.**

2. Thesis:

Bajracharya, Subarna Lal (1990). ***Cash Management in Nepalese Public Enterprises*****. Unpublished PHD Thesis, University of Delhi.**

Bhatt, Dilli Raj (2004). ***A Study on Cash Management of Dairy Development Corporation*****. Unpublished MBS Thesis,Tribhuvan University.**

Gautam ,Biranji (1999). ***The Cash Management; A case study of Gandaki Noodles Pvt. Ltd*****. Unpublished MBA Thesis, Tribhuvan University.**

Ghimire,Tika Ram (2005). ***Cash Management,A Case Study of Gorakhkali Rubber Udyog Limited*****. Unpublished MBS Thesis, Tribhuvan University .**

Koirala, Pradip (2006). ***Cash Management in Context of Nepal Telecom*****. Unpublished MBS Thesis, Shankar Dev Campus.**

Neaupane, Kiran (2009). ***A Case Study on Cash Management of Nepalese Public Enterprises*****. Unpublished MBS Thesis, Shankar Dev Campus.**

Pradhan, Bijaya (1997). ***A Case Study of Cash Management of STCL*****. Unpublished MBS Thesis, Tribhuvan University.**

Pradhan, Suresh (1989). ***A Study on Working Capital Policy of Manufacturing Public Enterprises in Nepal*****. Unpublished MBA Thesis, Tribhuvan University.**

Prithi, Ramesh (2003). A ***Study on Cash Management of United Mission Hospital Tansen*****. Unpublished MBA Thesis, Tribhuvan University.**

Sanju, Sabin Prakash (2003). ***Cash Management in Public manufacturing enterprises of Nepal*****: a Case study of Royal Drugs Limited. Unpublished MBS Thesis, Tribhuvan University.**

Thapa, S.K. (2007). ***A Study on Liquidity Assessment of Bank of Kathmandu*****. Unpublished MBS thesis, Tribhuvan University.**

3. Reports, Periodicals and Journals:

Annual report of Pashchimanchal Finance Company Ltd.

Annual report of Butwal Finance Company Ltd.

Miller, M.H. and Orr, D. (1966). ***A Model of the demand for money in firms*****. Quaterly Journal of Economoc LXY.**

Saksena,Ram M.(1974).Toward More Efficient Cash Management. Nepal Journal of Management Quarterly No.5.

4. Web-site:

www.butwalfinance.com

www.nrb.gov.np