

CASH MANAGEMENT

A STUDY ON DAIRY DEVELOPMENT CORPORATION (DDC)

A Thesis Submitted by:

CHIRAN BADE SHRESTHA

T.U. Registration No.: 7-2-430-3-2003

College Roll No.: 302/063

Second Year Symbol No.: 1786

Shanker Dev Campus

Putalisadak, Kathmandu, Nepal

Submitted to:

Office of the Dean

Faculty of management

TRIBHUVAN UNIVERSITY

***In Partial Fulfillment of the Requirement of the
Master's Degree in Business Studies (MBS)***

July, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

CHIRAN BADE SHRESTHA

Entitled:

**A STUDY ON CASH MANAGEMENT OF DAIRY
DEVELOPMENT CORPORATION**

*has been prepared as approved by this Department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.*

.....
Prof. Dr. Kamal Das Manandhar
(Thesis Supervisor)

.....
Prof. Bisheshwor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Indra Prasad Sharma
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva – voce of the thesis presented

by

CHIRAN BADE SHRESTHA

Entitled:

**A STUDY ON CASH MANAGEMENT OF DAIRY
DEVELOPMENT CORPORATION**

*And found the thesis to be the original work of the student and written
according to the prescribed format. We recommend the thesis to
be accepted as partial fulfillment of the requirement for*

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

Tribhuvan University

Faculty of Management

Shanker Dev Campus

Putalisadak, Kathmandu, Nepal

DECLARATION

I hereby declare that the work reported in this thesis entitled “**A study on Cash Management of Dairy Development Corporation**” submitted to Shanker Dev Campus faculty of management, Tribhuvan University, is my original work and done in the form of partial fulfillment of the requirement for the Masters in Business Studies (M.B.S.) under the supervision and guidance of **Prof. Dr. Kamal Das Manandhar** and **Indra Prasad Sharma** of Shanker Dev Campus.

Chiran Bade Shrestha

Researcher

Shanker Dev Campus

T.U.Reg. No.: 7-2-430-3-2003

College Roll No.: 302/063

Second Year Symbol No.: 1786

ACKNOWLEDGEMENT

I am very pleased to present myself as an author of this dissertation work as a partial fulfillment of the requirement for the degree of Master of Business Studies. An accomplishment of this dissertation reflected a tremendous sense of freedom to me and in other hand, completion of this thesis encouraged me to undertake new ventures of original researches in the field of financial literature.

During the research work many individuals have supported me. First of all, I would like to express my hearties gratitude and sincere thanks to my thesis honorable supervisor Dr. Kamal Das Manandhar and Mr. Indra Prasad Sharma, who encouraged me from the very beginning to the completion of this task with their scholar guidance and profound comments and suggestion. Without their efforts and regular supervision this thesis work would not come out in this shape. I am also extremely indebted to all the teachers of Shanker Dev Campus, who encouraged me in my entire academic attempt.

I am extremely thankful to all the staffs of Dairy Development Corporation, Lainchour, Kathmandu and specially thanks goes to Mr. Rauniar (Senior Account Officer, DDC) who provided me the valuable data and their better co-operation during the entire period of preparing this thesis.

I express my heartfelt gratitude to my family members who always inspired me to complete this journey of higher education from the benchmark of my academic qualification that I had. Without their encouragement and inspiration my higher education could not have been fulfilled. I would like to share the credit of my success with them.

Lastly but not the least, I would like to express my sincere gratitude to my colleagues who had inspired me during entire period of my study.

CHIRAN BADE SHRESTHA

CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviation	

Page

CHAPTER- I: INTRODUCTION	1-16
1.1 General Background	1
1.2 General Background of Public Enterprises	3
1.3 Current Economic Analysis of Public Enterprise in Nepal	4
1.3.1 Industrial Sector	4
1.3.2 Regarding Financial Performance of Public Enterprises	5
1.4 Cash Management (A Challenging Task)	7
1.5 Inefficient Cash Management Practice in PEs	7
1.6 Introduction of Dairy Development Corporation	8
1.7 Existing Cash Management Practices in DDC	11
1.8 Present Situation of DDC	12
2. Statement of the Problem	13
3. Focus of the Study	14
4. Objective of the Study	14
5. Significance of the Study	14
6. Limitation of the Study	15
7. Organization of the Study	16
CHAPTER – II: REVIEW OF LITERATURE	17-50
2.1 Conceptual Framework	17
2.1.1 General Concept of Profit Planning	17
I. Operating Budget	18
i. Sales Budget	18

ii.	The Production Budget	19
iii.	Purchase Budget	19
iv.	Direct Material Budget	19
v.	Direct Labor Budget	20
vi.	The Manufacturing Overhead Budget	20
vii.	The Selling and Administrative Overhead	20
II.	Financial Budgets	20
i.	The Budget Income Statement	21
ii.	The Cash Budget	21
2.1.2	Cash Management under Profit Planning and Control Techniques for Improving Cash Flows	21
2.1.3.	Cash Budget under Profit Planning and Control	23
I.	Long Term Time Horizon	24
II.	Short Term Time Horizon	24
III.	Immediate Time Horizon	25
2.1.4	Meaning of Cash Management	25
2.1.5	Efficiency of Cash Management	26
I	Speedy Cash Collection of Useable Cash	26
II	Concentration Banking	27
III	Slowing Disbursement	27
IV	Cash Velocity	28
V	Synchronized Cash Flows	28
VI	Using Float	28
VII	Transferring Funds	28
VIII	Minimum Cash Balance	29
IX	Overdraft System	29
2.1.6	Different Techniques of Cash Management	29
I	Cash Planning	29
II	Cash Budget	29
III	Short term Cash forecasting	30
i	Receipt and Disbursement Forecast	30
ii	Adjusted Net Income Method	30
IV	Long Term Cash Forecasting	30
2.1.7	Determining the Optimum Cash Balance	30
2.1.8	Cash Management Models	31
I	Baumol Model	32

II	Miller- ORR model	34
III	Orgler's Model	35
2.1.9	Cash Cycle	36
2.1.10	Definitions of key terms	38
I	Sales	38
II	Average collection period	38
III	Account receivable to cash balance	38
IV	Cash Budget	38
2.2	Introduction and Purpose	38
2.3	Reviews	39
2.4	Review of Thesis	44
2.5	Research Gap	50
CHAPTER III: RESEARCH METHODOLOGY		51-60
3.1	Introduction	51
3.1.1	Research Design	51
3.1.2	Population and Sample	51
3.1.3	Natural and source of data	52
3.1.4	Financial and Statistical Tools and Techniques for Analysis of Data	52
I	Ratio Analysis	52
i	Analysis of cash turnover	52
ii	Account Receivables/ Debtors Turnover Ratio	52
iii	Account Receivables to Cash and Bank Balance	53
iv	Analyses of Cash to Current Liabilities	53
v	Analysis of Cash and Bank Balance to Current Assets	53
vi	Analysis of Current Ratio	54
vii	Analysis of Quick Ratio or Acid Test Ratio	54
viii	Stock Turnover Ratio/Inventory Turnover Ratio	54
ix	Total Capital Turnover Ratio	55
x	Investment Rate	55
xi	Net Profit Margin Ratio	55
xii	Return on Working Capital Ratio	55
xiii	Net Profit after Tax to Quick Assets Ratio	55
II	Statistical Tools	56
i	Straight Line Trend	56

ii	Karl Pearson's Coefficient of Correlation	57
iii	Standard Deviation (S.D.)	58
iv	Regression Analysis and its Line	60
v	Lorenz Curve	60

CHAPTER- IV: PRESENTATION AND ANALYSIS OF DATA 61-103

4.1	Introduction	61
4.2	Analysis of Cash and Bank Balances	61
4.2.1	Analysis of Dispersion in Cash and Bank Balance	63
4.2.2	Lorenz Curve Analysis of cash and Bank Balance	64
4.2.3	Fitting the Straight Line Trend by Least Square Method for Variations in Cash Balance	65
4.3	Analysis of Cash Turnover Ratio or Sales to Cash and Bank Balance	68
4.3.1	Analysis of Correlation between Sales and Cash and Bank Balance	69
4.3.2	Regression Analysis: Computation of Regression Equations Regression Coefficients and Regression Lines	71
4.4	Analysis of Liquidity Position	73
4.4.1	Components of Total Current Asset and Their Share	73
4.4.2	Analysis of Current Ratio	76
4.4.3	Analysis of Acid Test or Quick Ratio	78
4.5	Analysis of Profitability Position	81
4.5.1	Analysis of Net Profit Margin Ratio	81
4.5.2	Analysis of Return on Working Capital (i.e. Current Assets)	82
4.5.3	Analysis of Net Profit after Tax (Net Loss) to Quick Assets	83
4.6	Analysis of Liquidity in Relation to Profitability	84
4.6.1	Analysis of Correlation between Net Profits after Tax (Net Loss) to Quick Assets Ratio and Quick Assets to Current Liabilities Ratio	85
4.7	Analysis of Cash and Bank Balance to Account Receivable	86
4.8	Analysis of Receivables/ Debtors Turnover Ratio	88
4.9	Analysis of Inventory (or Stock) Turnover Ratio	90
4.10	Analysis of Cash and Bank Balance to Current Assets	91
4.11	Analysis of Cash and Bank to Current Liabilities	94
4.12	Analysis of Current Assets Variable: Inventory and Advance Payment	95
4.12.1	Analysis of Dispersion in Inventory and Correlation between Sales and Inventory	97
4.12.2	Analysis of Dispersion in Advanced Payment and Correlation between Sales and Advanced Payment	98
4.13	Analysis of Current Liabilities	98

4.14 Major Finding	99
CHAPTER –V: SUMMARY, CONCLUSION AND RECOMMENDATION	104-107
5.1 Summary	104
5.2 Conclusion	105
5.2 Recommendation	105
Bibliography	
Appendices	

LIST OF TABLES

		<u>Page</u>
Table No. 1.1	Comparative Net Profit/Loss	6
Table No. 4.1	Cash and Bank Balance	62
Table No.4.2	Dispersion in cash and Bank Balance	63
Table No.4.3	Lorenz Curve Analysis: Calculation of Cumulative Percentage	64
Table No.4.4	Fitting the Straight Line Trend by Least Square Method of Variations in Cash Balance	66
Table No.4.5	Cash Turnover Ratio	68
Table No.4.6	Karl Pearson's Coefficient of Correlation (r)	70
Table No. 4.7	Share of Different Current Assets to Total Current Assets	74
Table No. 4.8	Current Ratio	76
Table No.4.9	Acid Test or Quick Ratio	79
Table No. 4.10	Analysis of Net Profit Margin Ratio	82
Table No. 4.11	Analysis of Return on Working Capital	83
Table No. 4.12	Analysis of Net Profit after Tax (Net Loss) to Quick Assets	84
Table No. 4.13	Karl Pearson's Correlation Coefficient between Profitability Ratio and Liquidity Ratio	85
Table No. 4.14	Cash and Bank Balance to Account Receivable	87
Table No. 4.15	Analysis of Receivables/Debtors Turnover Ratio	89
Table No. 4.16	Inventory Turnover Ratio	90
Table No. 4.17	Cash and Bank to Current Assets	92
Table No. 4.18	Analysis of Cash and Bank to Current Liabilities	94
Table No. 4.19	Current Assets Variable: Inventory and Advance Payment	96

LIST OF FIGURE

Page

Figure No. 2.1	Speedy Cash Collection of Useable Cash	27
Figure No. 2.2	Optimum Cash Balance	31
Figure No. 2.3	EOQ model of cash balancing	32
Figure No. 2.4	Relationship between average cash balance and cost of cash maintain	33
Figure No. 2.5	Graphical presentation of Miller Orr model of cash balance	34
Figure No. 2.6	Cash cycle	37
Figure No. 2.7	Cash management cycle	40
Figure No. 4.1	Cash and Bank Balance	63
Figure No. 4.2	Lorenz Curve Analysis	65
Figure No. 4.3	Straight Line Trend for Variation in Cash Balance	67
Figure No 4.4	Share of Different Current Assets to Total Current Assets	75
Figure No 4.5	Analysis of Current Ratio	77
Figure No. 4.6	Analysis of Acid Test or Quick Ratio	79
Figure No. 4.7	Inventory Turnover Ratio	91
Figure No. 4.8	Cash and Bank Balance to Current Assets	93