CHAPTER - I

INTRODUCTION

1.1 Background of the Study

A Bank is an institution, which deals in money, deposit from customers, honoring customer's drawing against such deposits on demands, collecting cheque for customers and lending or investing surplus deposits until they are required for repayment. In the present days various types of banks are established. For instance, Commercial Banks, Industrial Bank, Agricultural Bank, Joint Venture Bank, Cooperative Bank & Development Bank.

Modern banks are well equipped than the old banks, this is because of the growth in population, changes occurred in the industrial field & trade, the beginning of the competitive age & changes in the people's ideology and also due to the dependence on each other.

According to the Thomson's Dictionary: Word 'Bank' is said to be derived from the Italian word 'Banco' a bench, the yearly bankers the Jews in Lombardy, transacted their business at benches in the market place.

In a common sense an institution involved in monetary transaction is called bank. A bank simply carries on the work of exchanging money, providing loan, accepting deposit and transferring the money. Nepal Rastra Bank Act 2058 section 2 (a) defines bank as follows: Bank means the Nepal Rastra Bank established under section of this act, likewise, according to section 2 (b) of the commercial Bank Act 2031 A commercial bank established under the Act. Therefore, the Banks established by both of these acts are called bank. In addition of this, Section

2 (a) of the negotiable Instrument Act 2034 defines that a bank which established under the existing law shall be called bank.

The economic development of the country is not just happened, there should be establishment of various business and non/business organization for the purpose of contributing in economic development of the country both monetary and non/monetary sector should be established. Banks are the monitory unit of national economy. Bank of Kathmandu and Everest Bank limited are the most reputed banks operated in Nepal to perform the monetary activities under the regulation of central bank (NRB) .Organized banks are not the pioneer of financial transaction, there were lot of actors who contributed to this field. Even before the establishment of banking system in Nepal, financing transaction was in practice as under taken by some money lenders like Sahu/Mahajan and Jamindars. The transaction that held during those days was not in organized manner. Such unorganized way of financial affair could not direct the nation towards the economic development. Hence, to fulfill the growing need of economy, Nepal Bank Ltd. came into existence in 1938 A.D. as a pioneer commercial bank of Nepal. Even central bank was established after the existence of Nepal Bank Ltd.

Nepal Bank Ltd established with Rs. 800000 paid up capital to consolidate scattered capital and to mobilize towards productive sectors. It developed the systematic tradition and culture of modern banking system in Nepal. Such system could able to establish a strong base for the upliftment of the national economy.

In the year 1956 April 26, Nepal Rastra Bank has been established under Nepal Rastra bank Act 1955. Nepal Rastra bank is a central bank of Nepal and also the bank of the other commercial bank. Keeping monetary stability, management of national currency, distribution and stabilize the exchange rate are the key function of NRB. NIDC, Rastriya Banijya Bank and Agriculture development banks are the other actor on financial transaction. RBB is the second commercial bank established on the year 1967. Nepal Bank Ltd and Rastriya Banijya Bank have made a remarkable contribution by providing reliable banking service to the Nepalese people. Beside this, its contribution is well noted in terms of capital formation by converting the small dispersed saving into meaningful capital investment in order to flourish industry trade, agriculture and commercial sector in the economy.

In the year 1974 commercial bank act has been introduced in Nepal. This act has helped to emerge number of commercial bank with a view to maintain the economic interest and comfort of the public in general; facilitate to provide loan for agriculture; industry and trade and make available banking service to the country and the people. Now commercial banks are operated under the directive of NRB and NRB Act 1998. There is also existence of bank and financial institution ordinance (BAFIO) to operate commercial bank on the new climate. After the liberalization in the decade of 1993 various commercial bank started to provide the service in the field of monetary sector of nation. Number of finance company and saving and credit cooperative institution has been established to provide monetary service to the nation.

1.2 Nepalese Financial System

Financial institutions perform their activities as intermediaries in the financial market. They cater the need of depositors and borrowers by efficiently channelizing the fund from surplus to deficit units. While satisfying various financial needs of customers, they offer proliferated financial services and thereby create economic value. Nepalese financial sector comprises of both banks and other non-bank financial institutions. Due to the liberal licensing policy adopted by Nepal Rastra Bank, there are growing numbers of development banks and finance companies. Besides, there are micro –credit development banks, NGOs and postal saving offices that undertake limited banking and near banking financial services. Non bank financial sector comprises saving funds and trusts like employee provident fund, Citizen Investment Trusts and Insurance Companies. Nepalese financial system is largely dominated by commercial banks. Financial sector in Nepal has shown better performance relative to other sectors in the economy. Despite the long socio –political imbalances in the country, financial sector has left with some landmarks in the overall development of the country. Furthermore, the economic reforms initiated by the Government in 1990s have changed the landscape of several sectors of the Nepalese economy. As a result, several banks and financial institutions have been providing financial services across the country. Eventually, Nepal's financial sector has become deeper and widened. In this period, the Nepalese financial sector has grown significantly both in terms of assets base, business volume and market size. Nepal has a reasonably diversified financial sector, as evidenced by the number and variety of institutions that play an active role in this sector, relative to Nepal's small and underdeveloped economic base.

Nepal Rastra Bank is the central bank of the country. It is an autonomous institution. Being the regulator and supervisor of banks and financial institutions, it has successfully carried the endeavor of maintaining financial stability in the country.

As evidence, financial sector has done tremendous achievement in employment generation and creating economic benefits. The prime challenge of Nepal Rastra Bank now, therefore, is to play catalystic role in developing other sectors of economy. It is possible only if fiscal policy and monetary policy both try to address this common agenda by reallocating the financial resources to productive sectors and to the areas where resources are under-exploited.

Nepal Rastra Bank as a Regulator and Supervisor

The NRB Act 2001 has empowered Nepal Rastra Bank to perform regulatory and supervisory activities for the development and sustainability of financial system. NRB issues license to banks and financial institutions to perform banking activities, supervises and monitors their performances, and enforces the actions based on the supervision of license as specified in NRB Act.

1.3 The Banking Sector

The banking sector is an important part of the national economy. Banks accept deposits, support the payment system and provide the largest source of funds in the market. Safe and sound banking is crucial for the financial stability and sustainable development. Nepal has a special characteristic of bank dominated financial sector. As the domestic capital market is in the initial stage of development, the banking sector largely dominates the entire financial sector. The first conventional bank in Nepal was the Nepal Bank Limited, established in 1937 A.D. followed by Rastriya Banijya Bank in 1966 A.D. These two banks are the pioneers of the Nepalese Banking industry. These banks hold the largest network and operate even in remote areas of the country. Rastriya Banijya Bank is fully owned by the Nepal Government while government is holding forty percent stakes of Nepal Bank Limited. As the financial market was barred for private investors till the mid 1980s, these two banks were the only players in the banking industry. The economic liberalization policy adopted in the mid 1980s brought about a surge in the banking industry. A large number of banks were established and the number continues to grow even today. There is a significant growth in the number of banks in Nepal in the last two decades.

During the last two and half decades the Nepalese Financial System has grown significantly. As stated above, at the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Financial sector has made a progress both in term of the number of banks and their branches. The banks in Nepal have very unique characteristics. From an ownership standpoint, the commercial banks in Nepal can be broadly classified into two categories: Public Banks and Private Banks. The banks, which are owned or controlled by the government, are labeled as Public banks while the banks that are owned or controlled by the private sector are categorized as Private Banks. The Private Banks can be further re-grouped into the local private banks and Joint-Venture Banks. The banks with the local private investment are Local Private Banks whilst the banks with the Investment of Foreign Institutions along with the local investment are Joint-Venture Banks. Consequently, by the end of Mid – July 2009, altogether 242 banks and non- bank financial institutions licensed by Nepal Rastra Bank are in operation. Out of them, 26 are “A” class commercial banks, 63 “B” class development banks, 77 “C” class finance companies, 15 “D” class micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs as shown in table 1-1;

Table 1.1

Growth of Financial Institutions

Financial Institutions	79/80	84/85	89/90	94/95	99/2000	004/05	05/06	006/07	07/08	08/09	09/010
Commercial banks	2	3	5	10	13	17	18	20	25	26	31
Developments Banks	2	2	2	3	7	26	28	38	58	63	73
Finance Companies				21	45	60	70	74	78	77	78
Micro Development Banks				4	7	11	11	12	12	15	17
Saving and Credit Cooperatives Limited (Banking Activities)				6	19	20	19	17	16	16	16
NGOs (Financial Intermediaries)					7	47	47	47	46	45	45
Total	4	5	7	44	98	181	193	208	235	242	260

Source: www.nrb.com.np

1.4 Need of Bank

The development of any country can't be imagined without economic activities. The development of the banking system is one of the grounds of economic development. In another word, there is no possibility of economic development of a country without the development of banking system. So, we should take a bank as a strong means for the economic development. The development of a bank is interwoven with the development of a person, a society and a nation. It is impossible to fulfill the needs without the bank whether it is inside the nation or in foreign countries whether it is industrial development or business and whether it is for the people for the government. So, to solve problems relating to the economic development, development of banking system is need. Even in ancient time banking necessity was realized but today it is considered to be much more necessary. In other words, due to the following reasons the bank is necessary.

- To relieve people from financial exploitation
- To develop industry and commerce
- For economic development
- To provide security to valuable goods and property
- To transfer fund
- To create development and skilled
- To develop habit of saving
- For monetarism
- To develop agriculture and backwards area
- To balance economic development as a whole
- To exchange and control foreign currency
- To regulate and control money management credit and price stability
- To build capital
- To provide loan at lower rate
- To provide long term loan
- To uplift the poor people
- To develop country

1.5 Commercial Banks

Commercial banks are those financial institutions that accept the deposit from saver and provide short term loan and long term loan to productive sector or different forms. They purchase and discount the bills for exchange, promissory notes, exchange foreign currency, issue bank guarantee, bills of exchange, sales and purchase of shares etc. Commercial bank obtain deposit from customers as saving and distributes it to trade industry and agriculture a need of short-term finance. Principally commercial banks deposits and provide loans, primary to business firms, there by facilitating the transfer of funds in the economy.

Commercial bank is a corporation, which accepts demand deposits subjects to check and make short term loan to business entreaties regardless of the scope of its other services. Unlike the past where major activities of banks were confined to accepting deposits and providing loans banks today offers a wide range of products and services to its clients like trade finance, remittances, and export credit, tele – banking, ATM debit card, credit card etc. Banks have made significant stride in the use of modern technology to provide services to its clients. It also offers point of sales services and consulting services to its clients. Highly qualified, experienced and energetic management team managers banking operation including day –to- day- operations and risk management. They are established to improve people's economic welfare and facility, provide loan to the agriculture, industry and other sector. In Nepal, there are many commercial banks as: Nepal Bank limited, Rastriya Banijya Bank, Nabil Bank, Standard Chartered Bank, Investment Bank, SBI Bank, Everest Bank, Bank of Kathmandu, Nepal Credit and Commercial Bank, Himalayan Bank, Bangladesh Bank can be counted for an example. These banks have been playing a great role for the economic development of the country directly or indirectly. The services made by these banks are very important for example, the functions of banks are: to provide loan, to accept deposits, to perform task related to the agencies and the task concerned to the general utility. Generally, the commercial banks are opened by any name in every country of the world.

1.5.1 Commercial Banks in Nepal

Nepalese financial sectors were dominated by two commercials banks viz. Nepal Bank limited (semi Government) and Rastriya Banijya Bank (fully government owned) till 1984. Commercial banking act 1974 was amended in 1984 to increase competition between commercial banks. So, provision was made to allow private sector including foreign investment to open commercial banks. As a result, Nabil Bank ltd. then Nepal Arab bank ltd. was established in July 12, 1984 with the partnership of Dubai Bank ltd., Dubai. Though the commercial banks were established with the concept of supplying short term credit and working capital need of the industries, they have been providing long term loans for up to 15 years. After the enforcement to lend to priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services. Presently, commercial banks must lend 5 percent of their total lending in priority and deprived sector. NRB has provision of refinance facility also for such loan provided and deprived sector including export credit.

The number of commercial bank branches operating in the country increased to 752 in mid July 2009 from 555 in mid July 2008. Among the total bank branches, 50.39 percent bank branches are concentrated in the central region alone. By the end of Mid – July 2009, total 379 branches are being operating in this region. However, in the western, eastern, mid-western and far- western region are 19.54 percent (147), 17.95 percent (135), 7.57 percent (57) and 4.52 percent (34) respectively (www.nrb.com.np).

1.6 Joint Venture Bank

A joint venture Bank an association of two or more persons or parties under taken to make the operation highly efficiency with their collective efforts. This short of financial institutions, under the combined capital of persons or between organizations is meant to work for the development of trade commerce & industry. Joint ventures means, a business contract of management effort between two person, company or organization involving risk & benefit sharing.

Joint Venture is a general model for direct foreign investment. A joint venture bank is the joining of forces between for the purpose of carrying out a specific operation. Joint Venture is a new organization two or more independent firms mutually decide to participate in a business by contribution of their resources, capital establishes. The objective is fulfilling the shortage of funds required to investment in developments works and to make competence in the field of resources, they share new methods, new technology and services of management and get advantage from foreign investors. To establish a new bank requires capital, technology, experience and new market etc. For the purpose, a new bank and an established bank enters into technical services agreement in which all bank provides channel of global network deputes its experts to help the new bank in technical aspects. Sometimes old bank provides management services and investment also. The Joint Venture banks are playing, increasing dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

In Nepal, the history of joint venture bank is not so old. After the government followed mixed economy system, they started JV banking. These sectors are like the hotel, medicine, textile banking etc. Similarly, government of Nepal has been following liberalized economy policy in order to attract foreign capital/investors. Such short of policy was forwarded in 1982. As the history of foreign joint venture in Nepal, Nepal Arab Bank Ltd. became Nabil was the first joint venture bank established in mid-July 1984. The 2nd joint venture bank of Nepal was Grindlays

Bank Ltd. was established on January 1986. Similarly, the Nepal Indosuez Bank Ltd. was established in 1986 as 3rd joint venture bank in Nepal.

So, joint venture bank operating in Nepal have played important role in the economic development of the country. Besides they have also been creating competition for the local banks by making them alert to perform their operation smoothly.

1.7 General Information about Selective Commercial Bank

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. It has established its 6 new branches in the fiscal year 2009/010 at Bashisahar (Lamjung), Golfutar (Kathmandu), Kirtipur (Kathmandu) Kushma (Parbat), Surkhet (Surkhet), Lagankhel (Lalitpur). In addition it has also extended its branches at Tulsipur (Dang), Maitidevi (Kathmandu) and Thamel (Kathmandu) at this current fiscal year 2010/011 which has finally increased numbers of branches of EBL to 35.

The bank is providing customer-friendly services through its branch network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account. Punjab National Bank (PNB), a join venture (holding 20%equity in the bank) is the largest bank in India having more than 112 years of banking history. With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK. “Same day remittance” facility started recently has made every EBL customers to remit money from India to Nepal and vice-versa, on the same day, through more than 4000 Punjab national Bank throughout India.

Recognizing the value of offerings a complete of services, the banks have pioneered in extending various customer friendly products such as Home Loan, Education loan , EBL flexi loan , EBL Property Plus(Future lease Rental), Home Equity Loan, Vehicle loan , loan against share, Loan against Life Insurance Policy and Loan for professionals. It is one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is first of its kind.

EBL is playing a pivotal role in facilitating to and from globe. The first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open in the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The bank is also offering Cash Management System through HDFC Bank, India for managing the funds of corporate exporting to India by collecting fund.

The bank has also installed the Finacle Banking Software, of international standard so as to enhance its banking service. It has continuously been upgrading its computer technology for the proper communication of information within the branches, for the effective and efficient service provision to its customer, which has enabled its every customer to have their job done from any branches at any place. It has established its own ATM at 30 different places and also has been planning for its extension. In addition, the Bank's ATM can also be easily operated through more than 2000 branches of Punjab National Bank, India. The facility of Smart Choice Technology (SCT) has also enabled this bank to increase its banking service effectiveness.

The company has recently operated the SMS and Internet banking service for providing convenient service to its customers. This makes customers to know their balance in their account from any place or their home through use of cell phones and internet. The company has been operating its 365 days service, through Newroad Branch, Pokhara Branch and Many other branches in Kathmandu Valley too.

Corporate Vision & Mission

Vision

To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.

To integrate the frontiers of technology & serving the various segments of society.

To be committed to excellence in corporate values.

Mission

To provide excellent professional services & improve its position as a leader in the field of financial related services.

To build & maintain a team of motivated and committed workforce with high work ethos.

To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments (www.ebl.com.np).

Bank of Kathmandu

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. It is committed to delivering quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor.

It has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

It started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies.
- To contribute to the overall social development of Nepal.

Vision

To become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top quality financial institution.

Mission Statement

To offer financial services and becoming the "Bank of Choice" by dedicating to the progress and growth of the institution for the community, customers, employees, supervisors and stockholders by:

- Promoting economic growth and becoming a caring corporate citizen.
- Providing excellent customer services by offering personalized quality products and services.
- Inducing modern technologies of banking that adds value to customer service.
- Following strict risk control mechanisms.
- Enhancing shareholders value providing challenging career and learning opportunities for employees (www.bok.com.np).

1.8 Statement of the Problem

Being the reputed banking institution and having almost same organization structure, objectives and has came into operation from the same years, the banks are not providing same profit, cash flow and not able to meet the return on cash basis on equal manner and also the share price of these banks is in far distance. May be the limited investment bound and low banking attitude of customer are quite serious problem of these bank like as other commercial bank. Government rules and regulation with competitive behavior of commercial bank is the barrier to meet their ongoing operating costs. Misused of loan and misguided is the main problem of banking sector in these days

The investment opportunities are declining due to the economic recession through the country. This may be the major reason that commercial banks have been found to be unable in utilizing its fund efficiently. Because of unfavorable present situation these banks are adopting new technique to discourage low scale depositors. Joint venture and other commercial bank are suffering from various problems which are the major causes to minimize cash inflow.

Rules and regulation as well as directives imposed by government and NRB providing both opportunity and threat to the commercial banks. The main problems of these two banks are mentioned below:

- Why these two banks don't have same amount of cash flow?
- Why the cash flow from operating activities is differ in each other?
- Why the investment opportunities of these two banks are different?
- What are the main sources of financing cash flow and why they are different from each other banks?
- Why are the causes they are affecting for interest income?
- What is the role of spread to generate positive cash flow from operating activities?
- Having the highest amount of annual operating profit and operating in the same year, what is the condition of cash flow?

1.9 Objectives of the Study

The main objective of the study is to evaluate the performance of the bank considering the cash flow in the banking environment of Nepal. Comparison of cash flow with two banks individually and yearly is the other objective of the study. Suitable and important advice will be recommended on the basis of finding from the study to the concerned authorities for their further enhancement. The specific goals of this study are mentioned below.

- To examine, analyze and compare the cash flow statement of these banks.
- To analyze trend of cash flow.
- To evaluate the cash from different activities of banks.
- To compare the cash flow performance.
- To recommend the appropriate suggestions to the concerned authorize for future improvement.

1.10 Limitations of the Study

- The study is mainly concerned only on study of Bank of Kathmandu and Everest bank limited.
- The study is basically based on the secondary data.
- The study covers the last five years data from fiscal year 2005/06 to 2009/010.
- This study shows only the comparative cash flow of operating, investing, financing and net cash flow of the selected banks rather than other components.
- There might be some error in calculation of data.

1.11 Organization of the Study

This study is organized into five chapters. Organizations are as follows:

Chapter-I Introduction

Introduction phase deals on the focus of the study, need of Bank, commercial Bank, important of joint venture Bank, information about the selective commercial banks, statements of the problem, objective of the study, limitation of the study and organization of the study.

Chapter –II Review of Literature

It includes conceptual framework, review of the books & reviews other relevant journals, magazine; Bank reports and the previous thesis.

Chapter –III Research Methodology

To obtain the objectives of the study, research methodology is used, which includes research design, sample design, data processing & terms, tools, methods and techniques of analysis.

Chapter –IV Data presentation and Analysis

In the fourth chapter the data are presented, analyzed and interpreted using percentage using tabular and graphical presentation and findings of the study.

Chapter –V Summary, Conclusion and Recommendations

The final and last chapter contains the summary of the whole study. The conclusions of the study have been presented and at last valuable and timing suggestion are suggested in the form of recommendations.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Framework

Review of literature is basically second stage and ongoing process of research process. As a matter of fact, review of literature begins with a research for a suitable topic and continuous throughout the duration of the research work. That is when the topic is finalized, the related available materials like as published books, and journal, thesis or dissertation government publications, and business report (annual report of Bank / Finance /Companies) and so have to be reviewed. It is necessary to show how the research is related to previous one. It will give idea about the variables related in past studies and what difficulties previous researcher faced, so that you can take care on those points.

To the point, Review of Literature needs to develop new research frame work which is based on past knowledge and experience from which hypothesis can be developed for testing and minimizing the risk pursuing (kill, catch , grab , review) the dead ends in research work.

The primary purpose of literature review i.e. it enables the researcher to know:

- What research has been done in the subject?
- What others have written about the topic?
- What theories have been advanced?
- Whether there are gaps that you can fill through the proposed research?

The approach taken by other researchers:

- Areas of agreement of disagreement.

- In addition, the benefit of a good research which was pointed out by Serekam is given below:
- Important variables that are likely to influence the problem situation are not left out the study.
- A clean idea emerges as to what variables would be most important to consider, why they would be considered important and how they should be investigated to solve the problems.
- Testability and reliability of the findings of the current research are enhanced (increased the quality, make look better).
- The problem statement can be made with greater precision and clarity.
- One does not run the risk of "reinventing the wheel" , that is wasting efforts on trying to rediscover something that is already known; and
- The problem investigated is perceived by the scientific community as relevant and of significance.

2.1.1 Financial Statement

Financial information's required for planning, analysis and decision making. Accounting system of a firm is the main source of financial information. The accounting system helps to accumulate measure and communicate financial information to various users for making economic decision. The users of financial information include owners, creditors, managers, employees, customers, suppliers, government and society. The two primary objective of every business are solvency and profitability. Solvency is the ability of a company to debts as they become due; it is reflected in the company's income statement. Generally, all those interested in the affairs of a company are especially interested in solvency and profitability. Financial statement are prepared for the purpose for presenting a periodical review or report on the progress by management and deal with

- The status of the investment in the business and

- The result achieved during the period under reviews. The statement which discloses the status of the investment is known as Balance Sheet and the statement which shows result achieved during the period is known as Profit and loss Account.

Thus, the financial statement represents two statements are- Balance sheet which is also called statement of financial position and profit and loss account or Income Statement. Balance sheet shows the financial condition or the state of firm at a particular point of time. More specifically, balance sheet contains details information about the firm's assets and liabilities. An asset represents economic resource possessed by a firm. Fixed are used in business for more than an accounting period of one year, while current assets are converted into cash within an accounting period. Liabilities are amounts payable by firm. Liabilities payable within an accounting period are called current liabilities and liabilities payable after a year or so called long-term liabilities. Funds contributed by the owners to the firm are called owners' equity. Thus the balance sheet gives a concise summary of the firms' resources and obligations, and measures the firms' liquidity and solvency.

The profit and loss account (or income statement) shows the profitability of the firm by giving details about the revenues and expenses. Revenues are the benefits which customer contributes to the firm in exchange for goods and services provided by the firm. The cost of the economic resources used in providing goods and services to the customers is called expense. Profit is the difference between revenues and expenses. Thus the basic purpose of the profit and loss account is to provide the concise summary of the firm's revenues and expenses during a period of time and measures its profitability.

Therefore the financial statement is an important tool which provides necessary and valuable information to the management for sound decision making. It helps to provide information about profitability, liquidity, operating activities of business organizations.

2.1.2 Funds Flow Analysis

The funds flow statement consists of two terms 'funds and 'flow'. The 'funds' refers to ass pecuniary resources that can be measured in term so money. It may be interpreted as cash or working capital or all financial resources. 'Flow' means change in amounts of funds between two periods. Thus, the statement designed to highlights the change in the financial position of business is known as funds Flow Statement (Dangol, 2064:360).

The balance sheet and income statement of a business shows the financial position at a given point of time and summary of revenue and expenses during the accounting period. But for evaluating the past performances, future potential of a business, a separate statement has to be prepared which is known as funds flow statement. For showing the changes in assets and liabilities from the end of one period of time to the end of another period of time a statement of changes in financial position or a funds flow statement has to be prepared. The comparatively study of two balance sheets of a company prepared for two different years for knowing the financial activities of a company is known as funds flow statement. Form where the funds have been obtained, which is known as sources and where the funds have been utilized, which is known as uses are shown by a funds flow statement.

Funds flow statement is the statement of sources and uses of fund. Funds flow statement shows the sources from which the funds are received and the areas to which the obtained funds have been utilized. Funds flow statement indicates various means by which funds were received during a particular period and the ways in which these funds were applied. Thus, the funds flow statement is an essential tool for financial analysis (Koirala, 2064:310).

It explains the sources from which additional fund i.e. working has been arrived and the uses to which the fund or working capital has been employed. Funds flow statement is prepared on the basis of two balance sheets of subsequent dates and highlights the changes in the financial position of a concern. The main purpose of funds flow analysis is to get clear information about the financial transactions that bring changes in the companies' resources. The objective of funds flow statement is to disclose the cause of changes in the assets, liabilities and equity capital between two balance sheet dates. It highlights the changes in financial position of a concern and indicates the various means by which funds were obtained during a particular period and the ways to where these funds were utilized. By comparing balance sheets of two different dates funds flow statement is prepared which shows the inflow and outflow of the funds. It is a kind of financial tools which answers the following questions.

- “From which source fund were received?
- How many funds were received?
- For what purpose the fund is used?"(Lucy; 1998:125).

2.1.3 Cash Flow Analysis

Cash is the life blood of any business organization. Without cash no business activities can be taken place. It is the fuel that keeps a business alive. So a business must have an adequate amount of cash to operate. As such of the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis. How much cash is generated by business operation? How much cash is spent for current or non-current assets? What is income source of company for expenditure? How did company pay dividend? All these questions are raised by financial statement users. All these questions raised by the users of financial statement are now answered by Balance Sheet, Income statement or Statement of Shareholder's equity.

The statement of cash flows is a financial statement which explains the change in cash position from one balance sheet to next balance sheet date. It provides relevant information about cash receipts and payments of an enterprise during a period. Information about enterprises cash flows is useful in assessing its liquidity financial flexibility, profitability and risk. Cash flow information is widely used by investors, analysts, creditors, managers and others.

The balance sheet provides information about the assets of an enterprise and how these assets have been financed by owned and borrowed funds at a certain time but it does not explain the change during a period in assets, liabilities and owner's activities. The profit and loss statement provides information about an enterprise's financial performance during a specific period but earning is measured by accrual accounting, it does not show cash generated through its operations. Cash flow is calculated by making certain adjustments to net income by adding or Subtracting differences in revenue, expenses and credit transactions resulting from transactions that occur from one period to the next. These adjustments are made because non-cash items are calculated into net income and total assets and liabilities. So, because not all transactions involve actual cash items, many items have to be re-evaluated when calculating cash flow from operations. The other method of cash flow is calculated by different adjustments of operating activities, investing activities and financing activities within different operations.

2.1.4 Cash Flow and Profitability

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices. Profits of the firm depend on many factors such as method of depreciation; non operating gains; incomes, expenses and losses. People often mistakenly believe that a cash flow statement will show the profitability of a business or project. Although closely related, cash flow and profitability are different. A cash flow statement lists cash inflows and cash outflows while the income statement lists income and expenses. A cash flow statement shows liquidity while an income statement shows profitability. Many income items are also cash inflows. The sales of crops and livestock are usually both income and cash inflows. The timing is also usually the same as long as a check is received and deposited into account at the time of the sale. Many expense items are also cash outflow items. The purchase of livestock feed (cash method of accounting) is both an expense and a cash outflow item. The timing is also the same if a check is written at the time of purchase. All the available cash not the profit determines the firms' future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flow not the profit that determines the wealth.

2.1.5 Cash Flow Statements

A cash flow statement is one of the most important financial statements for a project or business. The statement can be as simple as a one page analysis or may involve several schedules that feed information into a central statement. A cash flow statement is a listing of the flows of cash into and out of the business or project. A cash flow statement is a listing of cash flows that occurred during the past accounting period. A projection of future flows of cash is called a cash flow budget. A cash flow statement is not only concerned with the amount of the cash flows but also the timing of the flows. Many cash flows are constructed with multiple time periods. For example, it may list monthly cash inflows and outflows over a year's time. It not only projects the cash balance remaining at the end of the year but also the cash balance for each month. Working capital is also an important part of a cash flow analysis. It is defined as the amount of money needed to facilitate business operations and transactions, and is calculated as current assets less current liabilities. Computing the amount of working capital gives a quick analysis of the liquidity of the business over the future accounting period. If working capital appears to be sufficient, developing a cash flow budget may be not critical. But if working capital appears to be insufficient, a cash flow budget may highlight liquidity problems that may occur during the coming year.

Cash flows analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. A cash flows statement is defined as "a statement of company's ability to generate cash from various activities and their need of cash" (Munakarmi, 2063: 13.9).

The cash flow analysis is an essential ingredient which has its own special technique. Moreover we should analyze cash flow ability of the firm to serve fixed charges. When the company issues the securities in greater amount with short maturity period, its fixed charges will be high. Fixed charges of any firm include principal plus interest payment on debt, lease payment and dividend on preferred stock. The firm should try to cover all fixed charges by analyzing expected future cash flows before assuming any fixed charges. The inability to meet the fixed charges may result in financial insolvency. Therefore the more stable future cash flow means the greater debt capacity of the company. Due to this reason, an analysis of the cash flow ability of the firm it's the best way to analyze its financial risk. As such an enterprise should prepare a cash flow statement and should present it as an integral part of its financial statement for each periods for which financial statement are presented.

2.1.6 Cash Flow Vs Accounting Profit

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices. Profits of the firm depend on many factors such as method of depreciation, non operating gains incomes expenses and losses.

Cash flow analysis not only recognize the profit but it goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flow not the profit that determines the wealth. "The use of NPV value in investment decisions requires information about cash flows. It is the inflow and outflow of cash which matters in practice. It is cash which a firm can invest, or pay to creditors to discharge its obligations or distribute to shareholders as dividends. Cash flow is a simple and objectively defined concept. It is simply the difference between rupees received and rupees paid out. Cash flows should not be confused with profit. Changes in profits do not necessarily mean changes in cash flows. It is not difficult to final examples of firms in practice which experience cash shortages inspite of increasing profit. Cash flow is not the same things as profit, at least, for two reasons. First, profit as measured by an accountant is based on accrual concept revenue (Sales) is recognized when it is earned, rather than when cash is received, and expenses is recognized when it is incurred rather than when cash expenses as well payable. Second for computing profit, expenditures are arbitrarily dividend into revenue and capital expenditures. Revenue expenditures are entirely changed to profits while capital expenditures are not. Capital expenditures are capitalized as assets, and depreciated over their economic life. Only annual depreciation is charged to profit depreciation is an accounting entry and does not involved any cash flow. Thus, the measurement of profit excludes some cash flows such as capital expenditures and includes some non-cash items such as depreciation" (Pandey, 1999: 451).

"Capital budgeting is concerned with investment decisions which yield return over a period of time in future. The foremost requirement for evaluation of any investment proposal is to estimate the future benefits accruing from the investment proposal. Theoretically two alternative criteria are available to quantity the benefits: 1) Accounting profit and 2) Cash flows. The basic difference between them is primarily due to the inclusion of certain non cash expenses in the profit and loss account, for instance depreciation. Therefore, the accounting profit is to be adjusted for non-cash expenditures to determine the actual cash inflow. The cash flow approach of measuring future benefits of a project is superior to the accounting approach as cash flows are theoretically better measures of the net economic benefits of cash associated with a proposed project" (Khan & Jain, 1999: 3.35).

2.1.7 Importance of Cash Flow Statement

The importance and usefulness of cash flow management is increasing day by day. Recognizing its importance, business now-a-days manage cash effectively that can be benefited in numerous ways, international accounting standards has also given direction to its members to prepare cash flow statement along with balance sheet and profit and loss account. According to sec. 83 of Nepal Company Act 2053, the company should prepare cash flow statement along with profit and balance sheet at the end of the financial year. The information in the statement of cash flow provides a basis for analyzing financial results. By accurately forecasting the amount and timing of cash flows, managers minimize loan draws, thus lessening interest expenses. In addition, improving the amount of cash internally generally decreases the need for soliciting external financing, thus preserving, proportionate shareholders' value and unused debt capacity.

The importance of cash flow statement can be presented in following ways: -

- The cash flow statement is prepared on cash basis. Hence, cash position of a firm can be easily evaluated.
- Cash flow statement is helpful to a firm for planning and coordinating financial operation properly for short term and long term financing.
- Cash flow statement also provides important insights regarding a company's continuity investment in productive assets and assessing its quality of its earnings.
- It is also important in planning for the repayment of loan, replacement of fixed assets and other long term cash planning.
- It also plays vital role for the preparation of cash budget for the specific future period for future reference.
- The statement can provide the concerned organization the necessary assistance for the effective steps to strengthen the internal financial position.
- It is useful for both internal and external users. The external users refer to the bank and other financial institutions.

In other words the cash flow statement may help to answer the following:

- If a company operates at a profit why is it continually short of cash? How can a company operate at a loss and still generate huge inflows of cash from operations?
- How was the company's growth and expansion financed?

- Was financing obtained during the period through issuance of debt or equity securities? If so what were the amount of cash obtained?
- Did the company use cash to retire any long term debt or equity securities during the period?
- Are the company's incomes producing activities using more cash than they are generating?
- Do operating activities consistently generate enough cash to assure prompt payment of operating expenses maturing liabilities interest obligation and dividends?

2.1.8 Objectives of Cash Flow Statement: -

The primary objective of preparing cash flow statement is to understand the relationship between accrual accounting events and their cash impact. A second goal is to classify cash flow among operating, investing and financing activities. Precisely speaking a statement of cash flow helps users of financial statements evaluate a company's ability to have sufficient cash- both in short term and in a long term basis.

The main objectives of cash flow statement are as follows: -

- To provide information about a cash receipt and payment of a company during an accounting period.
- To provide information about a company's operating, investing and financing activities during accounting period.
- To provide information about the changes in the cash position of the company.
- To evaluate the financial policies of the company.
- To help in understanding liquidity positions of the firm. To locate the reasons for variations in cash position.

- To assist the firm in short term cash planning.

2.1.9 Difference between Cash Flow Statement and Income Statement

Cash flow statement is prepared to portray a complete picture of cash movement in the business. It is not a substitute for a income statement; and it can also not be equated with income statement. Both these statements differ on the following counts:

- The purpose of preparing cash flow statement is to provide a full and complete picture of cash incomings and outgoings for the accounting period. But an income statement is prepared to disclose the net result of the performance of the business concern.
- The profit as disclosed by the income statement is determined to convey something about the fact of concern's overall investment. But in the case of cash flow statement, a cash outflow represents the investments. But in the case of cash flow statement, cash outflows represents the investments as they are sound or not; but in the cash inflows, they do not tell us whether the inflow is beneficial or not.
- Income statement matches costs with revenue on accrual basis but a cash flow statement record the matching of cash receipts with cash disbursements.
- Income Statement measures the net result of the business operations on accrual basis but the Cash Flow Statement puts the results of operations on cash basis.

2.1.10 Difference between Cash flow Statement and Receipt and Payment Account

There appear to be many common points in cash flow statement and Receipts and Payments Account. Cash Flow Statement virtually takes the nature and character of Cash Receipts and Cash Payments Account. But there are two basic differences between the two:-

- Basic information used in the preparation of Cash Flow Statement differs from that which is used in recording Receipts and Payments Accounts, cash Receipts and Cash Payments cannot be prepared from the Balance Sheet of two dates , while Cash Flows Statements can be prepared.
- A receipt and Payment Account contains cash receipts of both revenue and capital and payments of revenue and capital nature. The Cash Flow statement is prepared to disclose the amount generated from operations and from other sources and the amount of outflow being cash payments during the year.

2.1.11 Difference between Cash Flow and Funds Flow Statement

As pointed out elsewhere, the term 'Fund' is used to denote 'Cash' or 'Working Capital' or 'Total Resources'. In a narrow sense, it indicates 'cash' and the statement of changes in financial position prepared on cash basis are called Cash Flow Statement. Similarly, a statement of changes basis are called Cash Flow Statement. Similarly, a statement of changes in financial position prepared on the basis of working capital concept of fund is known as Fund Flow Statement. From this point of view, both statements are similar in nature and purpose. However, there are some basic differences between the row and following points indicate such as differences.

Concept: Funds flow statement is based on working capital and cash flow is based on cash.

Accounting: Funds flow statement is based on accrual basis of accounting and cash flow statement is based on cash basis of accounting.

Preparation: Funds flow statement reveals the sources and application of funds and any difference represents net increase or decrease of working capital. Cash flow statement reveals the inflow and outflows of cash and difference represents the closing cash balance.

Purpose: Funds flow statement shows the causes of changes in working capital position of a firm between two balance sheets dates. Cash flow statement shows the causes of changes in cash position of a firm between two balance sheet dates.
Usefulness: Funds flow statement is useful in planning intermediate and long term financing. Cash flow statement is more useful for short term analysis and cash planning of the business.

Schedule of changes in working capital: To get information about current assets and liabilities it is necessary to prepare the schedule of changes in working capital before preparing funds flow statement whereas in cash flow statement it is not necessary to prepare the schedule of changes in working capital.

2.1.12 Financial Results: Accrual Vs Cash Basis

Whether we are an investor or a manager or a taxpayer we need to understand the difference between cash flow and the accrual basis of accounting. Accrual based information is used in determining the profitability and the financial position of the business specially a business of considerable financial strength. But in evaluating such factor as solvency, the prospects for short-term survival and the ability of a business to seize investment opportunities, cash flow may be more relevant than accrual based.

One important matter to be understood is that in business a high turnover or a high profit shown by the income statement should not viewed as a high sign of growth.

Suppose a new manager comes and allows a relaxed credit policy, sales and consequently the profit also would surprisingly jump upward during this fiscal year. But in future if the account receivable becomes uncollectible all of the hopes will vanish. Therefore, just to generate adequate sales revenue is not enough. Collection of the cash flow from the customers matter more otherwise one should announce a credit sale to everybody and have a queue of customers in the shop waiting for goods. What's there in salesmanship? We got surprise market share just by adopting a liberal credit policy.

Therefore, the information of income statement cannot depict the operating performance of the firm unless we tally it with the information in the cash flow statement. The statement of cash flow gives the amount of cash actually received during the period as a result of sales activities is that, it overstate the gross profit as well as net profit figures and it is the pessimistic forms of accounting.

We must also adjust the balance sheet and income statement accounts when information is available to do so, for example, some companies include depreciation expense in cost of goods sold (COGS) by the amount of depreciation expenses and create a depreciable expenses account and correctly show the cash invest properly. The reported depreciation expenses should also verified by reference. These references provide details of the components of the change in the accumulated depreciation of the period, including effects of acquisitions, investments and foreign data provide breakdown of aggregated balance sheet accounts, performing final breakdown of assets and liabilities.

2.1.13 Preparation of Cash Flow Statement

The cash flow statement is prepared on the basis of cash basis accounting. While calculating operating profits for cash flow statement, adjustment for prepaid and outstanding expenses and incomes are made to convert the data from accrual basis to cash basis. The statement is prepared by taking the opening balance of cash, adding to this all the inflows of cash and deducting all the outflows of cash from the total. The statement is more useful for short term analysis and cash planning of the business. Cash flows statement shows the sources and application of cash. Following are the major sources and use of cash.

Sources of Cash:

- Cash from operation
- Sales of fixed assets
- Issues of shares
- Issue of debentures
- Raising long term loan
- Decrease in working capital

Uses of Cash:

- Cash loss from operation
- Purchase of fixed assets
- Redemption of redeemable preference shares
- Redemption of debentures
- Payment of dividend and income tax and
- Increase in working capital or

The following are the sources of cash:

- The profitable operation of the firm.
- Decrease in assets(except cash)
- Increase in liabilities(Including debentures or bonds), and
- Sale proceeds from an ordinary or preference share issue.

The uses of cash are:

- The loss from operation
- Increase in assets (except cash)
- Decrease in liabilities (Including redemption of debentures or bonds)
- Redemption of redeemable preference shares, and Cash dividend (Pandey, 1999:76).

  As per the FASB's statement no. 9 the cash flows statement should be presented under informative approach in activity format. Under informative approach the cash flow statement may be presented using.

1. Indirect Method
2. Direct Method

1. Indirect Approach to Cash flow Statement

Under indirect approach, net profit or loss is adjusted for the effects of transaction of a non cash nature, any deferrals or accruals of past or future operating cash receipts of payments and items of income or expense associated with investing or financing cash flows. Operating activities relate to a company's primary revenue generating activities. It is the single major continuing source of cash. Operating activities are always within the management control and they provide base for management estimation of funds needed to rise from available sources. Cash flows from operating activities are generally the cash effects of transaction and economic events included in the determination of income.

Operating activities

Under indirect method the net cash flow from operating activities is determined by adjusting net profit or loss for the effect of : -

- Changes during the period in inventory and operating receivables and payables.
- Non/cash items such as depreciation, provisions, deferred taxes and unrealized gains or losses and
- All other items for which the cash effects are investing or financing cash flows.

  Alternatively the net cash flows from operating activities under indirect method may be present showing operating revenues and expenses, excluding non/cash items disclosed in the statement of Profit and loss and the changes in inventories and operating receivable and payables during the period. Operating activities are

- Non/cash and non/operating gain/loss/expenses
- Depreciation/loss on sales of assets provision for taxes
- Gain on sales of assets
- Operating profit before working capital changes
- Increase/decrease in current assets and current liabilities

Investing Activities

It include lending money (investment) and collecting on those loan, buying and selling productive assets that are expected to generate revenue in future periods and buying and selling securities not classified as cash equivalents. Investment activities are: -

- Cash payments to acquire the fixed assets
- Cash receipts from disposal of fixed assts
- Cash payments to acquire shares, warrants or debt instrument of other companies
- Cash advances and loan made to other parties
- Cash receipts from the repayment of advances and loans made to third parties

Financing activities

It include borrowing money from creditors and repaying the amounts to borrower and obtaining resources from owners repayment of borrowed funds/amount and payment of dividend to owners. The separate disclosures of cash flows arising from financing activities is important, because it is useful in predict claims on future cash flow by providers of funds. Financing activities are

- Cash proceeds from issuing shares or other similar instrument
- Cash proceeds from issuing debenture, loan notes, bond and other short or long term borrowings and
- Cash repayments of amount borrowed.

Cash Flow Format Under Indirect Approach

(Subedi, 2004:11.6)

A. Cash flow from Operating Activities		
Net income/Profit for the period………………..		………
Add: Non cash / Non–operating loss and expenses	……	…........
Depreciation for the period	……	
Amortization of goodwill	…….	
Amortization of patents/ copy right	……	
Amortization of trade mark/ investment	…….	
General reserve maintained	.……	
Discount on sale of share and debenture	…….	
Premium on redemption of share and debenture	…….	………
Loss on sale of fixed assets	…….	………
Preliminary expenses written off	…….	………
. Provision for taxation	…….	………

. Provision for dividend	……	
Less: Non operating incomes	…..	
Appreciation on fixed assets	……	
Premium on issue of Share and Debenture	…….	………
Discount on redemption of preference shares and	…….	
debentures	…….	………
Profit on sale of fixed asset	…….	………
Dividend received	…….	
Refund of tax	…….	
Funds from operation	…….	
Add: increase in current liabilities(item wise)	…….	
Decrease in current assets (except cash)	……	
Less : decrease in current liabilities(item wise)	…….	……….
Increase in current assets (except cash)	…….	……….
Net cash available from operating activities before	…….	.
tax	…….	
Tax paid		
Net Cash available from Operating activities	…….	………
B. Cash flow from Investing Activities	…….	
Purchase of Share and debenture	…….	
Sale of Share and debenture of other company	..…...	………
Sale of investment	…….	………
Purchase of investment	…….	
Purchase of assets		
Sale of fixed assets		
	…….	………
Net cash available from investing activities	…….	
C. Cash flow from financing activities	……	

Issue of share and debenture with share and discount ……

Redemption of preference share and debenture with …….

premium and discount …….

Issues of loan term loan

Dividend paid ……..

Net cash available from financing activities

2. **Direct Approach to Cash Flow Statement**

When the direct method is used the cash flow statement does not begin with net income, rather, it shows cash collected from customer and deducted cash used for various expenses. That is major class of gross cash receipt and gross cash payments are disclosed.

Under direct approach, operating activity only include transaction that return to the calculation of net income. It involves the production or purchase and the sales of goods and services to customers. Cash flow from operating activities includes all cash flows from transaction that are not defined as investing or financing activities.

The cash flows from operating activities are primarily derived from the principal revenue producing activity of the enterprise. Examples of cash flows from operating activities are:

- Cash receipts from the sales of goods and the rendering of services
- Cash receipts from royalty, fees, commission and other revenue
- Cash payments to suppliers of goods and services
- Cash payments to and on behalf of employees
- Cash receipts and cash payments of an insurance company for premium and claim and other policy benefits

- Cash payments or refunds of income taxes

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method under direct method information about major classes of gross receipts and gross payments may be obtained either.

- From the accounting records of the firms or
- By adjusting sales cost of sales and other items in the statement of profit and loss for:
- Changes during the period in inventories and operating receivables and payables
- Other non cash items and
- Other items for which the cash effects are investing or financing cash flows

Determination of cash flow from investing activity

Determination of cash flows from investing activities requires analyzing the non/operating incomes and expenses in income statement.

- Productive assets
- Investment in share and debentures
- Intangible assets
- Short term investments other than cash equivalents

Determination of cash flow from financing activity

A company's transactions with its owners and long term creditors are typically called financing activities also financing activities include borrowing cash on short term basis for determination of cash flows from financing activities items relating to;

- Equity Share capital

- Share premium
- Debenture
- Dividend proposed

And comparative balance sheets should be analyzed by preparing necessary accounts.

Cash Flow Format Under Direct Approach:

Operating Activities Cash sales and collection from customers: Net sales (sales less return) +/- Opening debtors / account receivable / closing debtors/ receivable + Bad debt recovered +/- Current year's doubtful debts/last year doubtful debts - Current year bad debts Cash purchase and payment to suppliers: Net purchase (merchandise/material/suppliers/supplies/cost of goods sold) +/- Closing inventories/opening inventories +/- Ending creditors/bills payable/Closing creditors/bills payable + Purchase related expenses Payment to employees and other operating expenses: Direct labor + Manufacturing overhead + General expenses + Selling expenses + Opening outstanding expenses//closing outstanding expenses + Closing prepayment//opening prepayment Payment for interest: Interest paid +/- Opening outstanding/Ending outstanding	

Payment for income tax:	
+/- Opening tax payable/Ending tax payable	
Interest and dividend received:	
Interest/dividend received	
+/- Opening interest receivable/Closing interest receivable	
Operating cash flow before extra ordinary items	
Extra ordinary items short-term borrowing:	
Closing bank overdraft	
+/- Ending bank overdraft/Opening bank loan and overdraft	
Net Cash Flow from Operating Activity	
B. Investing Activities	
Purchase of plant and other productive assets	
Purchase of investment	
Short term investment purchased	
(Other than cash equivalents)	
Making loan	
Sales of assets and investment	
Sales of short term investment	
Collection of principal amount of loan	
Net Cash Provided or used by Investing Activities	
C. Financing Activities	
Cash from issue of share and debenture (less discount)	
Cash from short & long term loan	
Share premium	
Retirement of debentures	
Payment of dividend	
Repayment of short term loan/long term loan	
Net cash provided or used in financing activity	
Net increase/decrease in cash and cash equivalent	
Add opening and cash equivalents cash	
Cash and cash equivalent at the end	

2.1.14 Cash Flow Statement for Financial Institution under NRB Directives

Nepal Rastra bank issues different directive to the commercial bank in order to regulate their function. It also provide different format to the commercial bank to make transparent accounting data. The new format of Cash Flows statement for the financial Institutions enterprises prescribed by NRB under direct method is prepared in the following format:

………..………..Limited

Cash Flow Statement

Date ……. From …………

Previous year(Rs)	Particulars	This year(Rs)
………………	**A. Cash flow from Operating Activities**	………………
………………	1. Cash Receipts	………………
………………	1 Interest income	………………
………………	1.2 Commission and Discount	………………
………………	1.3 Exchange Gain from Foreign Transactions	………………
………………	1.4 Recoveries of Loans Previously written off	………………
………………	1.5 Other income	………………
………………	2. Cash Payments	………………
………………	2.1 Interest expense	………………
………………	2.2 Staff expenses	………………
………………	2.3 Office overhead expenses	………………
………………	2.4 Income Tax Payment	………………
………………	2.5 Other Expenses	………………
………………		………………
………………	Cash Flows before adjustment of working Capital	……………..
………………	Decrease /(Increase) in operating current Assets	………………
………………	Decrease /(Increase) in Money at Call and Short	………………
………………	Notice	………………
………………	Decrease /(Increase) in Other short term investment	………………
………………	Decrease /(Increase) in loans and bills	………………

	Decrease /(Increase) in Other Assets	
 ……………… ……………… ……………… ………………	Increase/ (Decrease) in operating current liabilities Increase/ (Decrease) in Deposits Increase/ (Decrease)) in Certificated of Deposits Increase/ (Decrease) in short term Borrowings Increase/ (Decrease)) in other Liabilities	……………… ……………… ……………… ……………… ………………
……………… ……………… ……………… ……………… ………………	B.Cash Flow from Investing Activities Decrease /(Increase) in Long –term Investments Decrease /(Increase) in Fixed Assets Interest received from Long –term Investments Dividend received	……………… ……………… ……………… ……………… ………………
……………… ……………… ……………… ……………… ………………	C.Cash Flow from financing Activities Increase/ (Decrease) in Long term Loan (Bond, Debenture etc) Increase/ (Decrease) in Share Capital Increase/ (Decrease) in other liabilities Increase/ (Decrease) in Subsidy/ Refinance obtained from NRB	……………… ……………… ……………… ……………… ………………
……………….	Income / Expensed due to the effects of Exchange rate on cash and Bank Balances	……………….
……………….	Net Cash Flow For the year	……………….
……………….	Opening Cash and Bank balances	……………….
……………….	Closing Cash and bank balances	……………….

Sources: NRB Directives for Financial Institution, 2062

The format of Cash Flow Statement prescribed by NRB for the commercial banks up to the year 2061/2062 is given below:

……..………..Limited
Cash Flow Statement
Date ……. From …………

Previous year(Rs)	**Particulars**	**This Year(Rs)**
……………	**A.Cash flow from Operating Activities**	……………
…………….	1. Cash Receipts	…………….
…………….	1.1 Interest income	…………….
…………….	1.2 Commission and Discount	…………….
…………….	1.3 Exchange Gain from Foreign Transactions	…………….
…………….	1.4 Recoveries of Loans Previously written off	…………….
…………….	1.5 Other income	…………….
…………….	2. Cash Payments	…………….
…………….	.1 Interest expense	…………….
…………….	.2 Staff expenses	…………….
…………….	.3 Office overhead expenses	…………….
…………….	.5 Exchange Loss	…………….
……………..	.5 Non operating expenses	…………….
	6 Other Expenses	
…………….	**B. Cash Flow from Investing Activities**	……………
…………….	**1.** Decrease /(Increase) in Balance with Banks	…………….
…………….	**2.** Decrease /(Increase) in Money at call and short	…………….
…………….	Notice	…………….
…………….	3.Decrease /(Increase) in Investments	…………….
	4.Decrease /(Increase) in Loan advances and Bills	
…………….	Purchased	…………….
…………….	. Decrease /(Increase) in Fixed Assets	…………….
	. Decrease /(Increase) in Other Assets	
…………….	**C. Cash Flow from Financing Activities**	……………
…………….	1. Decrease /(Increase) in Borrowings	…………….
…………….	2. Decrease /(Increase) in Deposits	…………….
…………….	3. Decrease /(Increase) in Bills Payable	…………….
…………….	4. Decrease /(Increase) in Other Liabilities	…………….
…………….	D. Net Cash Flow for the year	……………
……………	E. Opening Cash balances	……………
……………	F. Closing Cash Balances	……………

Source: NRB directives for Financial Institution, 2058

2.2 Review of Policies Related to Commercial Banks

Nepal Rastra Bank is the apex authority responsible for financial stability of the country. NRB is authorized and also responsible for the supervision of commercial banks and similar financial institutions. For the establishment and operation of commercial banks smoothly legal provisions for commercial banks at the country should be reviewed.

2.3 Review of Magazines

2.3.1 Nepal Rastra Bank Act 2058

All the financial institutions undertaking banking activities are licensed and supervised by NRB. Among the financial intermediaries, commercial banks, development banks, finance companies, micro-finance development banks and other micro-finance institutions that are license to perform limited banking activities are under the supervision of NRB. To ensure that the overall financial system in the country is sage and sound and threats to financial stability are identified and reduced, NRB is currently using CAMELS based approach for supervision. Similarly, CAMELS based offsite surveillance with early warning measures is also adopted to meet the supervisory objectives. NRB is conducting risk assessment and risk reduction approaches to ensure financial stability. NRB is gradually moving towards risk-based approach for supervision, NRB has initiated the implementation of Basel II.

All these plans and programs are initiated by the NRB falls under the objectives of the Nepal Rastra Bank Act, 2002. The act has specified the objectives of NRB as: to formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy, and manage it; to promote stability and liquidity required in banking and financial sector; to develop a secure, healthy and efficient system of payment;

to regulate, inspect, supervise and monitor the banking and financial system; and to promote entire banking and financial system of Nepal and to enhance its public credibility.

NRB act, 2002 chapter-9 has specified the regulation, inspectors and supervisory role for the Nepal Rastra Bank. It consists that the commercial banks must obtain a license from NRB in order to conduct banking and financial transaction while issuing license the NRB may fix necessary terms and conditions. NRB’s approval is required for commercial banks to accept deposits or giving credits.

In the regulatory part the NRB have full powers to regulate the functions and activities of commercial banks and financial institutions. For the purpose of the regulation the NRB may frame rules and by-laws on the matters which the NRB deems appropriate and issue necessary order, directives and circular and it shall be the duty of the concerned commercial bank and financial institution to obey by such rules, by-laws, order, directives and circular. The NRB can issue appropriate directives to commercial banks and require them to submit the following particulars: its balance sheet accounts, off balance sheet commitment, statements of income and expenditures and their ratio among accounts or items; prohibitions, restriction of conditions concerning specific types or forms of credit or investments, form of commitments of risk bearing nature which are not matching as to maturity of assets and liabilities and off-balance-sheet items, foreign currency, spot or advance, swap, option or similar instruments or access to the payment system through electronic or other means; other particulars and documents prescribed by the NRB. In addition, NRB may issue necessary directives to commercial banks on the following subjects and require to submit particulars on the following subjects: books and accounts, profit and loss account, balance sheet and off-balance-sheet transaction and commitments, statements of income and expenses and their accounts ratio; prohibitions, restrictions or conditions concerning specific types of forms of credit of investments, loan and investment in excess of the ceiling prescribed by the bank, risk bearing commitment, position of foreign exchange, payment and electronic payment and other process; other statement and documents prescribed by the NRB.

Moreover, the NRB have the following powers with regard to commercial banks and financial institutions:

- To enforce authority and responsibility granted under this act any other act enacted for licensing, supervising and regulating commercial banks and financial institutions and to revoke the license of commercial banks and financial institutions and to take over or to fight in trusteeship the commercial banks or financial institutions which have been declared insolvent or are on the verge of insolvency;
- To investigate or inspect, or supervise or to cause to investigate, inspect or supervise by any official of the NRB or the person designated by the NRB the books and account, records, document or register of commercial banks or financial institutions has conducted business and transaction in accordance with the provision made under this Act or the rules, bye-laws framed there under and an order of directive issued there under;
- To give order to the member of the board of directors, official or employee of a commercial bank or financial institution to provide necessary information about the bank or institution incases where it is necessary to inspect and supervise the transaction of such bank or financial institution.

The Nepal Rastra Bank act, 2002 has also given a power for Nepal Rastra Bank to control over commercial banks and financial institutions, when necessary. The NRB may take such commercial bank or financial institution under its control after suspending the board of directors of such commercial bank or financial institution where the bank is convinced that any commercial bank or financial institutions has violated this Act or Rules and bye-laws framed there under or orders or directives issued there under or from the Bank's inspection and supervision report, any commercial bank or financial institution has failed to honor its liability or there are probability of such failure or it has been properly operated or has acted prejudicial to the interest of shareholders or depositors.

In addition, the Nepal Rastra Bank has also authority to declare problematic commercial bank and financial institution. NRB can declare any commercial bank or financial institution problematic by providing written notice to it when bank is convinced that the following conditions are prevailing in any commercial bank or financial institution on the basis of information received under section 86A or from the report of inspection and supervision conducted under section 84 or from any other means:

- In case of any action which is against the interest of the depositors, shareholders, creditors, or general public,
- In case of not fulfillment of any financial liabilities or not having probability to do that or not payment of due amount,
- In case of insolvency or going to fall under insolvency or facing material financial difficulties,
- In case of discredit or breach of this Act, prevailing law related to bank and financial institutions, other prevailing law, terms of license or regulation, directives or order of bank,
- In case of the license obtained on the basis of submitting false, fraudulent, wrong document or data,

- In case of unable to maintain the capital fund as per this Act, prevailing law related to bank and financial institution and directives issued by NRB at time to time,
- In case of the initiation of the process of liquidation or insolvency of any commercial bank or financial institution under the prevailing law,
- In case of undue delay in the process of voluntary liquidation,
- For the commercial bank or financial institution established with the joint venture of the foreign commercial bank or financial institutions while such foreign commercial bank and financial institution is in insolvent or liquidator is appointed for the liquidation or the license of such commercial bank or financial institution is terminated under the provision of the law of respective country or transaction is banned either full or partial or in case of operation of banking transaction being involved with such commercial bank or financial institution, or
- If NRB is convince that commercial bank or financial institution is unable to pay its due or can make negative effect in its liability or duties, which it has to perform.

Moreover, the NRB can take action against problematic commercial bank or financial institution. Whatever may be mentioned in the companies Act or other prevailing law, NRB can take any or all of the actions specified in section 47 against the commercial bank or financial institution, which is declared problematic under the provision of section 86B. Furthermore, for the problematic commercial banks, the act has provided NRB or the official appointed by NRB can use the reformative measures and rights; right for NRB for corrective action authority to application for the dissolution, authority to decrease of the capital of problematic commercial bank or financial institution, authority to transfer the assets and liabilities of the problematic commercial bank or financial institutions.

NRB has also authority to application for the dissolution in case NRB is convinced that any problematic commercial bank or financial institutions even after the action under section 86C, reformative action under section 86E, or corrective action under section 86F, such commercial bank or financial institution is unable to discharge its liabilities or there is no possibility to operate in healthy way, can apply to the Appellate Court for the dissolution of such commercial bank or financial institution. However, there is a provision. However, the commercial banks and financial institutions have a right to appeal against the order of NRB, under the given conditions.

2.3.2 NRB Directives

Among NRB directives to bank and financial institutions major directives are as follows:

The new licensing policy in place requires having paid-up capital of Rs. 2 billion to open new commercial banks (Class A finance Institutions). The concept of regional banks has been eliminated. Paid-up capital base for development banks and finance companies has also been raised. Such capital requirement for micro-finance companies to open however has not been changed with a view to encourage micro finance companies to expand.

According to the new licensing policy, providing proof of mandatory paid-up capital base by June/July 2010 is a pre-condition for those that have submitted proposals to open new finance institutions. In case of operating financial institutions, they are required to comply with this provision by June/July 2013. Provisions such as, individual intending to invest in these institutions requires producing proof of tax clearance, and they are not blacklisted by the Credit Information Center have also been made effective. Accordingly, the banks and finance institutions are required to maintain capital adequacy at 11 percent starting from FY 2005/2006.

The licensed banks and financial institutions deal with the financial statement. Starting from FY 2005/06, they are required to open capital adjustment fund to meet mandatory minimum paid-up capital by allocating a minimum of 10 percent of paid-up capital from their profit. For financial institutions not earning profit, they are required to comply with this provision by managing resources from whatsoever sources at their disposal.

To open a new branch in the Kathmandu valley is required to add Rs. 20 million/ branch and Rs. 5 million/branch to open a branch outside the Valley. Furthermore, the directive include the provision of amount so required to be added not to be counted towards capital adjustment fund, amount so added is to be counted for branch opening purpose only after the paid-up capital reaches the minimum of Rs. 50 million, and that the inactive loan ratio to be maintained at less than 5 percent level.

Based on the aging of overdue loan of commercial banks, loan has been classified into four groups and according to loan classification, necessary provisions is required to maintain annually as in the following percentage.

Table 2.3

Loan Classification and Provision for Doubtful Loan

Loan Classification	Basis of Classification	Provision required percent of the loan
Pass	No overdue and overdue by 3 months	1
Sub standard	Above 3 months to 6 months overdue	25
Doubtful	Above 6 months to 1 year overdue	50
Loss	Overdue by above 1 year	100

Source: NRB directives

2.3.3 Bank and Financial Institutions Act 2063

Bank and Financial Institution act, 2063, which is popularly known as Umbrella Act, has recently been enacted. The act governs the functional aspect of banks and financial institutions. Some of the important provisions in the act regarding the banking sector have been analyzed in this chapter as follows.

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the act. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary examination and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with the Nepali citizen or as a subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institution.

However, the act is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75%. The prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution; if the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this and its regulation, directives, order or provisions of Memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction.

The NRB will classify the Institutions into “A” “B” “C” “D” groups on the basis of the minimum paid-up capital and provide the suitable license to the bank or financial institution. The authorized, issued and paid up capital of a license holder institution will be as prescribed by NRB from time to time. The NRB can issue directives to the license holder entity to increase its authorized, issued and paid-up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB base on the basis of its total asset or risk weighted assets, and other transactions. At the same time, the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank or financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degrade if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank again and again and it fails to maintain Risk Management Fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions.

The NRB is in full power to deny license for financial transaction if the conditions stipulated in are not met and it is also authorized to impose necessary conditions taking into account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify the terms and conditions time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act 2002, or the regulation made there under of fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this to carry on the financial transactions of the license holder under the certain circumstances as stipulated in the act.

A foreign bank or financial institution desiring to open its office within Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open an office within/of Nepal taking into account the situation of competition existing in the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign, bank or financial institution. The NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be the duty of the foreign bank or financial institution to comply with such terms and conditions. The section 34(4) of the reiterates that the provisions of to be complied by such foreign bank or financial institution. The foreign bank or financial institution, which has been issued to operate financial transaction by opening its office in the country, cannot open another bank or financial institution in joint venture with the country. However, the provision for the contact or representative office of any foreign bank or financial institution will be as prescribed by NRB. Some of the important issued such as relationship with parent bank in case of liquidation and supervisory role of the different institutions (parent bank and parent bank's supervisory authority) have not been adequately addressed in this. Provisions relating to capital requirement are also silent. As per Nepal's commitments foreign bank branches are only allowed for wholesale banking functions. So all of the provisions stipulated in subsection (1) will not be relevant to the foreign bank branches. According to the subsection, NRB has authority to make necessary regulation in this aspect.

2.3.4 Company Act 2063

Commercial banks including JVBs in Nepal can be established only as a company with limited liability under the company act 2063. The provisions existed in the act regulate the commercial banks in all aspects. The section 3 of the act explains about establishment of company as follows:

- Any person who wants to undertake any enterprise with the motive of earning profits may establish a company with one or more objectives as mentioned in the memorandum of association, personally or along with others.
- Any foreigner who has obtained permission according to current law to undertake any enterprise with the motive of earning profits by making

investment within Nepal may also establish a company as mentioned in sub section (1).

- There must be at least seven promoters for the establishment of public company.

  The commercial banks have to register in company's registrar office as per the section (4) of the act. If promoters are Nepali they have to submit citizenship, for company; certificate of registration and for foreigner; produce their proof of citizenship be acquainted with country from where they are. Application should submit to registrar's office enclosing proposed company's memorandum, bylaws, and agreement of promoters if they have done for public company.

2.4 Review of Previous thesis

Bajracharya, (1990), conducted a research entitled on **"A Study of Cash Management in Nepalese Public Enterprises"**. He has studied the cash management practices in Nepalese public enterprises. He has taken 18 enterprises as a sample. According to his study, he concluded as follows:

Objectives:

- To analyze the liquidity problem in Nepalese Public Enterprises.
- To examine and analyze the investment of Nepalese Public Enterprises.
- To identify the strengths and weaknesses of cash management of the companies.
- To provide recommendations to the concerned companies for future improvement on the basis of this study.

Major Findings:

- Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. However, one of the enterprises considered the implication of holding idle cash balance and few took on to account Cash management in public enterprises of is primarily based on the traditional practices. Lacking in a scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis.

- Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangement in connection with collection of receivables has been virtually ignored in many enterprises.
- Majority of the enterprises didn't face any serious liquidity problem. However, this was not because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay in payment creditors.
- By and large the potential benefit of investing surplus in marketable securities. These which failed to consider the cost of administering such investments.
- There had been wide variations overt-time in the state of financial health of enterprises in terms of the composition of current assets to current liabilities as revealed by the relevant financial ratios.
- Neither interest rate nor the rate of inflation had any effect on the cash balance. Further there was very little evidence of effect on the cash balance holding in most case.

Further he recommended for developing appropriate strategies for cash management. He stressed on cash planning and budgeting to cash project cash project cash surplus and cash deficit. Firm can 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 to invest idle fund in marketable securities.

Sainju, (2003), has conducted a research entitled **"Cash management in public manufacturing enterprises of Nepal"** (a case study of Royal drug, he has made conclusion indicating the poor cash management practices of Royal Drugs Limited (RDL)). His main objectives and his conclusions are as follows:

Objectives:

- To study the existing cash management.
- To critically review the cash management technique procedure.
- To suggest appropriate cash management policy for future.

Major Findings:

- Overall cash management practices have been found disappointing.
- Overall liquidity position of the firm has been found moderately dissatisfactory.
- Overall, yearly cash inflows and out flow 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.
- Overall cash budgeting practice of RDL is very poor.

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

Adhikari, (2004) has submitted as dissertation in the topic **"A comparative and Analytical Study on Cash Flow of selected Finance Companies"** to the faculty of management T.U. in the course of partial fulfillment of M.B.S. The data are collected from both primary and secondary source. The period covered was from F.Y. 2054/55 to 2057/58.

Objectives:

The basic objective of this research paper is to analysis the trend of cash flows of National finance company and Lumbini Finance and Leasing Company.

- To examine and compare the cash flow statement of above selected financial institutions.
- To identify the strength and weakness of working capital management especially cash management of above selected financial institution.

Major Findings:

(i) National finance company

- In case of NFS the total cash flow from operating activities is in increasing trend in the first two year but in the final year it is decreasing.
- Deposit mobilization/collection is in decreasing trend.
- The amount of current liabilities and current assets are increasing trend.
- The cash flow from investing activities is not regular.
- Borrowing is in decreasing trend which in the final fiscal year has decreased to zero.

(ii) Lumbini Finance and Leasing Company

- The amount of total cash flow from operating activities is in increasing trend in the first two year but in the final year it is decreasing.
- Deposit mobilization/collection is in increasing trend.

- The amount of current assets is decreasing in the first two years of the study period but it is increasing in the final year.
- The amount of loan is decreasing in the first two years of the study period but it is increasing in the final year.
- Cash flow from investing activities is in decreasing trend.
- Borrowing is in decreasing trend.

Dahal, (2005) has conducted a research entitled **"Cash flow budget analysis of service industry as component of profit planning and control"** (A case study of Sagarmatha Insurance Company PVT Ltd). To accomplish the following objectives, Mr Rohit has made research covering the F.Y. 2055/56 to 2059/60. Research methodology is followed through secondary source of data and other essential information from primary source.

Objectives:

- To analyze sales and expense budget with cash budget of Sagarmatha Insurance Co.
- To draw the true picture of profit planning and control of Sagarmatha Insurance Co.
- To evaluate various budget with actual result.
- To find the trend of premium collection and investment and its impact of cash budget.

Major Findings:

- The company follows traditional method for planning the cash.
- The company posses' large amount of fund but it is not profitability invested. The company couldn't invest its available fund for national interest. The company is having narrow look for its investment. Even its return on investment is decreasing (10.4%) toward the end of study period.

- The company does not follow the optimum cash balance process. There is high idle cash (15-20%) of total cash available with it which invested prudently would have heavy returns.
- Though the total premium of company is increasing, its net profit is continuous decreasing.
- The company is under capitalized. It does not posses borrowed capital
- The company does not seem applying the effective managerial tool "Profit palling and control" for controlling its activities.

Bhandari, (2006) conducted a research entitled in **"A Study of Cash Flow Analysis in Nepalese Public Enterprises (A Case Study of Salt Trading Corporation Limited)"**. He has collected the data from secondary sources that are published by salt trading corporation limited for the period from 2056/57 to 2061/62.

Objectives:

- To analyze cash flow statement of Salt trading corporation.
- To analyze functional budget associated with cash flows.
- To reflect ability to generate cash flow in future periods.
- To find out the ability to meet its obligation.
- To provide suggestion and recommendation for effective cash management.

Major Findings:

- The company is not adopting the definite inventory policy because the levels of inventory were fluctuated.
- The company has ability to pay short-term ability to pay short term obligation which shows the financial strength of company.
- The debt serving capacity is satisfactory as indicated by average interest coverage ratio is 1.43 times.

- The long term solvency position of company is not satisfactory as it has used more debt as compare to equity.
- The average collection period is 26 days which shows the shows slow collection from debtors.
- The cash flow from operating activities was not adequate to meet the short-term and long-term obligations. The trend of cash flow from operating activities was fluctuated.
- The company has raised funds through loan and overdraft. It has not issued share except in the fiscal year of the study period which was also of very small portion. Due to such loan, the company paid more interest.
- No optimum cash and bank balance were maintained. The bank and cash balance were fluctuated than indicated no definite policy was maintained regarding the amount of cash hold at the end of each year.
- The cash flow per share was found highly fluctuated which shows the poor ability to pay dividend and current liabilities.
- The company has not adequate cash and bank balance to meet it's short-term and long-term debts.

Khadka, (2008) conducted a research entitled on **"A Comparative Study on Cash Flow of Bottlers Nepal Limited and Unilever Nepal Limited"**. The general objective of the study is to analyze the cash flow statements of the selected manufacturing companies comparatively. The specific objectives of the study are:

Objectives:

- To analyze the trend of cash flow of selected manufacturing companies
- To examine, analyze and compare the cash flow statements of these companies.

- To identify the strengths and weaknesses of cash management of the companies.
- To provide recommendations to the concerned companies for future improvement on the basis of this study.

Major Findings:

In the case of Unilever Nepal Ltd.:

- The amount of the total cash from operating activities is in fluctuating trend. It is decreased in FY 2059/060, FY 2061/062 and FY 2062/063, but it is increased in FY 2060/061.
- The amount of cash flow prior to change in working capital is in increasing trend. The amount has increased from FY 2059/060 to FY 2062/063.
- The current assets amount is in fluctuating trend. The amount is decreased in FY 2058/059 and FY 2059/060, but the amount is increased in FY 2060/061 to FY 2062/063.

The current liabilities amount is in fluctuating trend. The amount is decreased in FY 2058/059 and FY 262/063, but it is increased in FY 2059/060 to FY 2061/062. The amount of investing activities is in fluctuating trend. But there is no any investment amount in FY 2059/060. The amount is decreased in FY 2060/061, but the amount is increased in FY 2061/062 and FY 2062/063.

The amount of financing activities is in increasing trend, but it is decreased only in second year. The amount is decreased in FY 2059/060; but it reveal increasing trend from FY 2060/061.

In the case of Bottlers Nepal Ltd.:

- The amount of the total cash from operating activities is in fluctuating trend. It is decreased in FY 2059/060 and FY 2061/062, but it is increased in FY 2060/061 and FY 2062/063.
- The amount of cash flow prior to change in working capital is in fluctuating trend. The amount is increased In FY 2059/060 and FY 2062/063, but it is decreased in FY 2060/061 and FY 2061/062. So the amount is fluctuating for Bottlers Nepal Ltd
- The current assets amount is in fluctuating trend. The amount is increased in FY 2058/059, FY 2059/060 and FY 2061/062, but the amount is decreased in FY 2060/061.
- The current liabilities amount is in fluctuating trend. The amount is increased in FY 2058/059, FY 2061/062 and FY 2062/063. But the amount is decreased in FY 2059/060 and FY 2060/061.
- The amount of investing activities is in fluctuating trend. The amount is increased in second year but the amount is decreased in third year. But it is increasing trend from FY 2061/062 to FY 2062/063.
- The amount of financial activities is in fluctuating trend. The amount is constant in first and second year. The amount of financial activities is same in both years. But the amount is decreased in FY 2060/061. There are no any financial activities in FY 2061/062 and the amount is positive in FY 2062/063.

Kandel, (2011) has conducted a research entitled in **"A study of cash management of Nepalese Public Enterprise"** (A case study of Salt Trading Corporation Limited. He has collected the data from secondary source that are published by the Salt Trading Corporation Limited and related information through the direct interview and questionnaire. The period covered is F.Y. 2060/61 to 2065/66.

Objectives:

- To study the existing cash management in STCL.
- To critically review the cash management technique procedure by STCL.
- To suggest appropriate cash management policy for future.

Major findings:

- Cash management in the STCL is primarily based on the traditional practice lacking in scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting is STCL.
- Modern practices with respect of debt collection, monitoring the payment behavior of customers and relevant banking arrangement in collection of receivables have been virtually ignored in STCL.
- The 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 a little more than two month i.e. 62 days which is very slow.
- The average payable conversion period is faster than average receivable period which is not a good single for the purpose of managing cash.
- Average cash conversion cycle taken 64 days i.e. little more than two month which is not a good single for the cash management or cash collection efficiency of corporation is very low.
- Management has taken liberal credit policy to sales of goods. Hence the cash and bank balance of the study period is in minimum.
- No optimum cash balance is maintained. The cash and bank balance with respect to current assets has been fluctuating. Similarly is the cash with respect to the total assets.

2.5 Research Gap

There is gap between the present research and the previous research in terms of some objectives, tools for analysis, period of data and the organization. The main issue of this study is to analyze the comparative cash flow between BOK and EBL. This study has used financial and statistical tool for cash flow analysis. The data is taken in between FY 2005/06 to 2009/010. Most of the researchers conducted previously were in financial performance and profitability positions mainly based on secondary data.

This study has been done to analyze the trend of cash flow of selected organization, to examine, analyze and compare the cash flow, to identify the strengths and weaknesses of cash management of BOK and EBL and to provide recommendations to the concerned organization for future improvement on the basis of this study.

CHAPTER - III

RESEARCH METHODOLOGY

3.1. Introduction

Research Methodology is composed of two words “Research” and “Methodology”. Research is a systematic and organized effort to investigate specific problem that needs a solution. Whereas methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. Research Methodology describes the methods and procedures applied in the entire aspect of the study.

In the last two chapters, background of the joint venture as well as non-joint venture commercial banks has already been streamlined and the review of literature with possible review of theories and findings also has been discussed. As a result, I have felt very comfortable to come to the choice of research Methodology. It is framework or a general plan for the study guiding the collection and analysis of data.

In this study research methodology describe the methods and processes applied in the entire aspect of the study. Further efforts have been made to presents and explain the specific research design for the sake of attaining the research objectives. It includes research design, nature of data, data gathering procedure, population & sample and data processing procedures.

3.2 Research Design

Research design is the plan, structure and strategies of investigation conceived so as to obtain answer to research questions and to control variation. Research design helps the investigator for obtaining answers to questions of research and also helps him to control the experimental, extraneous and error variance of the particular research problem under study.

“A research design is the logical and systematic planning and directing of piece of research” – P.Vayoung.

“A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure ’’- Kothari 1992

Thus a research design is research plan or structure which is path for conducting research work. Without research design it is not possible to conduct a research. The analysis of this study is based on certain research design keeping in mind on the objective of the study. From concerned bank different information and necessary data are collected such as annual reports and financial statement published by related bank. The data are collected from year 2005/06 to 2009/010.

3.3 Sample and Population

Thirty one banks are operating in Nepal out of which six are joint venture commercial banks and twenty-five are non joint venture commercial banks. Nepal Rastra Bank being the central Bank of Nepal recommends, directs and controls the establishment, operations and dissolution of all commercial banks in Nepal. The population for this study of all joint venture and non joint venture banks. All the banks are performing banking function of commercial banks under rules, regulations and directive of Nepal Rastra Bank. As it is not possible to analyze the performance of all the banks in limited time. So, Everest Bank

Limited and Bank of Kathmandu are taken for sample in this study. Population of this study is as follows;

Population:

- Nepal bank Limited
- Rastriya Banijya Bank
- Agriculture Development Bank Ltd.
- Nabil Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered bank Nepal Ltd.
- Himalayan Bank limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank Limited
- Everest Bank Limited
- Bank of Kathmandu Limited
- Nepal Commerce and Credit Bank
- Lumbini Bank Limited
- Nepal Industrial and Credit Bank Limited
- Machhapuchhre Bank Limited
- Kumari Bank Limited
- Siddhartha Bank Limited
- Global Bank Limited
- Citizen Bank International Limited
- Prime Bank Limited
- Sunrise Bank limited
- Bank of Asia Nepal Limited
- Development Credit Bank Limited
- NMB Bank Limit

- Kist Bank Limited
- Century Commercial Bank
- Commerz and Trust Bank
- Civil Bank.
- Megha Bank
- Janata Bank

Sample of this Study

- Everest Bank Limited and Bank of Kathmandu Limited

3.4 Sources of Data

This study is mostly based on secondary data. However, required and necessary information have been obtained through informal discussions and telephone calls with the staff of the banks. The sources of data collection are:-

- Financial Statements, annual reports provided by bank
- Telephone inquiries
- Articles and other related materials published in news paper
- News letter of the bank
- Related web site
- Textbooks, Handbooks, Magazines and Other related Books
- Library findings

3.5 Data Collection Technique

The study has been conducted to examine and evaluate the cash flow performance of Everest Bank Limited and Bank of Kathmandu limited. For this purpose various data are required. The researcher made visit to Everest Bank Limited and Bank of Kathmandu Limited head office for the collection of data. The annual report of the last five yeas was provided by the banks. Confusion regarding the financials was solved by the staff of both of the banks.

Various websites were surfed to gather relevant information. Reference material was collected from libraries of Shanker Dev Campus and Central Library, Tribhuvan University that helped a lot in conduction of this study. Besides the above stated source of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from libraries of Shanker Dev Campus. The data information, facts and figures have been edited tabulated and calculated before analysis. Information and major findings collected in this way was note down to use during analysis and interpretation of data.

3.6 Data Processing

Data collected from concerned Bank's annual reports, financial statements, relevant information and findings were in raw form. According to the nature of data they were classified and been inserted into meaningful related tables. Using financial and statistical tools, data have been analyzed and interpreted.

3.7 Data Analysis Tools Methods & Techniques

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is mostly based on the analysis of secondary data with the help of different statistical tools. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data.

Cash Flow Analysis

Cash is the heart of the business organization. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

Trend Analyses

The trend analysis is performed to check whether the cash position of the concerned organization are improving or deteriorating over the study period. In this study, an attempt has been made to observe the financial trends maintained by selected Banks on the basis of computed data derived from the annual report.

Statistical Tool

Percentage is the tools to analyze cash flow statement. Also the simple figure is used for cash flow analysis.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis and Presentation of Data

In this chapter the effort has been analyzed. The main objectives of the study are to present data and analyze them with the help of various tools. This is also one of the most important chapters for the study. In this chapter, five year's data of selected joint venture bank and non joint venture Bank is analyzed according to research methodology as mentioned in chapter three. Just the Balance sheet, income statements are not sufficient enough to answer the question raised by the users of financial statement. Cash flow statement answers those questions raised by users of financial statement. Cash flow statement answers those questions through informative accounting. For these purpose, two commercials banks; one is joint venture whereas another is non joint venture has taken for the analysis. In this chapter cash inflow and outflow from different activities of selected banks is analyzed carefully.

4.1.1 Cash Flow from Operating Activities

Transactions which are considered in the determination of net income are known as operating activities. According to NAS -03 (sec-6) "operating activities are the principal revenue-producing activities of the enterprises and other activities that are not investing or financing activities." Thus it can be stated that the cash flows other than those related with financing and investing are classified as operating activities.

According to NAS-03 (sec.14), examples of cash flow from operating activities are:

- Cash receipts from sale of goods and the rendering of services.
- Cash receipts from royalties, fees, commissions and other revenues.

- Cash payments to suppliers for goods and services.
- Cash payment to and on behalf of employees.
- Cash receipt and cash payments of insurance enterprises for premiums and claims, annuities and other policy benefits.

- Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities, and
- Cash receipts and payments from contracts held for dealing of trading purposes.

This chapter dealt with cash flow analyze with reference to selected joint venture bank. So under the NRB directive following are the items.

- Interest income
- Commission and discount income
- Exchange gain
- Non operating income
- Other income related with main business
- Interest expenses
- Exchange loss
- Non/operating expenses
- Other expenses

According to NAS /03 (sec.14) cash flow from operating activities items identified same as international accounting standard.

4.1.2 Cash from Investing Activities

Investing activities are related with long term assets which are shown in the balance sheet. "Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents". The cash flow from investing activities can be determined by considering the changes in related assets account during the year. Example of cash flows from investing activities is:

- Cash payment to acquire property, plant and equipment, intangible and other long term assets.
- Cash payment to acquire equity or debt instrument of other enterprises.
- Cash advances and loans made to other parties
- Cash payment to future contracts, forward contracts, option contract and swap contract.
- Cash receipt for sale of property
- Cash receipt from sale of equity or debt instrument of other enterprises.
- Cash receipt from repayment of advances and loans made to other parties.
- Cash receipt from future contract.

As far as commercial banks investing activities include

- Change in balance with bank
- Change in money at call and short notice
- Change in investment
- Change in loans , advances and bills purchase

  Change in fixed assets

  Change in other assets

4.1.3 Cash from Financing Activities

Financing activities are related to the long term liability and shareholder's equity. NAS /03 define "Financing activities are activities that result in changes in the size and composition of the equity, capital and borrowing of the enterprise.

To get the claim of investor in the future, it is compulsory to determine cash flows from financing activities. It is determined by analyzing the debit and credit changes recorded during the periods in the related liability and shareholder's equity.

Examples of cash flows arising from financing activities are;

- Cash proceeds from issuing shares, debentures, loans, notes, bonds and mortgages and other short or long term borrowing.
- Cash payment to owners to redeem the shares, repayment of borrowed and for the reduction of outstanding liability related to a finance lease.
- Cash payment for dividend
- Similarly under the directive of NRB these are the financing activities for commercial bank.

  Change in borrowing

  Change in deposit

  Change in bills payable

  Change in other liability

4.1.4 Cash Equivalent

It is the main part of cash flow statement, which describes cash position of the organization from different activities. Cash equivalent define as short term, highly liquid investment that are readily convertible to amount of cash and must be sufficiently close to it maturity. Treasury bill and commercial paper are the example of cash equivalent.

Now it is necessary to pest cash flow statement of selected commercial banks and their analyses. Analysis of the data is done on the following way.

- Comparisons with five year data individually
- Comparison with every year data between two banks.

Total cash flow from operating activities of the bank under the different fiscal years are in increasing order. To make this reality clearer, the cash flow is tabulated as follows:

4.2 Analysis of Cash Flow of Everest Bank Limited

Cash flow from operating activities, investing activities and financing activities of Everest Bank limited are analyzed as under:

4.2.1 Cash Flow from Operating Activities of Everest Bank Ltd.

Table 4.1

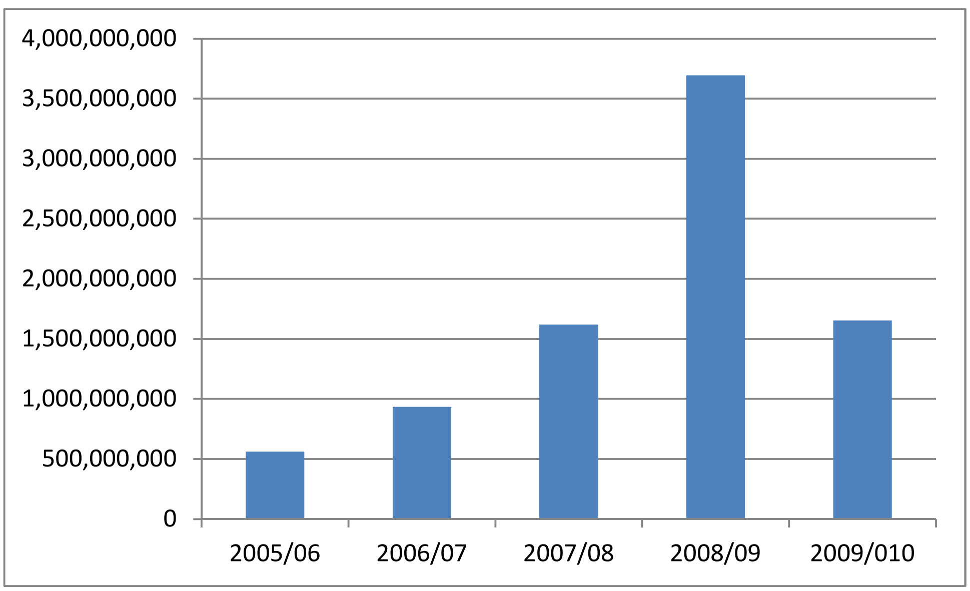
Cash Flow from Operating Activity

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/010**
Cash Flow	561,765,203	935,776,872	1,618,856,981	3,695,545,034	1,655,253,393
% change	-	66.57	72.99	128.28	(55.20)

Source: Appendix-I

Figure 4.1

Cash from Operating Activities



Source: Table no 4.1

Table 4.1 depicts that the cash flow from operating activities of Everest bank is in increasing trend till fiscal year 2008/009 but it decreased in fiscal year 2009/010. It increased by 66.57% in year 2005/06, then 2005/06, it increased by 72.99% in fiscal year 2007/08, 128.28% in 2008/09 and decreased by 55.20% in fiscal year 2009/010. We can conclude that the cash flow from operating activities of Everest bank is in increasing trend till fiscal year 2008/09.

Hence, the cash flow from operation of the bank is in increasing trend till fiscal year 2008/09 which has clearly been shown in the Figure 4.1.

The component of cash inflow of EBL is shown in following section;

Table 4.2

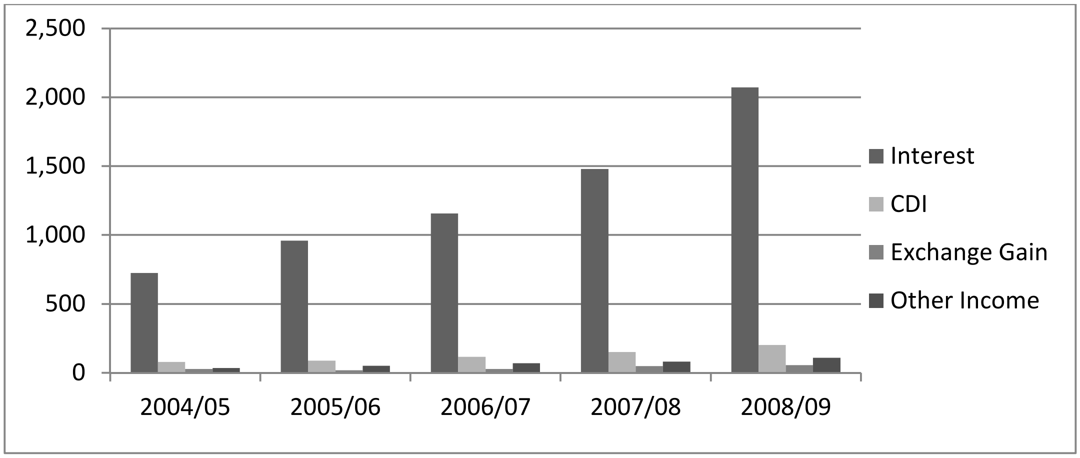
Cash Inflow of Various Sources of EBL

Fiscal year	Interest income	Commission and disc. Income(CDI)	Exchange gain	Recovery of loan written off	Other income
2005/06	960,914,386	88,163,454	19,770,383	-	51,046,130
2006/07	1,157,394,129	117,718,162	27,129,990	-	70,533,621
2007/08	1,480,965,056	150,264,074	50,815,249	-	82,13,977
2008/09	2,071,386,385	202,094,446	55,861,850	-	110,881,979
2009/010	3,024,662,273	208,123,481	55,361,763	-	1,45,816,097

Source: Appendix-II

Figure 4.2

Compositions of Cash from Operating Activities



Source: Table 4.2

Table 4.2 shows the cash receipt from operating activities. The main source of the cash receipt in operating activities is interest income. Cash receipt is increasing in fiscal year which is very good to company. The component of cash receipt of EBL is as same as BOK, they are:

- Interest income
- Commission and discount income
- Income from foreign exchange transactions
- Recovery of loan written off
- Other income

So, their second large receipt source under operating activities is commission and discount. However, there is no any receipt under heading recovery of loan written off. The figure 4.2 also clearly shows the operating activities in which interest income is the main source of cash receipt.

The following section deals the cash to operating section

Table 4.3

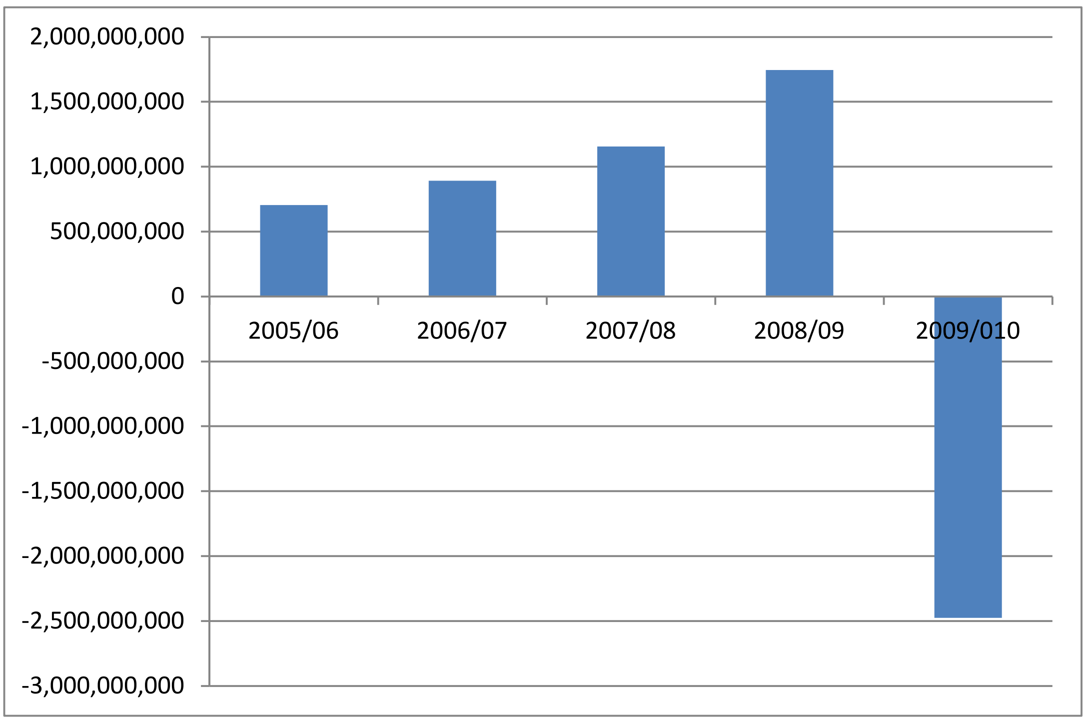
Cash to Operating Section

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Cash Outflow	704,261,899	892,083,135	1,154,930,217	1,744,322,546	(2,476,046,094)
% change	-	26.66	29.46	51.03	(41.94)

Source: Appendix-I

Figure 4.3

Cash to Operation



Source: Table 4.3

Table 4.3 predicts that the cash outflow is in increasing trend. Only in fiscal year 2009/010 it is decreased to 41.49%. Figure 4.3 shows the clear vision of reality.

This bank includes different headings under cash outflow. Following table is presented for the purpose:

Table 4.4

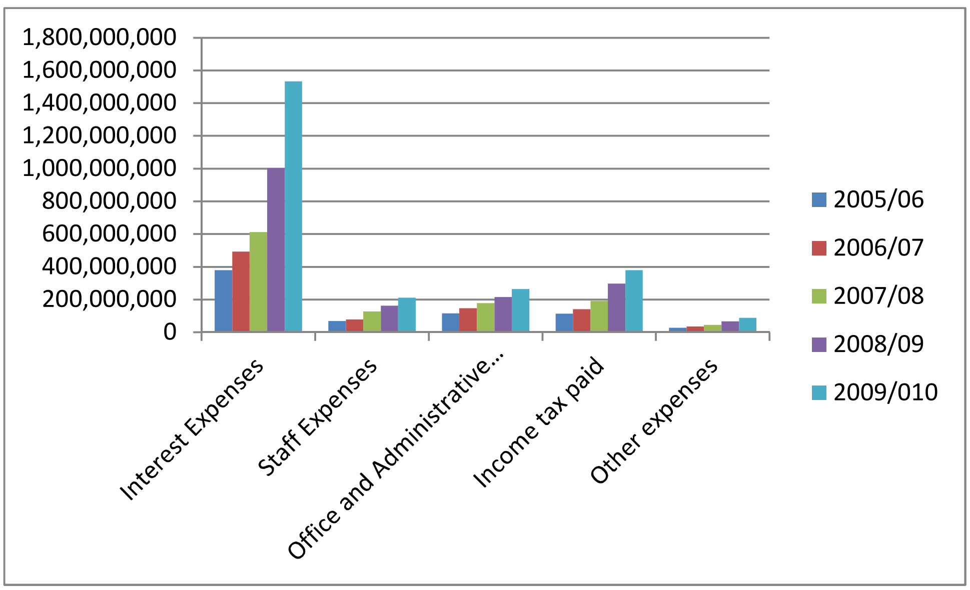
Composition of Cash outflow in Operation Section

Fiscal year	Interest Expenses	Staff Expenses	Office and Administrative expenses	Income tax paid	Other expenses
2005/06	378,626,864	68,377,635	115,090,880	114,086,267	28,080,253
2006/07	492,278,489	78,118,226	146,568,951	140,556,436	34,560,033
2007/08	612,862,000	127,972,593	177,576,476	191,048,032	45,470,846
2008/09	1,002,376,829	163,027,617	215,578,404	297,471,016	65,868,680
2009/010	1532618007	212262121	263355227	378678868	89131871

Source: Appendix-I

Figure 4.4

Composition of Cash Outflow in Operating Section



Source: Table 4.4

The bank's cash payment includes interest expenses, payment to human resources, office administration expenses and other's expenses.

From the Table 4.4 & Figure 4.4, it is clear that the leading expense is interest expenses. The second highest interest expenses is office and administration expenses for fiscal year 2005/06 to 2006/07 whereas income tax leads as second highest expenses for fiscal year 2007/08 and 2008/09. However the staff expense is seen under management control efficiently for first 3 years whereas there is drastic increment in staff expenses of the fiscal year 2007/08, 2008/09 and 2009/010.

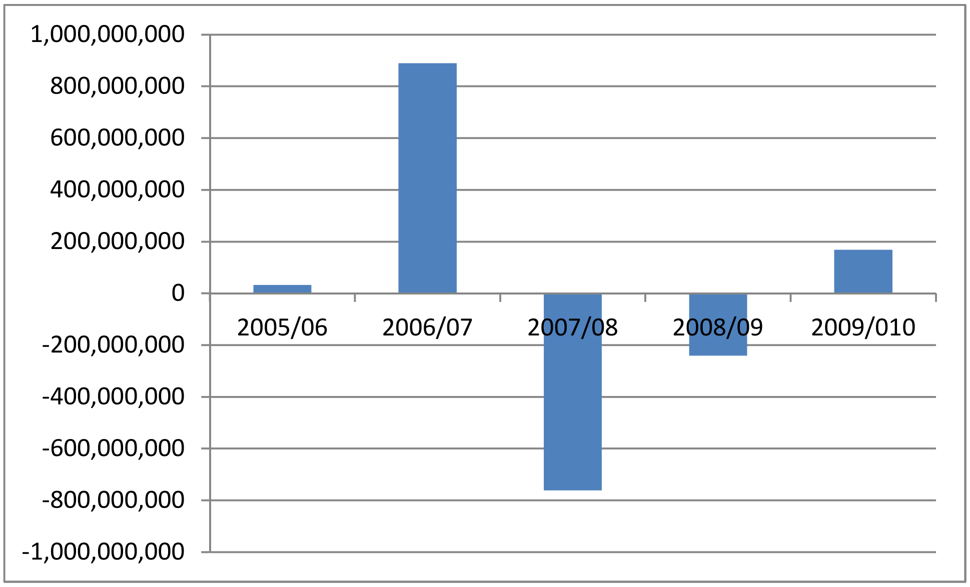
4.2.2 Cash Flow from Investing Activities

Table 4.5
Cash from Investing Activities

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/010**
Cash Flow	32,504,016	888,791,146	(761,829,891)	(240,569,259)	168669612
% change		2634.40	(185.71)	(68.422)	170.11

Source: Appendix-I

Figure 4.5
Cash Flow from Investing Activities



Source: Table 4.5

In table 4.5 it is clear that cash flow from investing activities is in fluctuating trend. There is huge investment in fiscal year 2007/09 and in 2008/09 which is (185.71)% and (68.422)% of preceding years. To make this reality more clear we have plot it into simple Figure 4.5 as above:

From the Figure 4.5 it is clear itself that bank has mad considerable huge amount of investment in fiscal year 2007/08 and 2008/09. But in 2005/06, 2006/07 and in 2009/010 the bank has surplus amount of cash from investing activities.

4.2.3 Cash from Financing Activities

Financing means way of capitalization in general case. It may be on the form of share and debenture issue, retained earning and preference capital. But financial institution is the trader of money. They purchase money as deposit liability with paying interest and invest them into public as a loan. Bank financing includes borrowing deposit, bills payable and other liabilities. Cash flow from financing activities for EBL has been tabulated for different fiscal year as follows.

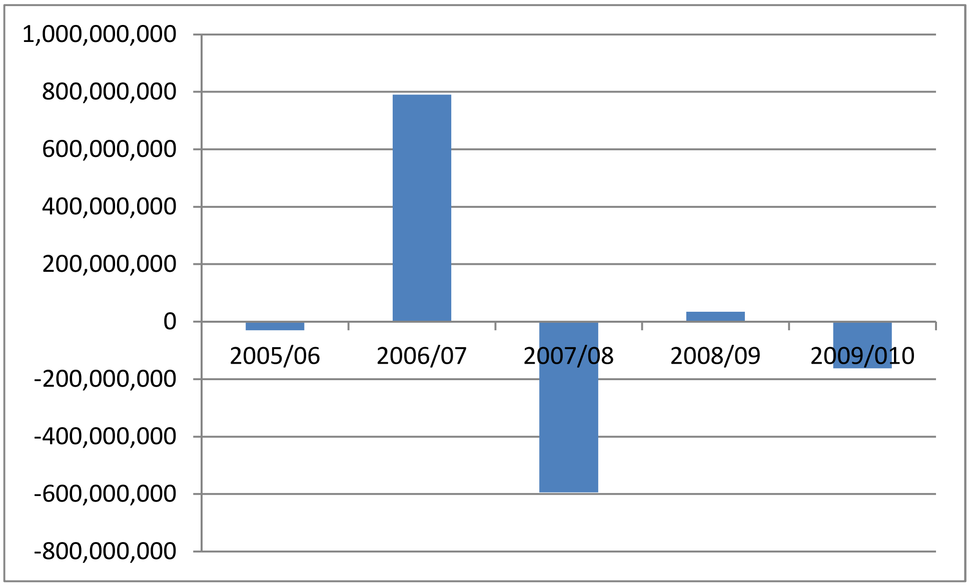
Table 4.6

Cash from Financing Activities

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/010**
Cash Flow	(29,586,298)	790,192,820	(594,112,982)	34,758,588	(161997369)
% change		2770.80	(175.18)	72.18	(566.06)

Source: Appendix-I

Figure 4.6
Cash from Financing Activities



Source: Table 4.6

Table 4.6 shows the cash flow from financing activities in the fiscal year under study is fluctuating. There is negative cash flow in the fiscal year 2005/06, 2007/08 and 2009/010 where as positive in other remaining year which is also clearly shown in Figure 4.6.

4.2.4 Net Cash Flow for the year

Net Cash flow of the bank in different fiscal years is the combination of net cash from operating activities, net cash from financing activities and net cash from investing activities. The net cash flows of the bank under study are presented in the following table:

Table 4.7

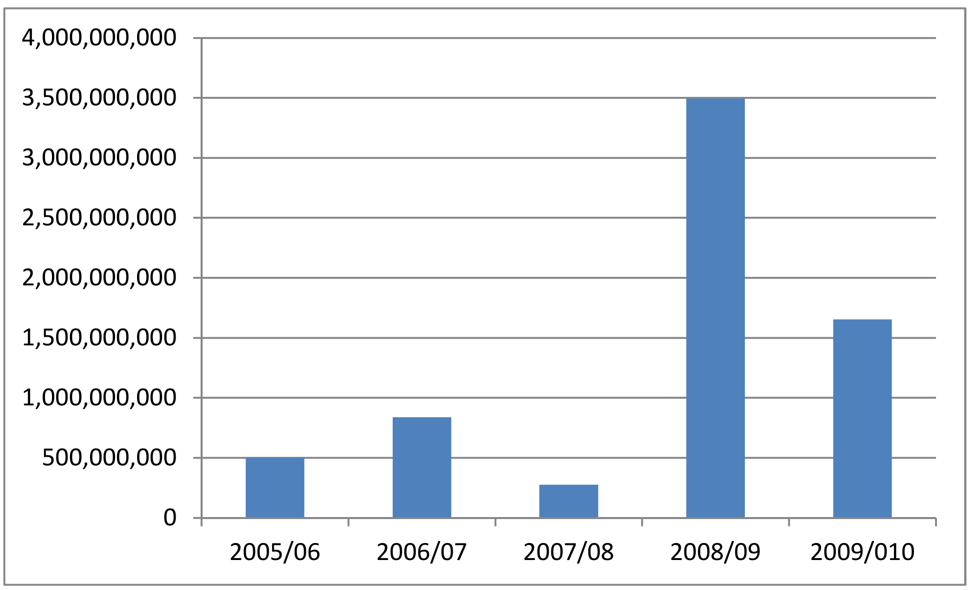
Net Cash Flow for the year

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
Cash Flow	502,978,286	838,453,100	276,551,237	3,496,399,332	1654443840
% Change		66.69	(67.01)	1164.28	(52.68)

Source: Appendix-I

Figure 4.7

Net Cash Flow of the Bank



Source: Table 4.7

As prediction made by table 4.7, net cash flow of the bank is in fluctuating trend it is increased by 66.69% in fiscal year 2006/07, decreased by 67.01% in fiscal year 2007/08, again increased by 1164.28% in year 2008/09 and decreased in year 2009/010. The result is presented in figure 4.7.

4.3 Cash flow statement of Bank of Kathmandu

Cash flow from operating activities, investing activities, and financing activities are analyzed as under:

4.3.1 Cash Flow from Operating Activities

Total cash flow from operating activities of BOK is fluctuating trend.

Table 4.8

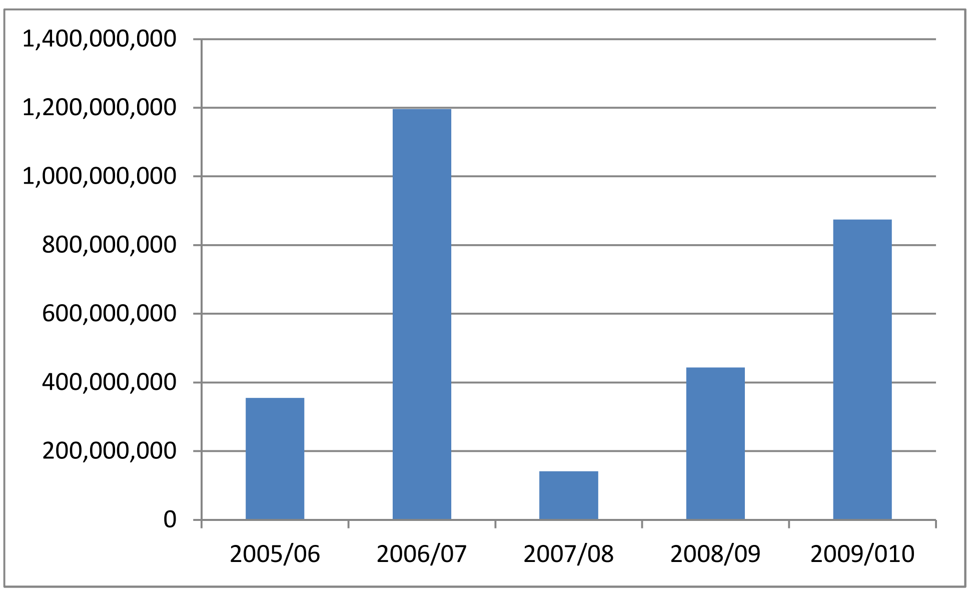
Cash Flow from Operating Activities

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Cash flow	354,767,832	1,196,283,528	141,243,496	443,842,418	874,831,362
% change		237.20	(88.19)	214.23	97.10

Source: Appendix-II

Figure: 4.8

Comparative Study of Cash Flow from Operation of Different Years



Source: Table 4.8

From the table 4.8 presented, the total cash flow of the bank is in fluctuating as compared to previous year. There is heavy increment in cash from operating activities for the year 2006/07 in comparisons with other years.

The graphic presentation of above reality is done in the Figure 4.8.

The total cash flow from operating activities is the combination of cash receipt, cash payment, change in current assets and change in current liabilities. The cash receipt of the bank is the combination of:-

- Interest income
- Commission and discounts income
- Foreign exchange income
- Recovery of written off loan
- Non operating income
- Other income

Table 4.9

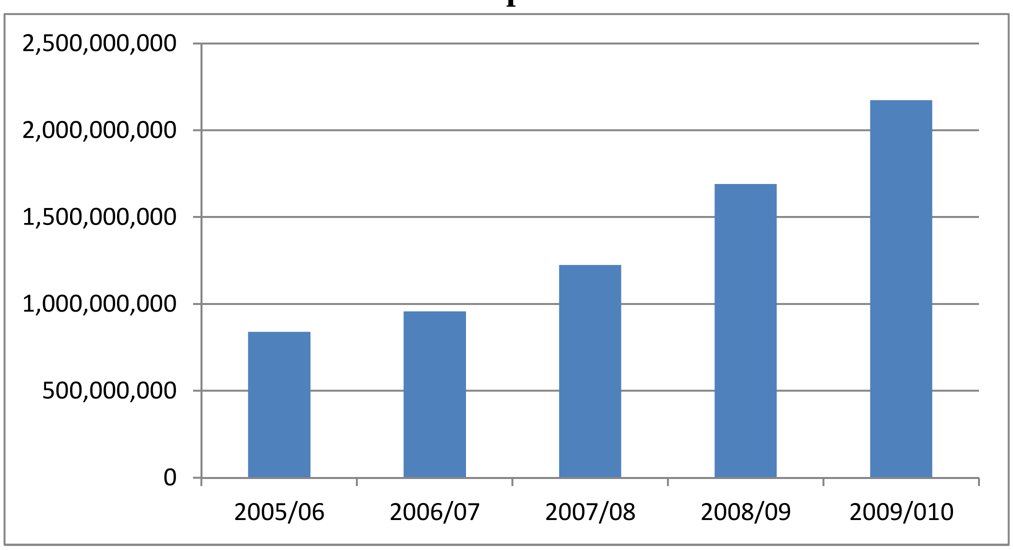
Cash Receipt of Bank of Kathmandu

Fiscal years	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/010**
Cash flow	839,758,005	957,003,987	1,223,855,327	1,689,754,289	217,34,26,202
% change of previous year		103.9	27.88	38.068	28.62

Source: Appendix-II

Figure 4.9

Cash receipt of BOK



Source: Table 4.9

The cash receipt section of the bank is in increasing trend, which is positive aspect of the bank. The highest increasing in cash flow is 103.9% as compare to previous year 2005/06 on fiscal year 2006/07

Table 4.10

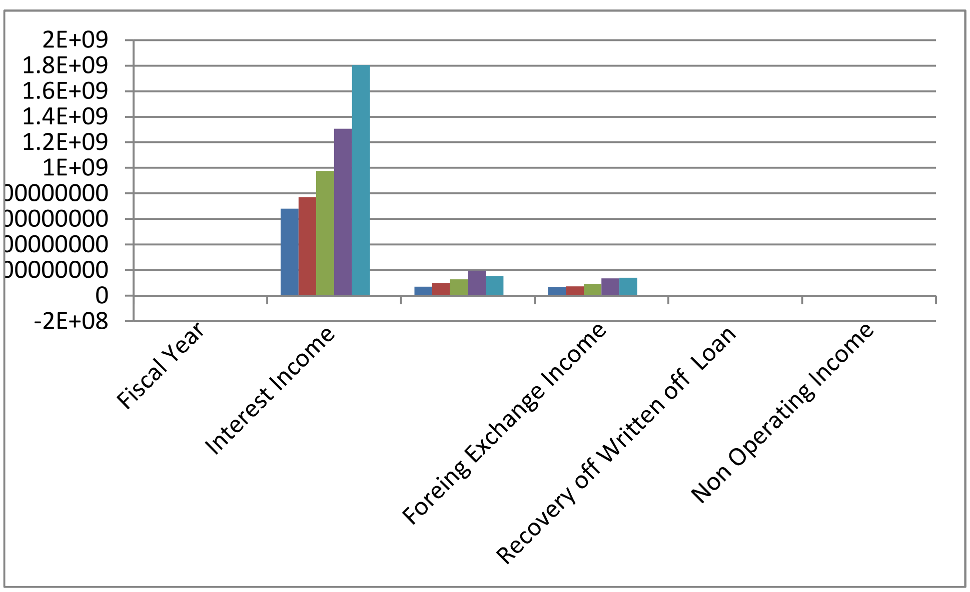
Cash Inflow from Various Sources of BOK

Fiscal Year	Interest Income	Commission and Discount Income	Foreign Exchange Income	Recovery off Written off Loan	Non Operating Income	Other Income
2005/06	682,260,740	70,776,158	68,887,323		866,239	16,967,545
2006/07	771,065,694	97,431,129	72,774,174		(3,269,907)	19,002,897
2007/08	976,838,292	12,941,5582	93,765,039	6,000	662,690	23,167,724
2008/09	1,306,619,495	19,694,2020	136,036,316	6,934,365	(2,027,469)	45,249,562
2009/010	1804667493	153243127	140785065	-		74730517

Source: Appendix-II

Figure 4.10

Cash Inflow from Various Sources of BOK



Source: Table 10

From the table 4.10 we can conclude that main source of cash form operation section is cash from interest income. Cash from commission and discount and foreign exchange income are the rest of cash source of the bank.

The reality is made clearer from Figure 4.10.

On the other hand total cash payment from operating activities is the combination of:-

- Interest expenses
- Employee expenses
- Office overhead expenses
- Exchange loss
- Income tax payment
- Other expenses

Total Cash outflow for the bank is:-

Table 4.11

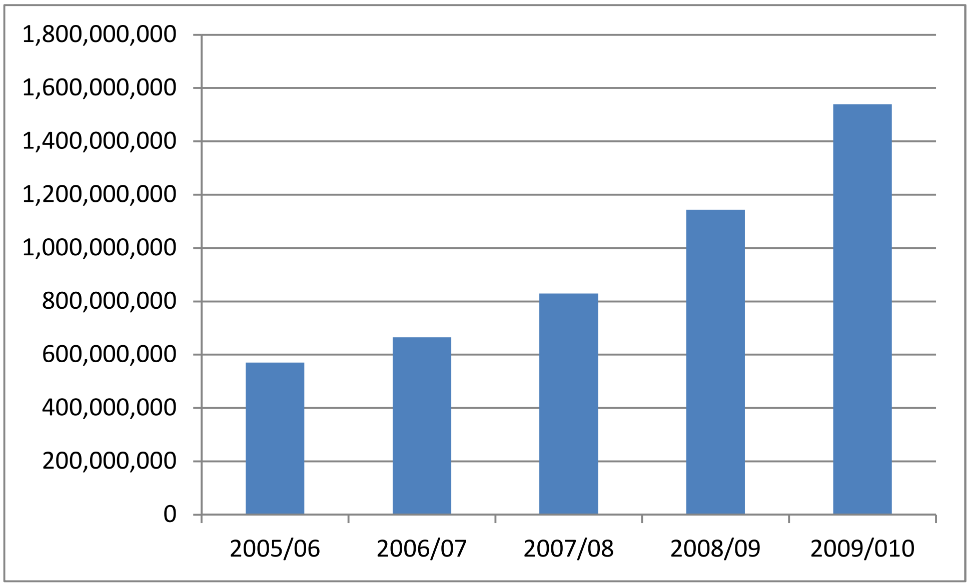
Cash Flow to Operating (Payment) Section

Fiscal years	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/010**
Cash outflow	570,866,447	664,951,336	829,126,260	1,143,218,634	1538770722
% change		16.48	114.68	37.88	34.59

Source: Appendix-II

Figure 4.11

Cash Flow to Operating (Payment) Section



Source: Table 4.11

The operating cash payment of the bank has risen in increasing trend. In the fiscal year 2006/07 and 2007/08, the cash payment has raised by 16.48% and 114.68% where as the cash payment has increased by 37.88% and 34.59% in 2008/09 and 2009/010 respectively. The trend of cash payment is shown in Figure 4.11.

Similarly, the total cash payment is studied by dividing into various subheadings as stated above. The various subs –sectors for the cash payment is presented as follows:-

Table 4.12

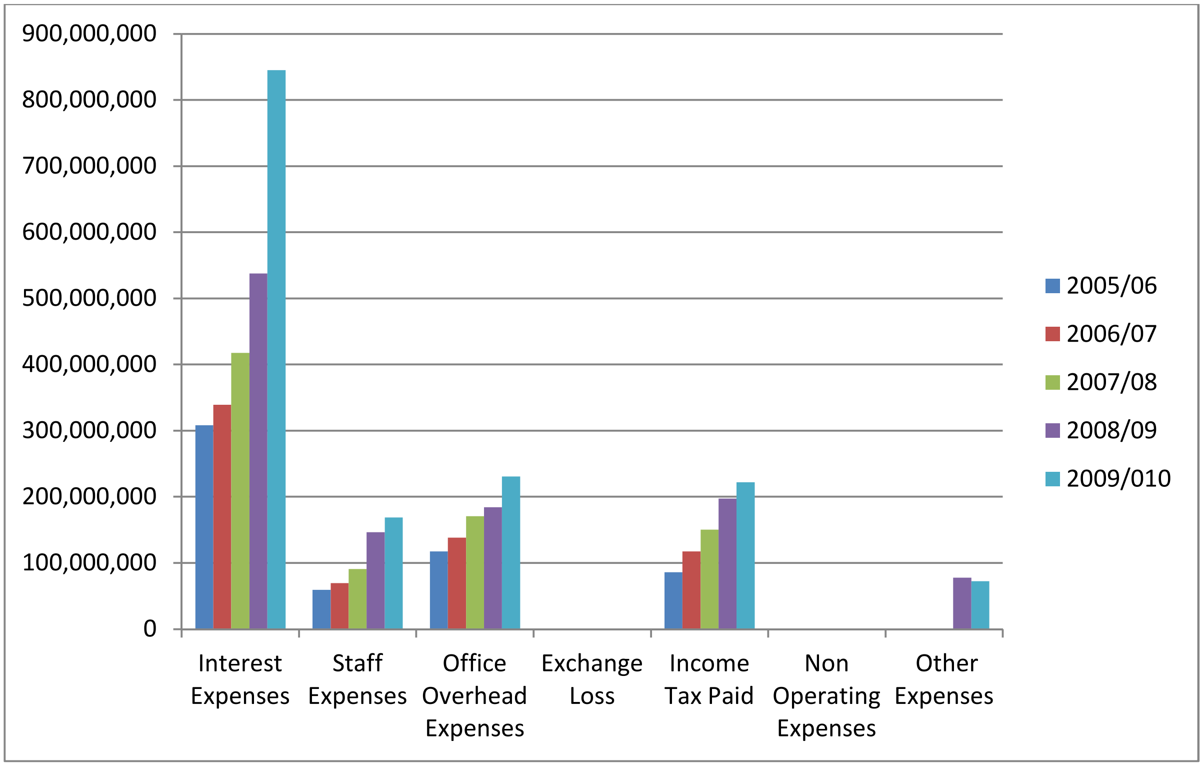
Composition of Cash Outflow in Operation Section

F/Y	Interest Expenses	Staff Expenses	Office Overhead Expenses	Exchange Loss	Income Tax Paid	Non Operating Expenses	Other Expenses
2005/06	308,155,647	59,119,564	117,591,235		86,000,000		
2006/07	339,181,011	69,740,384	138,429,941		117,600,000		
2007/08	417,543,432	90,601,920	170,480,908		150,500,000		
2008/09	537,538,772	146,494,578	184,113,467		197,475,219		77,596,598
2009/010	845204070	168512807	230877189		222007469		72169187

Source: Appendix-II

Figure 4.12

Composition of Cash Payment Outflow in Operation Section.



Source: Table 4.12

Table 4.12 shows interest payments are in increasing trend. Interest payment is increased by 27.52%, 40.38%, 72.80% and 122.45% in year 2006/07 to 2009/010 as compared to the base year 2005/06. It is clear from the table that interest income is greater than interest expenses of the bank for last five years. Staff expenses, office overhead expenses and tax paid amount are also in increasing trend. Exchange loss is not beard by the bank whereas other expense is only incurred by the bank in year 2008/09 and 2009/010 and non operating expense is not incurred in any year.

The composition of the cash payment of the bank in various sections is presented in a Figure 4.12.

4.3.2 Cash Flow from Investing Activities

Investment activities are related to long term assets which are in shown in balance sheet. Investing activities are acquisition and disposal of long-term assets are other investment not included in cash equivalents. Positive cash flow from investing activities represents sale of investment and fixed assets. Similarly, negative cash flow means the Bank made investment for internal and external fixed assets, securities, loan and advances.

The total cash from investing activities could be figured out through tabulation method as follows:

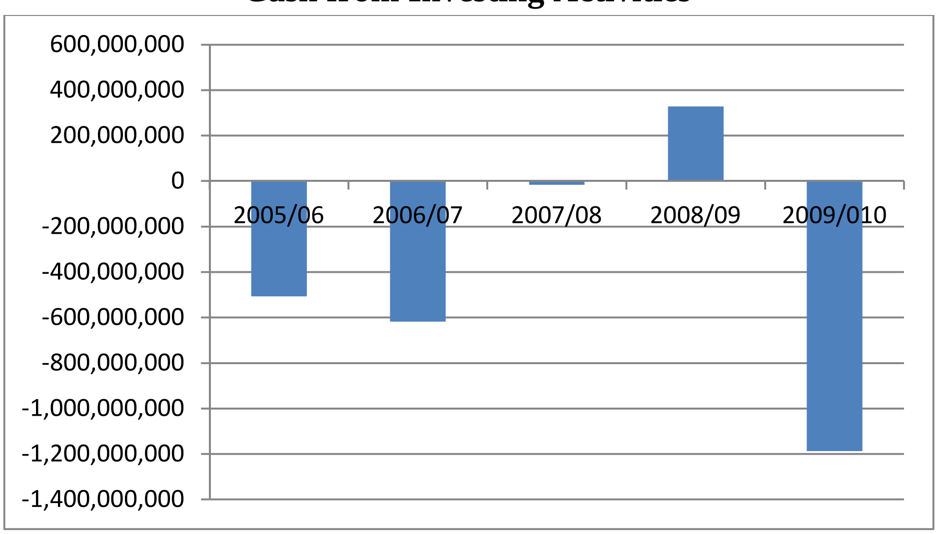
Table 4.13

Cash from Investing Activities

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/010
Cash outflow	(506,944,334)	(617,614,646)	(16,680,494)	327,492,345	(1186998023)
% change		487.30	110.46	105.37	222.91

Source: Appendix-II

Figure 4.13
Cash from Investing Activities



Source: Table 4.13

The table 4.13 says that the bank has negative cash flow from investing activities in its fiscal year 2005/06 to 2007/08. That may be because of extension of infrastructure in the context of economic globalization, technology change and market competition. It is positive in the fiscal year 2008/09 and negative in fiscal year 2009/010. The trend of cash from investing activities for different five fiscal years is figured out in the Figure 4.13.

The composition of cash from investing activities can be presented as below: -

- Changes in long term investment
- Change in fixed assets
- Interest income from long term investment
- Dividend income
- Other income

From the cash flow statement for BOK, it can be said that, cash flow from investing activities in fiscal year 2008/09 is positive because of low investment that year.

4.3.3 Cash Flow From Financing Activity

Financing activities are related to the long term liability and shareholder's equity financing activities are activities that result in change in size and composition of the equity, capital and borrowing of the enterprises.

To get claim from the investor in future it in compulsory to determine cash flows from financing activities. Generally financing sources refer debenture, share and retained earning plaguing back. But the bank has other sources of financing rather than mentioned above. They are collection of deposit through different account like current, saving and fixed deposit as well as margin deposit and others. Cash flow from financing activities of different fiscal year under studies has been tabulated as below: -

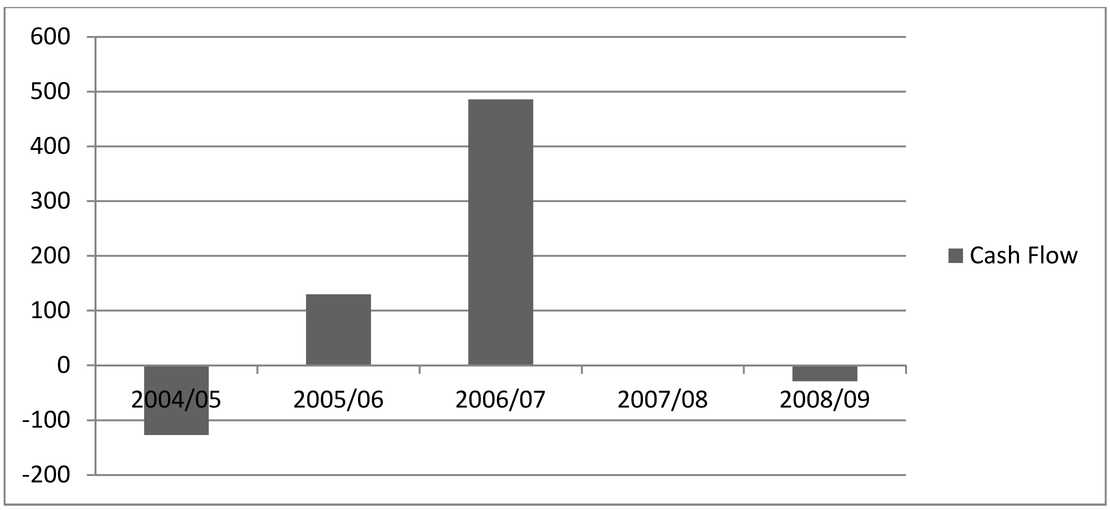
Table 4.14
Cash from Financing Activities

Fiscal years	2005/06	2006/07	2007/08	2008/09	2009/10
Cash outflow	130,284,939	486,130	-	(29,689,870)	(71577779)
% change		100.3	100	123.21	154.93

Source: Appendix-II

Figure 4.14

Cash Flow from Financing Activities



Source: Table 4.14

Cash flow financing activities for BOK has been decreased in last three years whereas it is increased in the fiscal year 2006/07.

From the table 4.14 and Figure 4.14, we can see that the cash flow from financing activities has been decreased in higher amount in fiscal year 2006/07 whereas cash flow from financing activities in fiscal year 2007/08 is Nil. It shows that there is no any activity done by bank that appears in financing activities.

4.3.4 Net Cash Flow for the Year

After determining the net cash from operating activities, financing activities and investing activities, these three amounts are combined for ascertainment of Net Cash Flow. The net cash flows of the bank under different fiscal years are presented in following table: -

Table 4.15

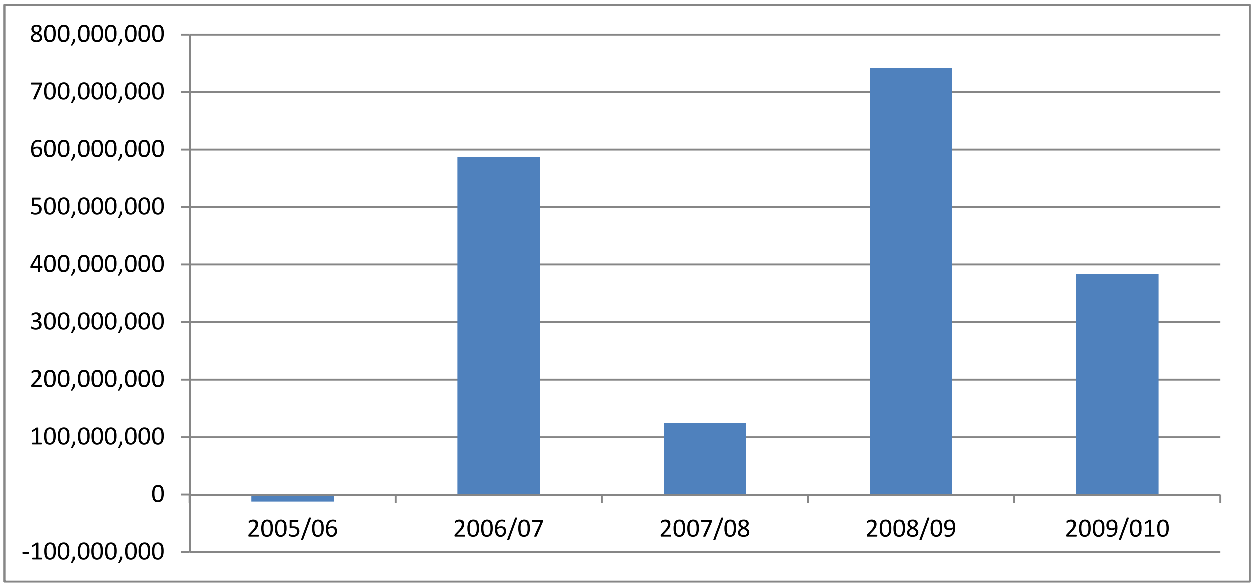
Net cash Flow for the Year

Fiscal years	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/010**
Cash outflow	(11,823,392)	587,206,851	124,563,002	741,644,893	383744440
% change		5066.48	(78.78)	495.39	(48.25)

Source : Appendix-II

Figure 4.15

Net cash flow for the year



Source: Table 4.15

The net cash flow of the bank for the preceding fiscal years is in fluctuating trend. It is increased in year 2006/07 and decreased by 78.78% in fiscal year 2008/09 again increased by 495.39% in 2008/09 and decreased by 48.25% in fiscal year 2009/010.

4.4 Comparative Study of Cash Flow Statement between Banks under Study

4.4.1 Comparative Study of Cash Flow from Operating Activities

Total cash flow from operating activities of the bank includes the same cash receipt and payment headings. It is because; the Banks under study fall in the same industry i.e. commercial banking industry. They are similar in most of the aspects in the angel of socio- economic development of the nation.

Following section shows the comparative picture of cash flow from operation under different fiscal years under study.

Table 4.16

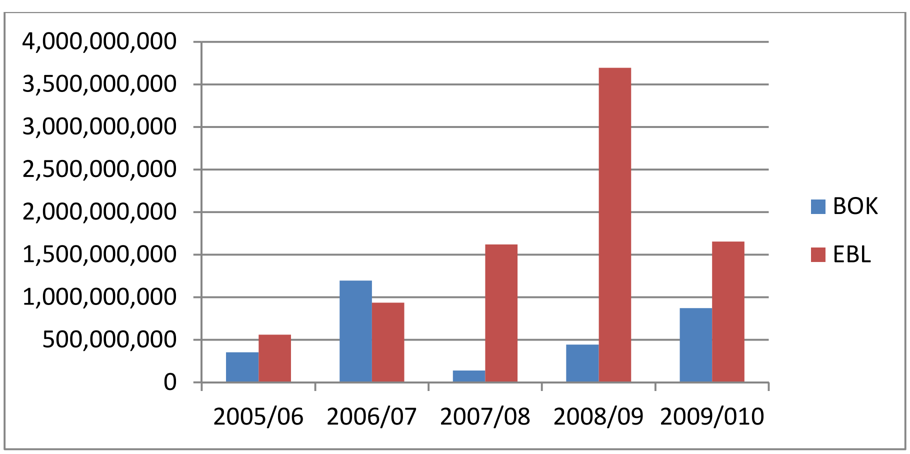
Comparative Study of Cash Flow from Operating Activities between Banks

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
BOK	354,767,832	1,196,283,528	141,243,496	443,842,418	874,831,362
EBL	561,765,203	935,776,872	1,618,856,981	3,695,545,034	1,655,253,393

Source: Appendix-II

Figure 4.16

Comparative Study of Cash Flow from Operating Activities



Source: Table 4.16

A bank's operating activities include the transactions associated with the bank's products and services. From the table 4.16, it was seen that the amount of CFOA was positive in all the fiscal years of both the banks. The figure is in increasing trend for EBL. To visualize the summarization, it is better shown this fact in the simple Figure 4.16.

From the Figure 4.16, EBL shows the strong position in cash from operating activities. It may be due to sound operation of management as compared with BOK. But in the fiscal year 2006/07 BOK has overtaken the position. It shows EBL was competent for the generation of more amount of CFOA.

4.4.2 Comparative Study of Cash from Investing Activities

This section of the cash flow statement shows the amount of cash firms spent on investments. Investing activities generally use cash because Banks is a business entity. It collects money as deposit and sells for the customer, which called investment. Investment may be in terms of bank balance, money at call and short notice, loan, fixed assets or other assets.

How far the banks have utilized funds in their fixed income yielding securities? Following section is all about the cash from investing activities in comparative form

Table 4.17

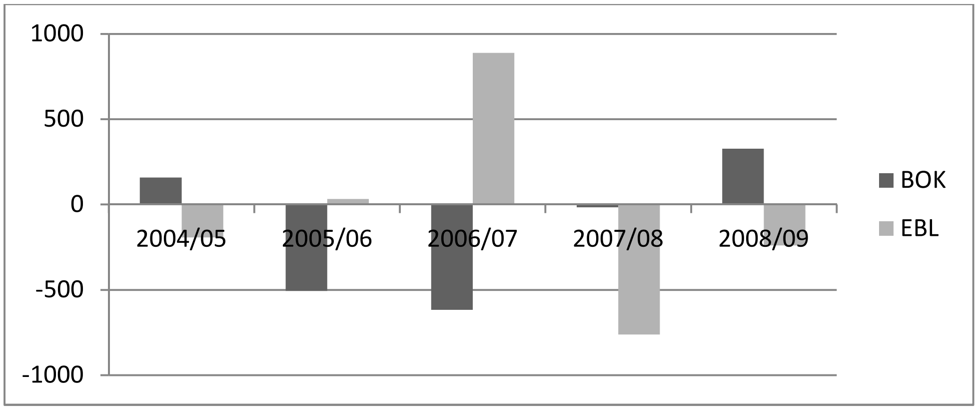
Comparative Study of Cash Flow from Investing Activities

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
BOK	-506,944,334	-617,614,646	-16,680,494	327,492,345	-1,186,998,023
EBL	32,504,016	888,791,146	-761,829,891	-240,569,259	1,68,669,612

Source: Appendix-II

Figure 4.17

Comparative study of Cash flow from Investing Activities



Source: Table 4.17

In case of CFIA, BOK was not in a position to invest in the year 2008/09 while EBL has not made investment in year 2005/06 and 2006/07. Similarly it is clearly shown from the data that the amount of investing activities of EBL was more than BOK in last two years. From this information we predict that EBL will be in position to earn more amount of net income than it will be for BOK.

Given information about the comparative study of cash flow of Investing Activities between the two banks are presented in table 4.17 and figure 4.17.

4.4.3 Comparative Study of Cash flow From Financing Activities

Financing means raise of capital from different sources in order to operate the company effectively. Generally financing sources refers debenture, share and retained earning plaguing back. But the bank has other sources of financing rather than mentioned above. They are collection of deposit through different account like current, saving and fixed deposit as well as margin deposit and others.

Table 4.18

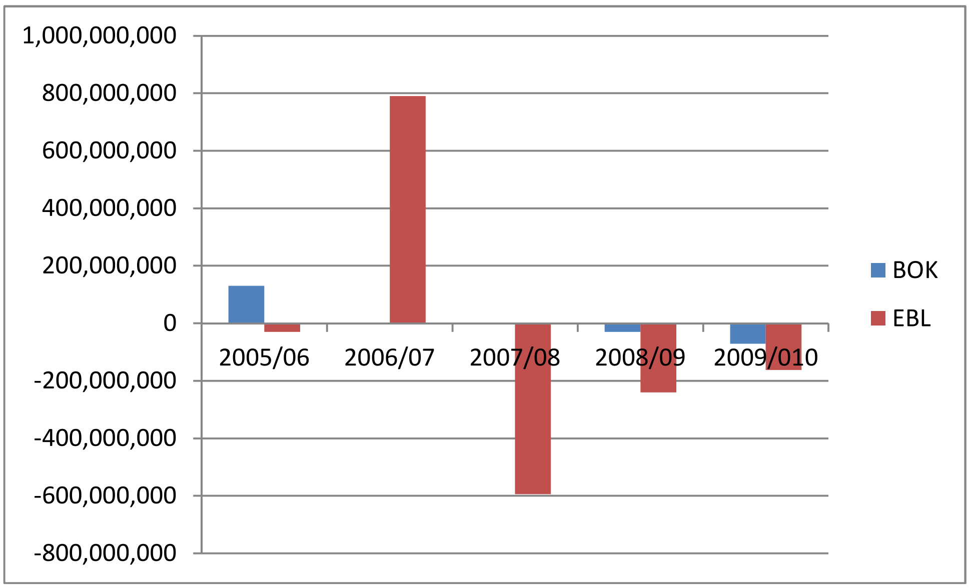
Comparative Study of Cash Flow from Financing Activities

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/010
BOK	130,284,939	486,130	0	(29,689,870)	(71577779)
EBL	(29,586,298)	790,192,820	(594,112,982)	(240,569,259)	(161997369)

Source: Appendix-I, II

Figure 4.18

Comparative Study of Cash flow from Financing Activities



Source: Table 4.18

The EBL has the highest fluctuation in CFFA where as BOK has minimum amount of fluctuation in comparison to EBL. Both the bank, BOK and EBL has positive and negative amount of CFFA in the years under study from table 4.18 and figure 4.18.

4.5 Major Findings of the Study

Findings from analysis of Cash Flow from operating activities of Everest Bank Ltd

- Total operating cash flow of EBL is in progressive trend.
- Everest Bank Limited has excess positive cash flow from operating activities.
- Everest Bank Limited has excess positive cash flow from operating activities due to highest interest income and commission & discount income.
- Everest Bank Limited has strong international network to do agency work and to earn commission discount income.
- EBL’s Staff expenses are reduced for 2006/07 as compare to 2005/06.

Findings from analysis of Cash Flow from operating activities of BOK

- Total cash flow from operating activities of BOK is in volatile in nature. They are in fluctuating trend.
- BOK has highest amount of exchange gain due to highest amount of foreign currency transaction.
- Total Interest Expenses for BOK is in increasing trend
- Staff expenses of BOK are in increasing trend for all the fiscal years.

Findings from Comparative analysis of Cash Flow from Operating Activities of BOK and EBL.

- Everest Bank Limited has excess positive cash flow from operating activities than BOK due to highest interest income and commission & discount income.
- Significant amount of cash receipt from exchange gain for these two banks. But BOK has highest amount of exchange gain due to highest amount of foreign currency transaction.

- Total cash payments for both banks are in increasing trend but trend EBL is little bit higher than BOK.
- Total cash payments for both banks are in increasing trend but trend of EBL is little bit higher than BOK.
- Total Interest Expenses for both banks are in increasing trend.
- Staff expenses of BOK is in increasing trend for all the fiscal years whereas EBL's Staff expensed is reduced for 2006/07 as compare to 2005/06.
- In a comprehensive analysis CFOA is the main source to operate banks. Open market policy to the bank to charge interest rate is being reason to reduce spread rate. Interest income is the main source of revenue .whereas interest expenses is also the main source of cash payment. Due to liquidity crisis and cut throat competition between financial institutions bans are paying high interest for deposit.

Comparative Cash Flow from Investing Activities

- Cash flow from investing activities is not in fluctuating trend. They are volatile in nature.
- Only fixed assets are not major parts of investing because they are very small with comparative to the total investing activities.
- Interest income from long term investment is highest in 2008/09 of EBL due to safety deposit and lack of improper credit product.
- EBL has highest amount of investment of fixed assets than BOK in year 2007/08.
- Sales of fixed assets have no significant contribution on cash flow from investing activities.
- In the year, 2007/2008 both Bank has negative CF of investment due to high amount for investment.

- Due to safety of deposit and lack of improper credit facility credit product, EBL has invested significant amount on government Treasury bill and debenture in year 2006/07.
- Only operating cash flow are not sufficient to make investment so cash should be taken from financing activities.

Comparative Cash Flow from Financing Activities

- Total cash flow from investing activities is in fluctuating trend.
- EBL has issued huge amount of share in year 2006/2007.
- From the analysis it was found that for the banks and financial institutions, because of nature of transaction in banking sector, increase/ (decrease) in short term borrowing are taken for working capital purpose to run day to day operation of banking business. Actually, it is borrowed to finance the activities i.e. financing if operating activities treatment for this item.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Cash flow analysis is the study of the cycle of the business cash inflows and outflows, with the purpose of maintaining an adequate cash flow for the business, and to provide the basis for cash flow management. Cash flow analysis involves examining the components of the business that affect cash flow, such as accounts receivable, inventory, accounts payable, and credit terms. By performing a cash flow analysis on these separate components, the company should be able to more easily identify cash flow problems and find ways to improve the cash flow.

In Nepal the first commercial bank was established in 1937 under the name of Nepal Bank Limited under the Government and private sector joint ownership. Realizing the insufficiency of Nepal Bank Ltd, government established Rastriya Banijya Bank in 1966 as a fully government owned bank. For this purpose the researchers selected two commercial banks. They are: -

- Bank of Kathmandu
- Everest Bank Limited

This study tried to outline the clear cash flow situation and the usefulness of these cash flow of EBL and BOK through the utilization of different accounting, financial and statistical tools. For this, based on research strategy made on research methodology chapter, available and collected data are presented on presentation chapter. According to the analysis made on chapter four based on the objective of cash flow analysis, the BOK and EBL is in good situation on its cash management because cash flow analysis shows the cash availability is adequate and in growing situation. Cash inflow is good from operating activities. The available cash is utilized on financing and investing activities.

To prepare the cash flow statement annual report of the bank and their annex are studied. Basically profit and loss account, balance sheet and cash flow statement presented by the bank are viewed for the analysis purpose. Directives of Nepal Rastra Bank, company Act and NRB Act are studied throughout period of Research. Books related with cash flow and Accounting written by Nepalese & foreign writers is studied. Then the research is analyzed Five years cash flow position of the banks from different activities are studied based on chart and trend analysis summary the study are.

The trend of cash flow from CFOA, CFIA and CFFA are in fluctuating trend. The reason for fluctuation is emergence of different activities during the period. The financial data of BOK and EBL shows there are greatest possibilities of business growth. It is providing a large amount of revenue to Nepal government.

The net cash generation for the period of different fiscal year is also satisfactory. Cash balance is adequate to perform its needed activities. Since its cash inflow from operating activities is increasing, the investment is also increasing. That may not be the best capital structure for BOK and EBL because there should be done leverage analysis to decide capital structure. Both are paying dividend to its shareholder in satisfactory manner. Their earning their profit satisfactorily through providing their services to general public is the cause for increasing goodwill. That means the BOK and EBL are in well management including cash management. It has not faced any difficulties during the study period.

5.2 Conclusion

- Cash is the basic input needed to keep the operations of the business going on a continuing basis: it is also the final output expected to be realized by rendering the services sector business.
- Sometimes, it so happens that a business unit earns sufficient profit, but in spite of, is not able to pay its liabilities when they become due. The analysis of cash flows statement helps to conclude that the normal business operation of the banks were satisfactory. As per the directives given by NRB, these banks prepare the other financial statements i.e. profit and loss A/C, Balance Sheet etc. on cash basis similarly; the volume of transactions of both these banks was greatly affected by economic activities of the economy. Effective cash management objectives implies a proper balancing between the two conflicting case of liquidity and profitability. So these banks couldn't threaten the liquidity and solvency position.
- In order to find out the true figure of any financial institution from operations , accounting methods and practices should be uniform and systematic .However these two banks has taken into considerations that the old format of Cash flows statement prescribed by NRB for commercial banks/ financial institution was not the reliable format to calculate the CFOA, CFIA and CFFA .
- Selective joint venture and non-joint venture banks have good performance in the competitive market. Because of the conflict of the entire economic sector had affected. However, bank has been trying to serve their customer. EBL has great network and customers that's why activities have also large against BOK. An analysis shows that cash flow from operating activities of EBL is too high than BOK. EBL and BOK are both pioneer banks. From the analysis and study it comes to know that more invest more profit is no true.

- EBL and BOK are the main money market. They are operating in high amount operating profit. They are paying tax revenue to the government and facilitating people by providing new and latest banking services in this competitive environment. Profit and Loss A/C and Balance sheet of these banks are strong.
- But now-a-days cash flow statement is being mandatory to submit for annual report and cash flow is being a key financial indicator to analyze the strength and weakness of the firm. Only profit making on accrual basis doesn't provide the real figure of the firm so income should be treated on cash basis according to the NRB directive for financial institution. If profit is negative but cash flow is positive then stakeholder believes to that institution. So cash flow analysis is necessary. By analyzing the five year cash flow statement following conclusions are found and recommended for improvement.

5.3 Recommendation

Cash flow is the tool for cash management. Although the result obtained from the analysis is good in aggregate, there will be better to take some corrective actions to attain more efficient and effective result. Some suggestions to improve cash flow for the future are as below:

Recommendation for EBL

- Operating cash flow of EBL is positive and the trend is increasing but lunching new sector should enhance this source.
- Commission and discount of EBL is in good position but more agency work should be done properly.
- One of the main problems of the bank is increasing staff burden and operating cost. Staff expenses of EBL seem higher. It should be minimized by increasing the efficiency of the staffs.

- Due to strong wide networking fund transfer is accessible so it should be managed properly.
- Net cash flow for the year 2005/06 is negative. It is not good for the bank and investors. However the bank has positive net cash flow for last three years.
- Deposit are in increasing trend of EBL , which is very good but considering the cut throat competition of attracting customers , it should focus on attracting customers by launching new products.
- Commission and Discount has played significant role in generating the operating income, which is positive and bank should emphasize more in it.
- Foreign exchange income of EBL is very low as compared, so it would be profitable for the bank if it would give emphasis on strong worldwide networking.
- Main source of interest income is Loan and advance so it should be keep it up by investing in productive sector. However; alternative approach for income can play significant role in income.
- Recognizing the human capital is the most important asset of a business entity, the banks have to reward people. Bank should implement the new method for the staff and employees.
- EBL need to focus on alternative ways of delivering financial services, especially using technology as a delivery channel.
- The bank has good public faith so deposits are increasing but both banks have to manage its deposit mix by reducing interest bearing deposit.
- If EBL produce quantifiable client through the growth initiatives, it would definitely make a great year for EBL.

Recommendation for BOK

- Operating cash flow of BOK is positive and the trend is increasing but lunching new sector should enhance this source.

- Commission and discount are in good position but lower than EBL so agency work should be done properly.
- One of the main problems of the bank is increasing staff burden and operating cost. However, staff expenses of BOK should be minimized by increasing the efficiency of the staff.
- Due to strong wide networking fund transfer is accessible so it should be managed properly.
- Deposits are in increasing trend of BOK, which is very good but considering the cut throat competition of attracting customers, it should focus on attracting customers by launching new products.
- Commission and Discount has played significant role in generating the operating income, which is positive and bank should emphasize more in it.
- Foreign exchange income of BOK is not satisfactory, so it would be profitable for the bank if it would give emphasis on strong worldwide networking.
- Main source of interest income is Loan and advance so it should be keep it up by investing in productive sector. However; alternative approach for income can play significant role in income.
- Recognizing the human capital is the most important asset of a business entity, the banks have to reward people. Bank should implement the new method for the staff and employees.
- These banks need to focus on alternative ways of delivering financial services, especially using technology as a delivery channel.
- Today is the age of competition; banks have to survive within these competitions. Therefore for the attraction of the general public, there should be attractive programs, facilities, technologies.
- The bank has good public faith so deposits are increasing but the bank has to manage its deposit mix by reducing interest bearing deposit.

- Main source of income is loan and advance. However, BOK is earning in low volume as compare to EBL. So, new area of investment is to find out.
- If BOK produce quantifiable client through the growth initiatives, it would definitely make a great year for BOK.

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APPENDICES

Appendix-I

Cash Flow statement for the F.Y 2004/05 to 2008/09(Everest Bank Limited)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/010
(A)Cash from operation	561,765,203	935,776,872	1,618,856,981	3695545034	1,655,253,393
1. Cash receipt	1,119,894,353	1,372,775,899	1764,958,356	2,440,224,660	3,433,963,614
1.1 interest income	960,914,386	1,157,394,126	1,480,965,056	2,071,386,385	3,024,662,273
1.2 Commission and discount income	88,163,454	117,718,162	150,264,074	202,094,446	208,123,481
1.3 Foreign exchange income	19,770,383	27,129,990	50,815,249 -	55,861,850	55,361,763
1.4 Recovery off written off Loan	-	-	-	-	- 1,45,816,097
1.6 Other income	51,046,130	70,533,621	82,913,977	11,088,1979	
2. Cash payment	(704,261,899)	(892,082,135)	(829,126,260)	(1,744,322,546)	(2,476,046,094)
2.1 Interest expenses	(378,626,864)	(492,278,489)	(612,862,000)	(102,376,829)	(1532618007)
2.2 Staff expenses	(68,377,635)	(78,118,226)	(127,972,593)	(163,027,617)	(212262121)
2.3 office administration	(115,090,880)	(146,568,951)	(177,576,476)	(215,578,404)	(263355227)
2.5 Income Tax Paid	(114,086,267)	(140,556,436)	(191,048,302)	(297,471,016)	(378678868)
2.7 Other expenses	(28,080,253)	(34,560,033)	(45,470,846)	(65,868,680)	(89131871)
Cash flow before Changes working capital	415,632,454	480,693,764	610,028,139	695,902,114	957917520
Changes in current assets					
1.Changes in Money at Call and Short Notice	503,040,000	66,960,000	(346,000,000)	346,000,000	-
2.Changes in Other short term investment	(2,072,294,406)	80,118,131	498,762,587	(697,050.061)	774630621 (3748036793)
3.Changes in loans, advances purchased and BP	(2,236,164,177)	(3,947,226,863)	(4,772,744,402)	(5,638,672,934)	(63119067)
4. Changes in Other Assets	(39,027,236)	(72,378,997)	(134,857,710)	(67,616,369)	
1.Changes in deposits	3,704,753,999	4,383,808,553	5,790,044,994	9346545034	3609363762
2.Changes in certificate of deposit	-	-	-		-
3.Changes in short term borrowings	-	-	-		- 124497350
4.Changes in other liabilities	285,824,569	(56,197,716)	(26,376,627)	(289,665,427)	
(B) Cash flow from investing activities	32,504,016	888,791,146	(761,829,891)	(240,569,259)	168669612
1. Purchase in Shares and	(500,00)	-	(94,679,000)	(882,500)	-

Debentures					
2. Proceed from Sale of	-	-	13,414,000		-
Shares & Debenture					(130957160)
3. Purchase of Fixed	(47,368,367)	(49,934,128)	(248,462,452)	(144,259,524)	
Assets	875,368				8378631
4. Proceed from sale of		949,783	1,845,299	2,016,538	
Fixed Assets	406,198	(863,917,497)			165542063
5. Increase/(Decrease) in			(493,535,705)	(190,990,168)	
Government Securities	1,655,343	11,580,378			26514056
6. Proceed from sale of			397,500	2,025,555	
Non Banking Assets	12,265,942	12,276,398			97681454
7. Interest income from			58,439,435	91,372,640	1510568
Long –term Investments	161,500	253,920			
8. Dividend income	-	-	751,032	148,200	-
9. Others			-		
(C) Cash flow from financing activities	(29,586,298)	790,192,820	-	34,758,588	(161997369)
1. changes in long term	-			312,000,000	(312000000)
debt bond, debenture		-			-
2. changes in Share		-		-	
Capital		-		(140,000,000)	-
3. Changes in Share		-	(511,512,000)	-	-
Premium	(15,960,630)	(104,222,751)	(58,852,252)		(212885683)
4. Share Application	(13,625,668)	(17,096,429)	(23,748,730)	(126,611,886)	
Money	-	-			(41711686)
5. Dividend paid			-	(10,629,526)	
6 Interest in Borrowing				-	
Paid					
7. Changes in subsidies /					404600000
refinance from NRB					
(D) Income / expenses from changes in exchange rate	3,303,397	1,274,554	13,637,129	6,664,969	(6481796)
(E) Current's year Cash flow from all activities	502,978,286	838,453,100	276,551,237	3,496,399,332	1654443840
(F) Opening Cash and Bank Balance	1,049,989,208	1,552,967,494	2,391,420,594	2,667,971,831	6164371163
(G) Closing Cash and Bank Balance	1,552,967,494	2,391,420,594	2,667,971,831	6,164,371,163	6818815003

Appendix-II

Cash Flow Statement of Bank of Kathmandu.

Cash Flow Statement for the F.Y 2005/06 to 2009/010 (Bank of Kathmandu)

Particulars	2005/06	2006/07	2007/08	2008/09	2009/010
(A)Cash from operation	**354,767,832**	**1,196,283,528**	**141,243,496**	**443,842,418**	**874831362**
1. Cash receipt	839,758,005	957,003,987	1,223,855,327	1,689,754,289	217,34,26,202
1.1 interest income	682,260,740	771,065,694	976,838,292	1,306,619,495	1804667493
1.2 Commission and discount income	70,776,158	97,431,129	129,415,582	196,942,020	153243127
1.3 Foreign exchange income	68,887,323	72,774,174	93,765,039	136,036,316	140785065
1.4 Recovery off written off Loan			6,000	6,934,365	-
1.5 Non operating income	866,239	(3,269,907)			
1.6 Other income	16,967,545	19,002,897	662,690 23,167,724	(2,027,469) 45,249,562	74730517
2. Cash payment	**570,866,447**	**664,951,336**	**829,126,260**	**1,143,218,634**	**1538770722**
2.1 Interest expenses	308,155,647	339,181,011	417,543,432	537,538,772	845204070
2.2 Employee expenses	59,119,564	69,740,384	90,601,920	146,494,578	168512807
2.3 office overhead expenses	117,591,235	138,429,941	170,480,908	184,113,467	230877189 -
2.4 exchange loss	-	-	-	-	222007469
2.5 Income Tax Payment	8,600,000	117,600,000	150,500,000	197,475,219	-
2.6 non- operating expenses	-	-	-	-	
2.7 Other expenses				77,596,598	72169187
Cash flow before working Capital	268,891,558	292,052,651	394,729,067	546535655	634655480
Changes in current assets	(1,772,590,684)	(920,919,694)	(2,795,185,864)	(2359794479)	(2164363100)
1.Changes in Money at Call and Short Notice	(265,173,522)	3,347,687,750	186,598,792	(170671664)	(688637234)
2.Changes in Other short term investment	(248,943,941)	838,219,860	(203,913,475)	61914604	643497715
3.Changes in loans, advances purchased and bills	(1,346,503,107)	(214,024,503)	3,063,309,924	(2197998161)	(2098579634) (20643947)
4. Changes in Other Assets	88,029,886	46,336,734	285,438,743	(53,039,258)	
Changes in current liabilities	1,858,466,958	1,825,150,571	2,541,700,293	2,257,101,242	2404538982
1.Changes in deposits	1,509,578,372	1,903,568,055	3,444,810,505	2,250,242,467	2231854139
2.Changes in certificate of deposit					-
3.Changes in short term borrowings	547,180,000	176,819,999	(630,000,000)		200000000 27315157
4.Changes in other liabilities	(198,291,414)	(255,237,483)	(273,110,212)	6,858,775	

(B**) Cash Flow from investing activities**	**(506,944,334)**	**(617,614,646)**	**(16,680,494)**	**327,492,345**	**1186998023**
1.Changes in Long –term Investments	(527,514,615)	455,941,759	(7,720,377)	358,554,548	(1217311398)
2. Changes in Fixed Assets	(15,514,256)	210,101,197	(66427757)	(72,449,532)	(125278569)
3. Interest income from					63444411
Long –term Investments			57,319,582		1181459
4. Dividend income	35860637	47938252	148,058	41,051,267	90966074
5. Others	223,900	490,058	-	363,062	
(C) **Cash flow from financing activities**	**130,284,939**	**486,130**	**-**	**(29,689,870)**	**(71577779)**
1. changes in long term debt	200,000,000			(12,000,343)	(11996400)
bond, debenture					-
2. changes in Share Capital				80	
3.Changes in other liabilities		139,560,400			(59581379)
4.Changes in subsidies /	(69,715,061)	(139,074,270)		(17,689,607)	
refinance from NRB					-
(D) Income / expenses from changes in exchange rate	10,068,172	8,051,839			
(E) Current's year Cash flow from all activities	(1,1823,392)	587,206,851	124,563,002	741,644,893	383744440
(F) Opening Cash and Bank Balance	740,520,482	728,697,090	131,590,3941	1,440,466,943	2182111836
(G) Closing Cash and Bank Balance	728,697,090	1,315,903,941	1,440,466,943	2,182,111,836	1798367396

Source: Annual Report of BOK