CHAPTER - ONE
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nepal is one of the underdevelopment countries in the world. It covers 0.03 percent area of world. Nepal is a sovereign independent kingdom, (Between 8000 and 88012 East longitudes and 2602 and 30027 North latitude is bounded on the north by the Tibet Autonomous region of People's Republic of china, the east south and west by India. The length of kingdom is 885 kilometer east west and it's breath varies from 145-241 kilometer north-south. The country can be divided into three main geographical regions Himal, Pahad and Terai.

"Industrialization is a major instrument of progress, modernization and social change in Nepal. It is one of the major tools with the aid of which vicious circle of backwardness and poverty can be broken"[11]. Industrialization creates vast employment opportunities and maximum utilization of human, capital and other natural resources of the country. It not increase the income the income of the people by providing job opportunities and making use of the natural resources but also facilities the agricultural development by reducing pressure on land, creating demand for agricultural raw material and supply necessary inputs to agriculture. Therefore, and important pre-requisite for economic development and transition from traditionalism and agrarian economy is to foster the industrialization. The reason for emphasis on industrialization is that the industrial development would absorb the rural unemployed manpower to those fields of production where higher productivity is possible without reducing total agricultural inputs[2].

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[1] Gorgy Cuker, : Strategies for industrialization in developing countries, London Hark & Company, 1970. p. 9

[2] United Nations, *Economic Bulletin for Asia and the far East* (Bangkok: ECAFE 1961.P.1)

In the context, many manufacturing, trading and commercial enterprises have been established both in public and private sector for the development of the national economy. The private sector and government owned enterprises together help in executing development efforts simultaneously. However, the role of private sector is more important in the process of national development. Private sector possess the characteristics such as entrepreneurship, professional skill, quick decision-making process and freedom of management of the private sector enable them to influence the economy constructively and according to the changing situation.

Our study focuses on working capital management of private firm with special reference to MM Plastic (Pvt.) Ltd. Its working capital management is found fluctuated. Due to this, it is operating in low profit in same year. It may due to miss-management of working capital. Financial management is universally involved in the management of private firm as well as public enterprises as does the oxygen in the atmosphere. Therefore, for achieving success in private firm proper financial management is of great importance. Financial management comprises of various aspects and study of financial management remains incomplete without study of management of working capital.

The study of working capital management in private firm is very important mainly for these four reasons. Firstly, private business firm must determine the adequacy of investment in current assets, otherwise it would seriously erode their liquidity base. Secondly, they must select the types of current assets suitable for investments so, as to raise their operational efficiency. Thirdly, they are required to ascertain to turnover the current assets that greatly determine the profitability of the private business firm and lastly, they must find out the appropriate source of funds to finance current assets.

Role of working capital is more in manufacturing type of industries because they must have adequate cash to pay wages, bills and supply of raw materials. It must have capacity to grant credit to its customers. Adequacy of working capital in a manufacturing business is the must for maintaining solvency and continuing the business, particularly in era of cutthroat competition. If the firm has adequate working capital it would have better terms on goods purchased, cash discount and loan and reasonable rate of return. It creates felling of securities and confidence due to adequacy of working capital, quick and steady return to the investors would be possible and also raise moral of the management. During the period of depression, more amounts would be locked up in the inventories and book debits. During such period, it the working capital is not sound it may cause the firm to come to grief.

Nepal Government has given due emphasis on the industrial sector. The economic survey report (1990-91) states that the emphasis on industrialization for the creation of enough job opportunities for the people and for raising their economic levels through a sizable increase in GDP appears quite relevant at a time, when the growth of population of the country is pushing the rural economy down to the subsistence level.[3]

The gross working capital concept makes the implied meaning of working capital or current assets only. It is also called circulating capital. It is equal to total sum of current assets only, and it may represent both owned capital as well as loan capital assets used for financing current assets.[4]

In the present study an attempt is to be made to highlight on the importance of proper management of working capital in firm enterprises

[3] Ministry of Finance, *Economic survey Report*, 1990/1991, Kathmandu.

[4] S.A.Sharkelar, *Modern Business Organization Management System Approach*, Himalaya Publishing House of Bhalerao Marg, Bombay, 1982. P. 878.

with special reference to MM Plastic (Pvt.) Ltd. for period of five year from 061/62 to 065/66. Operating the company effectively and efficiently is more important than establishing the company. The effective activities of operating the company play vital roles such as how well is the company using the fund? Are the funds moving properly? What is the working capital position of the company? To find out the position of working capital financial data are analyzed. Therefore, this study deals with efficiency of management of the company in the matter of working capital management and financial performances as well.

1.2 OBJECTIVES OF THE STUDY

The basic objectives of the study are to examine and measure the working capital structure of MM Plastic (Pvt.) Ltd. Company. The main objective of the study is to obtain a true insight into the working capital position of MMP. It also provides suggestions and recommendations for necessary improvement. The working capital managements play a vital role in the progress and improvement of the company. Working capital can be an important and reasonable factor in the success and failure of the company. The objectives of the study are as follows:-

a) To describe and analyze the working capital management of MM Plastic.
b) To identify the basic reasons for losses.
c) To examine the effect of working capital on profitability.
d) To show the Liquidity Position of MM Plastic.
e) To analyze the current assets and current liabilities of MM Plastics.
f) To provide better suggestion for improving working capital management in future.
g) To establish the relationship between sales and different variables of working capital.
h) To recommend and suggest different methods for improvement and better management of working capital.

1.3 SIGNIFICANCE OF THE STUDY:

For the smooth operation of the firm in the short-run as well as long – run sound working capital management is a prerequisite factor. Analyses of different components of current assets as well as current liabilities are important for the evaluation for working capital management of the firm. Working capital is a circulating capital, which is compared as lifeblood of the human being. It is very essential for any manufacturing and non-manufacturing organization because without investment is working capital production cycle is not possible. In the absence of production there is no question of distribution, marketing and profit.

Working capital is the size of investment in each type of current assets. Each of these current assets should be managed efficiently and effectively. It is because decision regarding working capital not only affects profitability of the firm in the short- but also affects the survival in the long run.

The need of the study is to find out MM Plastic Private Ltd.'s internal position of working capital under financial problem as well as to give an opportunity or correcting its short- comings. The above statement shows that the position of the industry is not satisfactory as it should be. So our study always focuses to analyze the situation of working capital management and give suitable suggestion for improving the efficiency to earn maximum profit. So this study is very useful for the industry, owner, employee and consumers who use the products of MM Plastic Private Ltd.

1.4 STATEMENT OF THE PROBLEM:

MM Plastic (Pvt.) Ltd. is a manufacturing company. It has established in Falgun of 2042 B.S. It is situated in Morang Industrial State and established by a team of Nepalese stake holders as the legal status is concerted, it is registered as a Private Ltd. . It is a large scale company having authorized

capital of Rs. 20000000. The main product of this industry is polyvinyl chloride pipe (PVC pipe) and polyvinyl chloride screen (PVC screen). Raw materials of these products are PVC granual and PVC Resin which are brought form South Korea.

At present this industry runs 2 shifts in a day and each shift includes 12 hours. This industry runs in a full capacity. It produces 1400 tons of materials yearly processed by the manual, automated and semi automated machines. The products of MM plastic Private Ltd. are supplied especially in the area of Itahari, Duhabi, Biratnagar, Birtamod of Nepal and West Bangal and Bihar State of India etc. Now a day this industry has occupied an important place in the modern business of Nepal.

About hundred employees are engaged in this industry. Almost all technical as well as non technical manpower involved are Nepalese. About 50% of the products of the industry is consumed by government agencies and export to India and remaining 50% of the products of this industry is consumed by local parties and private users. This industry plays a significant role in the economic development of our country.

The objective of MM Plastic Private Ltd. is to earn maximum profit with customer's satisfaction because without profit business cannot run. But it is not easy to get profit because profit earning capacity of the organization depends on various factors. One of the factors affecting profit can be pointed on the working capital management itself.

We look on the financial statements of MM Plastic Private Ltd. Working capital management is not satisfactory and encouraging. During the study period high level of current assets are maintained in the company. Though it shows the good liquidity position but badly affects the

profitability position of the company. It is the result of poor working capital management in the company.

Of the current assets, Cash and bank balance has increasing and decreasing in the study period. The huge volume of idle inventory balance in the company greatly contributes from the lower profitability. The volume of receivable in the company is fluctuating. The percentage of receivable with respect to sales is also fluctuating. The balance sheet of the company clearly shows that company is mostly depended on long-term financing (share capital, reserve and retained) as a source of working capital, which causes very low level of current liabilities in the company.

The above observations indicate the poor working capital management in MM Plastic Private Ltd. So, this attempts to have an insight over the problems of working capital management.

1.5 RESEARCH METHODOLOGY:

"A systematic research study needs to follow proper methodology to active the pre-mentioned objective research methodology is sequential procedure and method to be adopted in a systematic study".[5]

The main purpose of this part is to analysis the working capital management of MMP. So, the present chapter outlines the entire research methodology used and following in this study. This study is mainly bases on conclusion oriented for the working capital management. It describes research design nature and sources of collection. Data gathering procedures, data processing procedures, financial tools and techniques used and statistical tools used.

[5] C.R.Kothri *Quantitative techniques,* Vikash Publishing house, 3rd edition, New Delhi, 1974, P.19.

The frame of the study is given research design. 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. Therefore, is to examines, and accesses the working capital of MMP and attempts in collection, evaluation, verification an analysis systematically for the improvement and exploration of certain facts. Evaluation has been done on the basic of 5 years mean, standard deviation, correlation and error of P and the study represent historical and exploratory as well as descriptive type.

1.6 ORGANIZATION OF THE STUDY:

This research of working capital management of MMP has been divided into five chapter, which is Introduction, Review of Literature, Research Methodology, Presentation and analysis of data and Summary, Conclusions, Recommendations.

Chapter-1 : Introduction : This is the introduction chapter which is related to the introduction of the study. It deals with focus of the study, statement of the problem, important of the study, objective of the study, research design of the study and objective of the study.

Chapter-2 : Review of Literature : The second chapter deals with review of Literature relating to working capital management. In this chapter a brief presentation of the related studies and finding as well as review of various pertinent literatures has been dolt.

Chapter-3 : Research Methodology : In this chapter, Methodology used for the purpose of this study is explained. It includes research design, nature and source of data, population and sample of the study, procedure employed and use of analytical tools.

Chapter-4 : Presentation and Analysis of Data : In the forth chapter, the acquired data are presented, analyzed, and interpreted by using different financial as well as statistical tools i.e. ratio analysis, fund flow analysis, trend analysis, correlation co-efficient etc. and presented the results relating to the study.

Chapter-5 : Summary, Conclusions and Recommendations: The fifth and last chapter includes summary of the study, conclusion of the study and concrete, remedial measures from the improvement of the working capital management decision as well as other financial position are presented as recommendations.

At last, there are given a bibliography, which is easy to read and write all persons. In the study the researcher consulted various book, journals, articles, seminar's papers various relevant acts, rules, regulations and policies on related subject.

1.7. LIMITATION OF THE STUDY:

As every research has its own assumption and limitation the present study has the following assumption and limitations.

i) The data available in published accounts and other references have been assumed current and true.

ii) The study is based on only five years published accounting statements from the F/Y 063/64 to 2065/66.

iii) Since the analysis of data has been taken from the company's account, the research is based mainly on the secondary data and this study is not free from the limitations.

iv) Information regarding material and verbal answer given by the manager of MMP Ltd. are not sufficient from the study.

v) Since the data available in annual reports are not organized form, they have been organized according to the need of the analysis.

vi) Although government rules and regulations, technological aspect of the industry also affect the financial position of the industry, this study is not concentrated in the government rules and regulations and technical aspects.

vii) Working days of the industry is assumed 365 days per year.

viii) The trend of variable is assumed 100 and percentage trend are calculated.

ix) This study showed be completed with Ltd. finance resource.

x) The area of the study is only working capital management.

CHAPTER – TWO
REVIEW OF LITERATURE

2.1. STUDY OF THE WORKING CAPITAL:

Working capital management is concerned with the problem that arises in attempting to manage the current assets, the liabilities and the inter relationship that exist between them. The nature of working capital is described with the help of cash cycle or operation cycle of the firms current assets are usually converted into cash within the current accounting cycle within the period of one year. Change of other current assets into cash is the subject matter and pay for their manufacturing cost of goods. These goods are carried as inventory for sometimes till they are sold. These goods sold on credit, that creates accounts receivable of debtor. Account receivables are collected from debtor in cash from. In this way cash cycle is completed and new operating cycle starts again.

Current assets are cash, marketable securities, account receivable, inventory and so on. The assets, which are easily convertible into cash within a year without loosing any value is termed as current assets. On the other hand, liabilities, which need to be paid within in a year, are known as current liabilities. "Assets that will normally be turned into cash within a year is current assets whereas liability that will normally be repaid within a year"[6] is current liability.

"The use of the term working capital indicates that its flow is circular in nature. Because of the circular nature of current assets, working capital is sometimes called circulating capital"[7]

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[6] R.A.Breakt and S.C.Myeres *Principal of corporate of finance* Tata MC Grow Hill Publishing company Ltd.. New Delhi 4th edition 1996 P.63

[7] I.M. Pandy, *Financial Management*, Vikas Publishing House(P)Ltd. New Delhi 1987,P.328

C.W. Gutenberg said, " Circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another , as for example from cash to inventories, inventories to receivables, receivable to cash"[8]

"The value represented by current assets circulates from one working capital to another i.e., form cash to cost of goods manufacturing accounts, from inventory accounts to sales account, from sales accounts to cash accounts. This is described as circular nature of current assets or in other words, working capital has a circular nature. The speed of circulation of working capital or the turnover of current assets is an indicator of the degree of efficiency of the management. The faster the turnover, the higher the degree of efficiency"[9]

The term current assets refer to shoes assets, which can be converted into cash within an accounting year or operating cycle, and include cash, short-term securities, debtors, bills receivable, inventory and prepaid expenses. Current liabilities are those claims outsiders which and expected to mature for payment within an accounting year and include an account payable creditors, bills payable, bank overdraft and outstanding expenses. "Each of the current assets must be managed efficiently in order to maintain the liquidity of the firm by not keeping too high level of any one of them.

The interaction between current assets and liabilities is, therefore the main theme of the theory of working capital managemet"[10]

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[8] Encyclopedia, *Banking & Finance*, Maann Garia, 8th edtion, Banker Publishing House Company, Boston, 1983. P.147

[9] I.M. Upadhaya, *Financial Management*, Kalyani Publishers, New Delhi, 1985, P.47

[10] M.Y. Khan & P.K. Jain, *Financial Management*, Tata McGraw-Hill Publishing Co.Ltd., New Delhi, 1998. P.613

"Working capital has a volatile nature. This nature presents some problems and constrains in financing working capital need. The volatile nature of working of capital refers to the change in total current assets"[11]

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

"Working capital sometimes called net working capital is represented by the excess of current assets over current liabilities and identifies the relatively liquid position of total enterprise capital which constitutes the margin of buffer for maturing obligation within ordinary operation cycle of the business"[12]

"The networking capital being the difference between current assets and current liabilities indicates the liquidity position and suggest the extent to which working capital needs may be financed by permanent sources of fund"[13]

The gross concept is a financial or going concern whereas net working capital is as accounting concept of working capital. These two concepts emphasis that excessive investment in current assets affects

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[11] K.M. Upadhaya, *Financial Management*, Kalyani Publishers, New Delhi, 1985, P. 47

[12] Encyclopedia, *Banking Financial* Maann Garia, 8th edition Banker publishing house Co. Boston 1983, P.133

[13] I.M. Pandey *Financial Management*, Vikash Publishing House Pvt.Ltd, New Delhi 3rd reprint July 1992 P. 809

Profitability as idle investment yield nothing. In the same way, inadequate investment in current assets makes it difficult to carry out day to day operation of the business smoothly.

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

2.2 CONCEPT OF WORKING CAPITAL:

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

a) Gross Concept

b) Net Concept

a) Gross Concept:

Gross concept in working capital means total sum of current assets only. Baker and Adam Smith "The goods of the merchant yield him no revenue in profit till he sells them for money and the money yield him a little till it is again exchanged for goods. His capital is continuously going form him in one shape and returning him in another and it's only by means of such circulation's or successive exchange that can yield him any profit such capital therefore, may properly be called circulating capital"[14]

[14] Adam Smith, *The Wealth of Nations,* Modern Lib Inc., New York 1973, P.262-283.

If all the expenses needed to run the day to day operation of business such as amount to be invested in the form of cash, finished goods, receivable etc., are put together it is called working capital. This working capital and total current assets are synonymous"[15]

The term working capital refers to the gross working capital and it represents the amount of fund invested in current assets. Thus, the gross working capital is the capital invested in total current assets of an enterprise"[16]

b) Net Concept:

Net working capital is commonly defined as the difference between current assets and current liabilities. Distinguished authorities like Lincoln, Davis and Gitman support the view of net working capital.

The term net working capital can be defined in two ways: (i) The most common definition of net working capital is the difference between current assets and current liabilities and (ii) alternative definition of net working capital is that portion of firm's current assets, which is financed with long-term funds"[17]

Working capital sometimes called net working capital, is represented by the excess of current assets over current liabilities and identifies the relatively liquid position of total enterprise capital which constitutes a margin of buffer for maturing obligations within the ordinary operation cycle of the business.

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[15] R.S. Pradhan & K.D.Koirala, Some reflection on working capital management in Nepalese Corporation Management Dynamics, Vol. 3 No-1.

[16] R.K. Sharma & S.K. Gupta *Management Accounting Principal and Practices* 7th edition 1996, P. 21.

[17] L.G. Gitman, *Principle of Managerial Finance*, Harper and Row, New York, 1976, P. 150.

The net working capital, being the difference between current assets and current liabilities, indicates the liquidity position and suggest the extent to which working capital needs may be financed by the permanent source of funds.

2.3 IMPORTANCE OR SIGNIFICANCE:

Business sector is very vast and competitive these days. Marketing sector of business is also very complex. In this condition, wording capital is the lifeblood of a business. The business sector cannot sustain without working capital. The business sector or company can maintain day to day operation easily if the business has a sufficient working capital. The enterprises, which have adequate working capital, can preserve the solvency position, create goodwill, can maintain easy loan, regard supply or goods, payment in time and power creates to face crisis. An adequate flow of working capital is essential for sound health of the business. It's also essential to grab the advantage from the situating as well as to face the economic depression and emergencies and crisis.

The importance of working capital management is felt for several reasons. Basically most of the financial managers devote largest portion of their time on managing day by day internal operation of the firm. Secondly, current assets represent a large portion of total assets generally about 40%. Thirdly, working capital management is particularly impotent for small firm as they cannot avoid investment in cash, Receivables and inventories. Lastly the relationship between sales growth and need to invest in current assets is close and direct. As sales grow: the firm must increases receivable and inventories and it any need to increase it's cash balance as well. Therefore it is imperative that the financial manager be aware of sales trend and their effect on the firms working capital need.

Adequate working capital is essential for the business. However inadequate working capital is not favorable to the business due to following reasons.

a) Inadequate working capital means idle funds, which may earn profit, may be unnecessarily used to purchase of inventories and creates theft, wastage and losses.
b) It causes higher bad debt due to the liberal credit policy.
c) Idle funds in the from of working capital cannot increase the profit or targeted rate of return on the one hand and it has to pay interest on idle capital, which reduce profit or income on the other hand.

In general, adequate working capital is good rather than inadequate working capital. To should be maintained at reasonable level to meet the enterprises obligation.

2.4 NEEDS AND OBJECTIVES OF WORKING CAPITAL:

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

Business organization has an aim to maximize the shareholders investment. In order to accomplish this objective, the business organization should earn sufficient return for its operations. Earning a steady amount of profit requires successful sales activity. "Sales do not convert into cash instantly; there is invariably a time-lag between the sales of goods and receipt of cash. There is therefore, a need for working capital in the form of current assets to deal with the problem arising out of the lack of immediate

realization of cash against goods sold"[18]. Thus, sufficient working capital is necessary to sustain sales activity. It is also necessary to solve the problems or to pay for liabilities like creditors, short-term loan etc.

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

a) For the purpose of raw materials, components and spares.
b) To pay wages and salaries.
c) To maintain day-to-day expenses and overhead cost such as fuel, power, and office expenses.
d) To meet the selling expenses as packing, advertising etc.
e) To provide credit facilities to the customers.
f) To maintain the inventory of raw materials, work-in-progress, stores, spares and finished stock etc.
g) To pay the short-term debt and bank loan in time.
h) To keep the business in solvency position.
i) To face for the economic depression and emergencies.
j) To grab the opportunity.
k) To get regular return and to make the shareholders intension well towards the organization.

2.5 DETERMINANTS OF WORKING CAPITAL

Working capital plays a vital role in the successful operation of the business. The requirement of working capital must be sufficient so as to yield maximum profit. It means working capital must neither be high nor low, rather it must be proper quantum.

So many factors affect different company differently in different time periods. "There are no set rules to determine the marking capital requirements of the firm. A large number of factors influence the working

[18] M.Y. Khan & P.K. Jain, *Financial Management*, Op. Cit. P. 621.

capital needs of the firm, all factors are of separate importance, also the importance of the factors change for a firm over time. Therefore an analysis or relevant factors should be made in order to determine total investment in working capital"[19]

Generally, the following factors are considered as the deterring factor of working capital.

i) Size and nature of business.

ii) Manufacturing process and length of production cycle.

iii) Growth and expansion of business.

iv) Credit policy

v) Profit level

vi) Availability or raw materials

vii) Level of tax

viii) Price level change.

ix) Demand policy

x) Depreciation policy

xi) Operation Policy

xii) Technological development

xiii) Transport and communication facilities

xiv) Business cycle.

xv) Terms and condition of purchase and sales.

2.6 PRINCIPLES OF WORKING CAPITAL:

The following are the general principles of sound working capital management.

i) Principle of risk variation.

ii) Principle of cost of capital

iii) Principle of maturity of payments

iv) Principle of equity position.

[19] I.M. Pandy, *Financial Management*, Op Cit, P. 282.

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

2.7 CLASSIFICATION OF WORKING CAPITAL:

Working capital can be classified in two ways; on the basic of concept and on the basic of time. The first classification is with gross working capital and net working capital discussed earlier. This classification is important since it categorizes the various area of financial responsibility, for example, found invested in cash, inventories and receivables require careful planning and control if the company is to maximize its return on investment. But this classification does not take in to account on time element. It is important in the formulation of procurement policies on the basic of time, working capital can be divided into two parts.

i) Permanent or fixed working capital

ii) Variable or temporary (fluctuation) working capital.

i) Permanent or fixed working capital.

Permanent working capital is the minimum amount which requires to ensure effective utilization a fixed facilities and for maintaining the circulation of current assets. It is amount of fund required for production of goods and services to satisfy the demand. Permanent working capital is the portion of working capital, which remains in the same level of the business forever. "A firm's permanent working capital is the amount of current assets

which is continuously required by the firm to meet long-term minimum needs"[20]

"There is always a minimum level of current assets, which is continuously required by the firm to carry on its business operation. This minimum level of current assets is referred to as permanent or fixed working capital. It is permanent in the same way as the firm's fixed assets are"[21]

"Permanent working capital is also known as hard-core working capital. Hard- core working capital is the minimum working capital throughout the year to support the normal operation of the business"[22]

ii) Temporary working capital.

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

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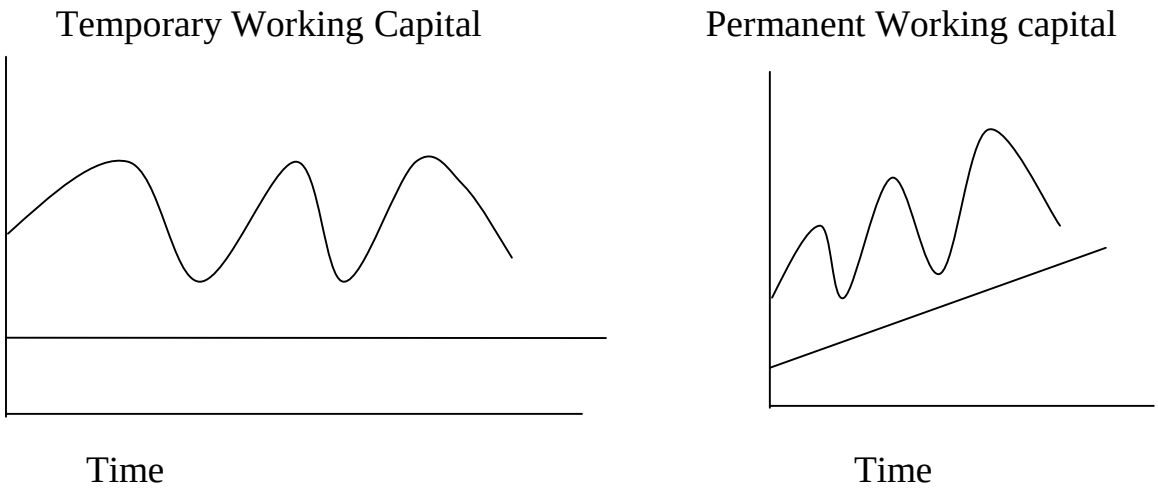
[20] James C. Van Horne & J.M. Watchowicz, *Fundamental of Financial Management*, (9th Edition), Prentice Hall of India Pvt. Ltd., New Delhi, 1996. P. 207

[21] I.M.Pandey, Op,Cit P.807

[22] S.P. Jain & K.L. Narang, *Financial Management Accounting*, Kalyani Publishers, New Delhi, 1998 P. 172

Working capital can be divided as seasonal and special working capital. Seasonal working capital needs the seasonal demands of enterprises and special working capital needs to meet the special exigencies i.e., conducting research for extensive marketing campaigns. Thus, two types of working capitals are needed to meet the demand of enterprise.



TEMPORARY AND PERMANENT WORKING CAPITL

In the case of an expanding firm the permanent working capital line may not be horizontal. This is because the demand for permanent current assets might be increasing (or decreasing) to support a rising level of activity. In that case the line would be a rising one as shown in fig. 2

2.8. FINANCING OF WORKING CAPITAL:

Current assets can be financed by raising the funds from current liabilities of long term liabilities. What proportion of current assets should be financed by current liabilities and what proportion should be by long term debt is determined by working capital financing policy. "The firm can about different financing policies. There types of financing be distinguished: long term financing, short term financing and spontaneous financing. The important sources of long term financing are share, debenture, preference

share, retained earning and debt from financial institution. Short term financing refers to those sources of short term credit that the firm must arrange in advance. These include short term bank loans commercial papers, factoring receivable and public deposits. Spontaneous financial refers to the automatic sources of short term funds. The major sources of such financial are trade credit (creditors and bills payable) and outstanding expenses.[23]

Generally a firm would like to finance its current assets with spontaneous as much as possible. And in current assets, financing lies between either short term loan or long term sources which may be grouped either internal or external financed by stockholder or creditors.

There are basic approaches for determining an appropriate working capital financing mix.

i) Matching or heading approach.
ii) Conservative approach
iii) Aggressive approach

"Financial mix of two sources i.e. long term and short term fund can be used for financing the working capital. The decision regarding working capital how much from long term and how much from short term sources can be made with the help of financing mix"[24]

Matching or heading approach: The firm can adopt a financial plan, which involves the matching of expected life of assets with expected life of the sources of fund raises to finance assets. In the approach long term assets are financed by short term fund. It is called hedging approach because it matches is regarding activities. On other word, the term hedging is after used

[23] I.M. Panday, *financial management*, op Cit, P. 821

[24] M.Y. Khan and P.K. Jain, Op. Cit, P.613

for risk reducing investment. According to this approach, the emphasis is given on matching the periods of assets to be financed with the periods of sources of funds to be used. In simple words, the firm finances its short term needs with short term funds and long term needs with long term funds.

Conservative approach: In this approach the use of short term funds in restricted to the emergency situation when there is need to invest current assets. Otherwise, the long-term fund should be used as for as possible in financing of investment in current assets. However, the cost of financing in this approach will be more the liquidity will be relatively grater and risk will be minimizes. Conservative policy depends more on long term funds for financial needs. The large the percentage of funds for long term sources the more conservatives the firm's working capital policy. The reason for this of course is that during the time of stress the firm may not be above to renew its short term debts.

Aggressive Approach: In contras with conservative policy more short term fund will be used to finance the current assets in aggressive policy. Permanent and temporary requirement of working capital is financed by short term funds as for as possible. Even a part of fixed assets is financed through short term sources. In aggressive policy the liquidity position will be show and risk will be high. "The greater portion of the permanent assets need financed with short term debt, the more aggressive the financing is said to be"[25]

2.9 REVIEW OF LITERTURE

Related Study

Working capital is controlling the business because without the proper control upon it no business organization can run smoothly. As the

[25] J.C van Horn and J.M Wachowicz, *Fundamental of financial management* 9th edition, prentice hall of India(P) New Delhi 1996 P. 212

management of current assets and current liabilities of the business organization is necessary for day to day operations. It plays the key role in the success and failure of the organization not only in the short run, but in the long run also. In the concern of the management experts and students are MBS in various enterprises. The regarding standing this chapter here in this study is to review the available literature on working capital management in the context of the MMP Ltd..

a) Review of books.

For the purpose of study made easy, related review form some books on working capital management are studied. In the concern of working capital the well known professor James C. Van Horne have given the concept of working capital as. "Working capital management is usually described as involving the administration of these assets namely cash, marketable securities, receivable and inventories and the administration of current liabilities. It means, the working capital management is concerned with problem that arises in attempting to manage the current asset, the current liabilities and the interrelationship that exists between them"[26]

"The term working capital originated at a time when most industries were closely related to agriculture, processors would by crops in the fall. Process them, sell the finished product and end up just before the next harvest with relatively low inventories. Bank loan with maximum maturities of one year were used to finance both the purchase and the processing costs and these loans were retired with the process form the sale of the finished products"[27]

[26] James C. Van Horn *Financial management and policy*, New Delhi prentice hall of India (p) Ltd. P.373

[27] J. Fred Weston & F Eugene Brigham, *Managerial Finance*, The Dryden Publisher Illinois, P.267

"Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiency circulated. To have adequate, healthy and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed"[28]

b) Review of Journals/Articles.

This part is mainly focused on the review of journals/articles published by different management experts in working capital management. Articles, journals and bulletins are of great significance for thesis writing, so various publisher articles by different management experts and journals/bulletins relating to working capital management have been considered.

During the analysis he observed some problem like the lack of farsighted liquidity adjustment strategy in most of the PES, no guiding criteria to ascertain the satisfactory maintenance of acid test ratio and working capital needs, large blockage of capital in inventories and low capacity utilization. All these were due to inefficient management of working capital in that PES.

Another article relating to working management is by Dr. R.S. Pradhan. He studied on the demand for working capital by Nepalese corporations. For the analysis nine manufacturing public corporations were selected with the 12 years data form 1973 to 1984 from the analysis the regression equation has been adopted. From the study he concluded that:

The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economics of scale, role of capital cost and capacity utilization rates and the speed inventories respectively. The

[28] N.K. Agrawal, *Management of Working Capital*, Sterling Publishers (P) Ltd., New Delhi. P.8

pooled regression results show the presence of economics of scale with respect to demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is a function of both sales and capital costs. The estimated results shows that the inclusion of capital utilization variable in model seems to have contributed to the demand functions of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivable and gross working capital are doubtful"[29]

c) Review of Research Work

In the concern is working capital management in different PES. In the Nepal, number of studies has been made. Some of the review on the some is focused in this section.

"A study of working capital management in Brikuti Paper Mills Ltd, has adopted a study relating to the management of working capital. He used ratio analysis as a tool for analyzing the working capital management of the mill. From the analysis he found that the cash and bank balance holds the largest portion followed by inventory and receivable respectively. He also found that the current assets level. With respect of total assets has increasing trend. The credit and collection policy of BPML was not sound during the study period. So, the receivable were increasing year after year. The decreasing and fluctuation trend of various turnover indicated that current assets are not properly utilizes in BPML. He also conducted that through BPML. Was earning profit its profitability position was not encouraging one because of its return on total assets was not enough. From these findings he suggested that the mills should have proper panning to estimate the cash receipts and payments. The mills should adopt a definite credit and

[29] Dr. R.S. Pradhan, *The demand or working capital by Nepalese corporations*, the Nepalese management reviews, Vol 8 No.1-1988

collection policies. The management of BPML should have positive attitude towards risk. Its should prepare a effective sales plan. The BPML should adopt a effective inventory management policy. The management should give due attention to the minimization of administrative and operating expenses in the mill"[30]

"A study on working capital management in Himal cement company Ltd. He took five year date from 2044/2045 to 2048/49 for his study. He used ratio analysis only for the analysis of working capital. From the study he concluded that the inventory, cash receivable should be managed in optimum level. He suggested that the company should determine certain rate of return on its investment and sales target should be set to recouped and overcome the problem of loss. The HCCL has to maintain proper liquidity position. He has also found the absence of proper guidelines for funds, inventory control, cost control selling process, investment policy in current assets and management responsibilities and lack of proper rates and regulation of government"[31]

The above review of literatures is various books, journals and articles and dissertations related to the working capital management of working capital. Since, the success and failure of any enterprises is heavily, depended upon the efficient management of working capital and being a manufacturing of working capital of MMP Ltd, should be analyzed. Until now, no any other study has been made for the analysis or working capital management in MMP Ltd, so, this study attempts to analysis the working capital management in MMP Ltd by taking five years data for observations and other available information with the help of methodology as described in the next chapter.

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[30] P.K. Shrestha A study on working capital management in Vrikuti Paper Mills Ltd. Un published dissertation T.U.

[31] J.N Shapkota, *A study on management in himal cement co. Ltd*. Un published dissertation T.U.

CHAPTER - THREE
RESEARCH METHODOLOGY

3.1. INTRODUCTION:

"A systematic research study needs to follow proper methodology to active pre-mentioned objective. Research methodology is a sequential procedure and method to be adopted in a systematic study"[32]

The main purpose of this part is to analysis the working capital management of MMP Ltd, so the present chapter outlines the entire research methodology used and following in this study. This study in mainly bases on conclusion oriented for the working capital management. It describes research design nature and sources of collection, data gathering procedures, data processing procedures, financial tools and techniques used and statistical tools used.

3.2. RESEARCH DESIGN:

The purpose of this study is to analyze the working capital management of MMP Ltd. Research design is a systematic planning, structure and strategy for conducting a particular research work is provides the framework of the study.

A research is an arrangement of conditions for collection and analysis of data in a manner that collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The study is concerned with past phenomena. So the past information is collected, evaluated, verified and analyzed systematically. It also attempts to explore certain facts, the research design for the study are historical cum exploratory types.

[32] C.R. Kothri, Quantitative Techniqaues, Op.Cit, P.19

3.3. NATURE AND SOURCES OF DATA COLLECTION:

The data used in this study are basically secondary in nature but the ideas and information's are also collected through personal interview and discussion with the employees with reference to the research designed. The secondary data has been collected from financial statements, reports and official records of MMP Ltd. Reports of auditors and other related documents have been considered.

3.4. POPULATIONS AND SAMPLE OF THE STUDY:

The financial statement i.e., balance sheet and profit and loss account of MMP Ltd, published from establishment to this data are assumed as population of the study where as balance sheet and profit and loss account of five year from 2062 to 2066 are selected as sample of the study. It is quite difficult to adopt the whole population of the study. Thus, five year financial statement (data) are taken from the population for this study as sample. In order words, the sample of the study comprises financial statements from the F/Y 2061/62 to 2065/66 the covers five years of the population.

3.5. PROCEDURE EMPLOYED:

To achieve said objective of the study, the secondary data have been used. The main secondary data are audited balance sheet and profit and loss account of MMP Ltd. All these secondary data and information are properly arranged and synthesized, tabulated and calculated in accordance with the requirement of the study.

3.6. USE OF ANALYTICAL TOOLS :

Any analytical tools can be used in solving the problems of the study. For the purpose of analysis of working capital management of MMP Ltd., various financial tools such as ratio analysis, trend analysis, and fund flow analysis coincide with statistical tools correlation and arithmetic mean are

applied. A short description of these techniques is expressed in the further paragraphs.

3.6.1. Financial Tools and Techniques Used:

3.6.1.1. Ratio Analysis

A ratio is a quotient of two mathematical expressions. Establishment of quantitative relation of data furnished by the financial statement is called ratio analysis. In other words, a financial ratio is the mathematical expression of the relationship of two accounting figures. It is widely used tools of financial analysis.

Financial ratios are classified into four groups on the basis of utility.

a) Liquidity ratio.
b) Leverage/Solvency/Capital structure ratio
c) Profitability ratio
d) Activity of turnover ratio

All of these ratios consist of various ratios, which are applicable and suitable in financial decision making. This is laid in the next chapter.

3.6.1.2. Trend Analysis

Trend percentage is powerful tools of interpretative analysis of the financial position of the firm. In this research work trend percentage is calculated treating F/Y 2061/62 as the base year.

3.6.1.3. Fund Flow Analysis

Funds flow statement is one of the most crucial techniques of financial analysis. Funds flow statement is the statement of source and application of funds of the business concern. The study of funds flow

analysis throws light on the management of working capital in a firm. Due to this, funds flow statement is also used in this study.

3.6.2. Statistical Tools Used:

To support this study, statistical tools such as Arithmetic mean, correlation co-efficient, have been used.

3.6.2.1. Arithmetic Mean or Average:-

Arithmetic mean is the most popular and commonly used statistical average, which represents entire data by single value. "Arithmetic mean or simply mean of a set of observation is the sum of all the observations divided by the number of observations"[33]. It value is obtained by adding together all the items and by dividing this total by the number of items. This is calculated as:

$$X = \frac{\sum X}{N}$$

Where as,

X = Mean value or arithmetic mean
N = Number of observation.
$\sum N$ = Sum of observations

3.6.2.2. Standard Deviation

The Standard deviation is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. It is said to be the best measure it satisfies most of the requisites of a good s.d.

Standard deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by δ.

$$\sqrt{\sum x^2 \quad \_ \quad (\sum x)^2}$$

[33] B.C. Bajracharya, *Business Statistics and Mathematics*, MK publishers & distributors, First Edition 2053, P.101

$$\delta = \frac{}{N} \qquad \frac{}{N}$$

3.6.2.3. Coefficient of Variation

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation.

The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of Variation. If Mean and standard deviation of the distribution, then the C.V. is defined by

$$C.V. = \frac{\delta}{\bar{X}} \times 100$$

Where are,
C.V. = Coefficient of Variance
δ = Standard deviation
$\bar{X}$ = Arithmetic Mean

3.6.2.4. Correlation Analysis:-

Correlation is a statistical tool, which studies the relationship between two variables "Correlation co-efficient summarizes in one figure, the degree and direction of movement. It only helps in determining the extent to which the two variables are correlated but it does not tell about cause and effect"[34]

For analyzing the relationship between two variables, Karl person's correlation co-efficient (r) has been used.

Symbolically, it is calculated as:

$$R = \frac{N\sum XY - \sum X.\sum y}{\sqrt{\frac{\sum x^2}{N} - \frac{(\sum y)^2}{N}}\ \sqrt{\frac{\sum y^2}{N} - \frac{(\sum y)^2}{N}}}$$

Where as,

x = the first variable.

[34] Ibid, P.180

y = the second variable

N = Number of year

∑dx= deviation taken from assumed mean of first variable

∑dy= deviation taken from assumed mean of second variable

The value of 'r' lies in between -1 and +1, it implies that there is perfect positive correlation between the variables, when r = -1, is signifies that there is perfect negative correlation between the variables and r = 0, denotes that there is no correlation at all and If 'r' less than its Probable Error(PE), it is not at all significant. It 'r' is more than PE, there is correlation. If 'r' is more than 6 times its PE greater than ±0.5, than it is considered significant.

CHAPTER – FOUR
PERSENTATION AND ANALYSIS OF DATA

4.1. INTRODUCTION:

For the achievement of the pre-mentioned objective about the working capital management of MMP Ltd., this section is standing. In this chapter the analysis of working capital in MMP Ltd. i.e., current assets composition, investment in current assets, current assets relationship with fixed assets, liquidity position, relationship between short-term and long – term financing etc, are done. For the purpose of analysis financial and statistical tools are used.

4.2. POSITION OF CURRENT ASSETS:

As current assets are the main parts which are required to run day to day business activated and the total of which is known as working capital as per the gross concept, its position has become needful to study. Most of the business organizations require some amount of working capital and its requirement fifers according to the size of the organization.

A firm needs cash to purchase raw materials, pay expenses this is because of not perfect matching between cash inflow and outflow, cash may also be held to meet the future expenses. The stocks of raw materials are kept in order to ensure smooth production and to protect the risk of non-availability of raw materials. To meet his obligation also cash is needed.

Any business organization aims to maximize return on shareholders investment. In order to accomplish this objective, the business organization

should earn sufficient return for its operation. Earning a steady amount of profit requires successful sales. So, the firm has to invest enough funds in current assets for the success of sales. As the sales do not convert into cash instantly the extra amount of working capital is needed.

The efficient management of current assets is an integral part of overall financial management and has the greater impact on maximization of owner's capital. In this context, it is necessary to have proper analysis for current assets management. The proper analysis of current assets of industrial concern reflects the nature of performance and operation of its management. So, the overall current assets are firstly analyzed.

Table No. 1
Composition of current assets

Figure in Rs. 000

F/Y Particular	061/62	062/63	063/64	064/65	065/66
Inventories	10703.077 48.65%	7727.412 38.73%	14913.330 39.84%	2116.215 10%	3871.055 17.34%
Sundry debtors (receivables)	9897.759 45%	6455.360 32.35%	12754.160 33.39%	14882.384 70.32%	15047.298 67.40%
Cash and bank	1043.437 4.74%	3625.130 18.17%	3250.295 8.51%	2836.307 13.40%	2046.402 9.17%
Prepaid advance & deposit	354.566 1.61%	2144.739 10.75%	7283.327 19.06%	1326.203 6.27%	1359.636 6.09%
Total Current assets	21998.839 100%	19952.641 100%	38201.112 100%	21161.109 100%	22324.391 100%

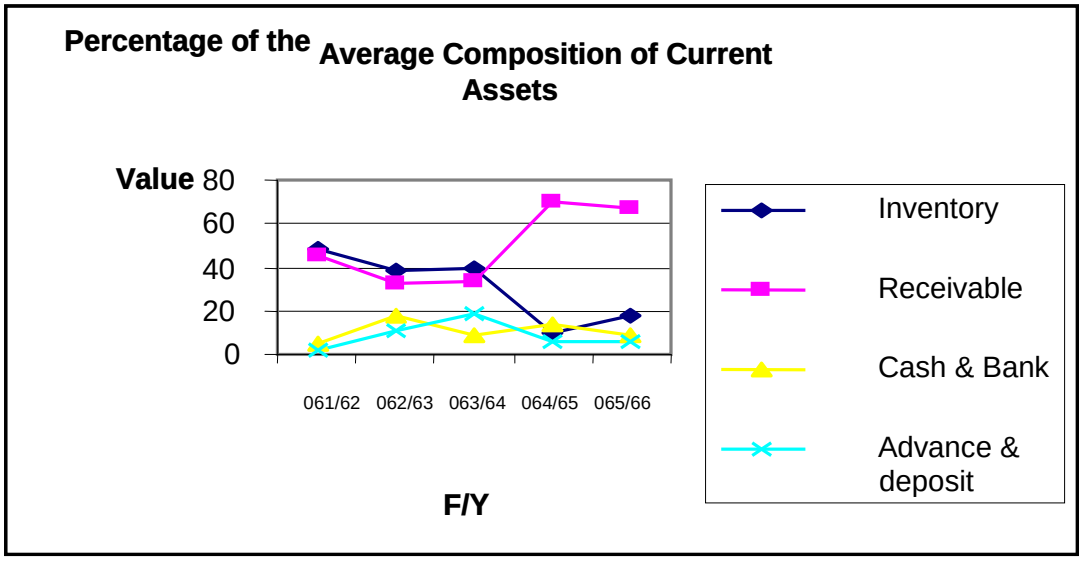
Sources: Appendix – v

The table No.1 show about the participation of current assets of MMP Ltd. The current assets contain inventories, sundry debtors (receivable) cash and bank balance, advance or prepaid expenses and deposits are related to the firm's total current assets. Since prepaid expenses and deposit are treated

as idle funds, only the major components of current assets i.e., sundry debtors, inventories and cash and bank balance are considered in the analysis. As displayed in the table, inventory and receivable have taken part as chief component of the investment of current assets in the study period.

The composition of current assets is also presented graphically by the chart below.

Graph No. 1



In the above graph, Cash and Bank and Advance & deposit in 061/62 and 065/66 are nearly equal percentage .Inventory in first year 061/62 is highest and then decreased year by year. Receivable is more than 50% in first year and decrease in next two years but highest in 064/65 and more than 60% in last two years.

4.3. PERCENTAGE OF CURRENT ASSETS ON TOTAL ASSETS:

Current assets are normally required to meet working capital, which is used to fulfill the need of daily business requirement. The size or volume of current assets differs as the base of the size as well as the nature of the

business. The participation of current assets on total assets is shown in the table given below.

Table No.2

Percentage of Current Assets on Total Assets

Figure in Rs 000

F/Y	Current Assets (CAs)	Total Assets (TAs)	% of CAs on TAs	% Change
061/62	21998.839	25506.051	86.25	
062/63	19952.641	23379.340	85.34	(091)
063/64	38201.112	41133.348	92.87	7.53
064/65	21161.109	24450.637	86.55	(6.32)
065/66	22324.391	26130.793	85.43	(1.12)
Total	123638.092	140600.169	436.44	(0.82)
Average	24727.618	28120.034	87.93	(0.16)
δ	6786.41536	6573.8114		
C.V	27.44%	23.38%		

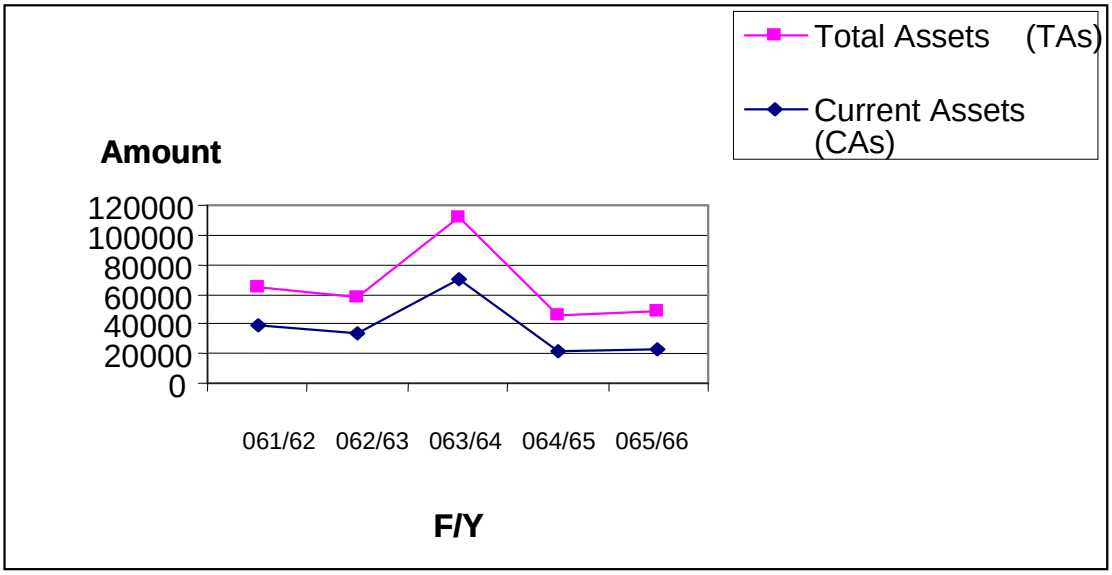
Sources: Appendix – v

This ratio represents the proportion of current assets investment to total assets investment of MMP Ltd. for the selected five year period. The above table shows that the proportion of current assets on total assets is fluctuating. In the F/Y 061/62 current assets volume is Rs. 2,19,98.839. Which is 86.25% of total assets. In the following F/Y it is decreased to 85.34%, which is 0.91% less than F/Y 061/62. The percentage of current assets on total assets in the F/Y 063/64 is 92.87%, which is 7.53% more than the percentage in the F/Y 062/63, but it is decreased by 6.32% in the F/Y 064/65 covering 86.55% of total investment in assets. Again, in the fiscal year 065/66 is more than in other F/Ys. It is due to holding highest amount of advances, inventories and receivables.

C.V of current assets is 27.44%, which indicate that is high fluctuation in current assets. And also C.V. of total assets is 23.38%, which also indicates high fluctuation in total assets. Comparing in both C.V. of current assets is high then total assets. Which indicates a little fluctuation in current assets then in total assets?

That the two lines of current assets and total assets are nearly parallel.

Graph No. 2



In an average there is 87.93% of current assets on total assets. High level of current assets indicates good liquidity position but it adversely affects the profitability of the company because idle money can earn nothing. The trend of the relationship between current assets and total assets is generally increasing and decreasing simultaneously.

In order to test the significance of the relationship between aforesaid two variables during the period of study Karl person's correlation co-efficient (r) is calculated as follow :

Karl person's correlation co-efficient,

$$R = \frac{N\sum XY - \sum X.\sum y}{\sqrt{\frac{\sum x^2}{N} - \frac{(\sum y)^2}{N}}\ \sqrt{\frac{\sum y^2}{N} - \frac{(\sum y)^2}{N}}}$$

Where,

X= current assets

Y= total assets

$\sum dxdy=254.32$

$\sum dx= 12.67$

$\sum dy = 13.05$

$\sum dx^2=259.23$

$\sum dy^2= 250.02$

N = 5

R=0.99

PE=0.01

Sources: Appendix – 1

The above calculation value of 'r' shows that there is highly positive correlation in between current assets and total assets of MMP Ltd.. Since the calculated value of r is more that six times greater than its PE, the relationship is between them is considered to be significant.

Thus, if the company changes the investment on current assets, it adversely affects the total assets, which means that the total asset depends on total current assets.

4.4. PROPORTION OF INVENTORY TO CURRENT ASSETS AND TOTAL ASSETS:

One of the important parts of the current assets is inventory. For the manufacturing company like MMP Ltd., inventory of raw materials as well as spare parts are very important. The shortage of required inventory results

in irregular production, high manufacturing cost, unfavorable labor variance etc. In other hand, excess inventory causes unnecessary holding of capital which earns nothing. It results in high cost in inventory management. So, the level of inventory must be in optimum position so that neither it arises the excess inventory problem or short inventory problem.

Table No – 3

Proportion of inventory to Current Assets and Total Assets.

Figure in Rs 000

F/Y	Inventory (Inv)	Current Assets (CAs)	Total Assets (TAs)	% of Inventory On CAs	% of inventory On TAs	% Change On CAs	% Change On TAs
061/62	10703.077	21998.339	25506.051	48.65	41.96		
062/63	7727.412	19952.641	23379.340	38.73	33.05	(9.92)	(8.91)
063/64	14913.330	38201.112	41133.348	39.84	36.26	(1.11)	3.21
064/65	2116.215	21161.109	24450.637	10.00	8.66	(29.84)	(27.36)
065/66	3871.055	22324.391	26130.793	17.34	14.81	7.34	6.15
Total	25911.089	123637.592	140600.169	154.56	134.74	(31.31)	33.57)
Average	5182.218	24727.618	28120.034	20.96	18.43	(6.26)	(6.71)
δ	3512.83569	6786.41536	6573.8114				
C.V.	27.79%	27.44%	23.38%				

Source: Appendix – v

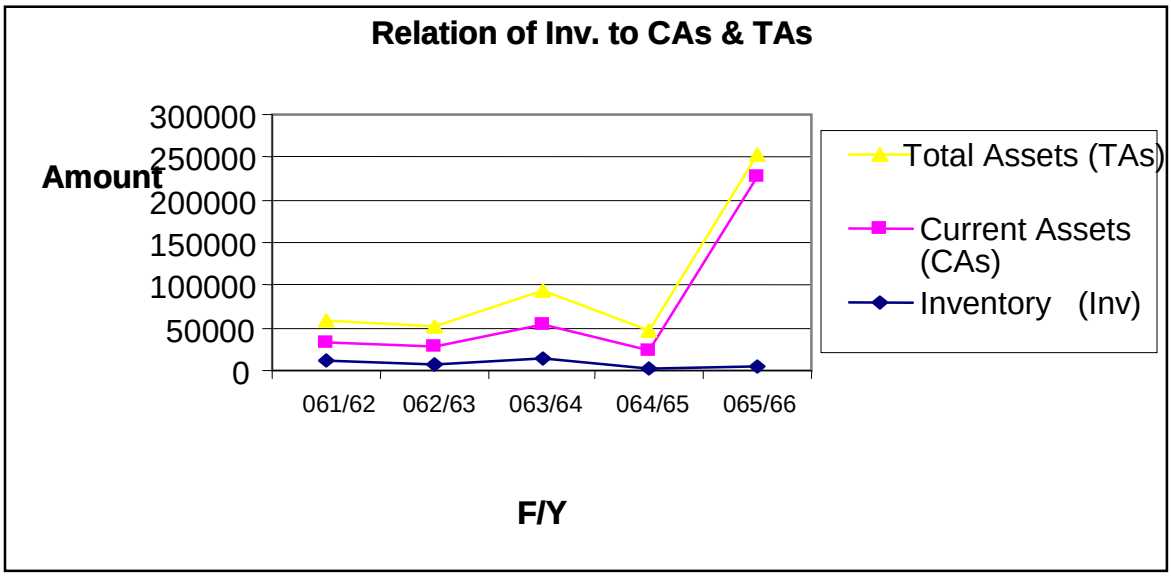
From the above table, it is clear that the investment is in most erratic trend of inventory level to current assets investment during the selected study period.

In the F/Y 061/62 inventory are 48.65% and 41.96% of current assets and total assets amounting to Rs. 25506051. It is decreased by 9.92% and 8.91% in the F/Y 062/63 and reaches to 38.73% of current assets and 33.05% of total assets. In the F/Y 063/64 the inventories and increased in both of the current assets and total assets by 1.11% and 3.21% respectively and again in the following F/Y it decreased highly by 29.84% and 27.36% respectively and reached to 10% of current assets and 8.66% of total assets,

which are lowest proportion among other F/Y. Then in the F/Y 065/66 inventories increased both of the current assets and total assets by 17.34% and 14.81% respectively to its previous level.

The relationship between inventory, current assets and total assets can be clarified by the graphic representation, which is presented below.

Graph No. – 3



The diagram clarifies that the inventory held by the company is not proportionate to current assets as well as total assets. In the F/Y 061/62 investment in current assets, total assets are decreased from Rs 21998339 and Rs 25506051 to 19952641 and Rs 23379340 and inventories also from Rs.10103077 to Rs 7727412. Likewise, in 062/63 and 063/64, the investments are increased in current assets and total assets as well as investment in inventories. But in F/Y 065/66 the investment is increase in current assets and total assets as well as investment in inventories.

Thus, increase or decrease in inventory has assented the position of current assets as well as total assets. That means the current assets or total assets depend on the share of inventory on it.

C.V. of inventory is 27.79% a current asset is 27.44% and a total asset is 23.38% respectively. Which indicates that there is very high fluctuation in inventory than current assets and total assets. Comparing among three C.V. is high in inventory which indicates high fluctuation in inventory then in current assets and total assets.

4.5. PROPORTION OF RECEIVABLE TO CURRENT ASSETS AND TOTAL ASSETS:

In this era of cutthroat competition situation of the market, credit sales play a vital role in the development and expansion of market. Without increasing sales volume the company cannot earn profit and therefore maximize shareholder's wealth. Hence, the company should keep some provision for credit sales. The company has to arrange some working capital for these purpose. The nature and period of term of credit should be determined in advance in order to avoid the company form the deficiency of working capital. Such arrangement is basically terms as receivable management. The receivable should be perfect. Higher degree of receivable result in unnecessary held up of working capital and lower degree of receivable may cause negative results in sales level. The following table shows the proportion of receivable to the current assets and total assets.

Table No. 4

Proportion of Receivable to Current Assets and Total Assets

Figure in Rs 000

F/Y	Receivable (Rec)	Current Assets (CAs)	Total assets (TAs)	% of Rec.on CAs	% of Rec. on TAs	% Change On CAs	% Change On TAs
061/62	9897.759	21998.339	25506.051	45.00	38.80		
062/63	6455.360	19952.641	23379.340	32.35	27.61	(12.65)	(11.19)
063/64	12754.160	38201.112	41133.348	33.39	31.00	1.04	3.39
064/65	14882.384	21161.109	24450.637	70.32	60.87	36.93	29.87
065/66	15047.298	22324.391	26130.793	67.40	57.58	(2.97)	(3.29)
Total	5903.691	123638.092	140600.169	248.46	215.86	22.4	18.78
Average	11807.392	24727.618	28120.034	47.75	41.99	4.48	3.76
δ	3260.05757	6786.41536	6573.8114				
C.V	27.61%	27.44%	23.78%				

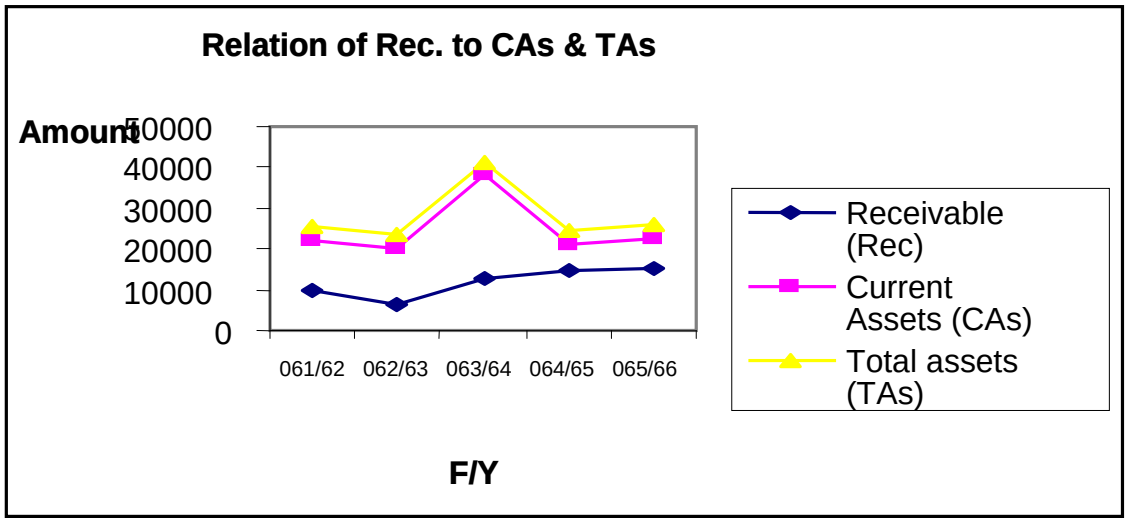
Source : Appendix – v

Above table shows that the proportion of receivable to current assets and total assets are lowest in F/Y 061/62 these are 32.35% and 27.61% increasing by 1.04% and 3.39% in the F/Y 062/63. Likewise in the F/Y 063/64 the proportion of receivable to current assets and total assets are higher than other F/Y s with 70.32% and 60.87% respectively. The figure in the table no 5 whows that the receivable to current assets and total assets have not followed a satable credit term. The table shows there is large percentage in some F/Y where as in other F/Y it shows a lower percentage. The average annual percentage change of receivable to current assets and total assets are 4.48% and 3.76% respectively during the five years study period. This growth indicates growing inefficiency in collecting from its debtors during these five years.

C.V. of receivable, current assets and total assets is 27.61%, 27.44% and 23.78% respectively. Where is similar fluctuation between current assets and total assets. Whereas high fluctuation in receivables.

The graph no 4 clarifies the relation of receivable, current assets and total assets.

Graph No – 4



The diagram clarifies that the receivable held by the company is not proportionate to current assets as well as total assets. In the F/Y 061/62 and 062/63 receivable in current assets and total assets are decreased from Rs 9897.759 and Rs 6455.360 and other F/Y is increasing in receivable.

Thus, increase or decrease in receivable has assented the position of current assets as well as total assets. That means the current assets or total assets depend on the share of receivable on it.

4.6. PROPORTION OF CASH TO CURRENT ASSETS AND TOTAL ASSETS:

Cash is just one of the raw materials that is essential to operate business. It makes liquidity position of a firm strong. Therefore, cash is the major resource of working capital. It is the most liquid assets. It is needed to pay bills, to purchase raw materials and to pay debts. It plays a needed to pay bills, to purchase raw materials and to pay debts. It plays a vital role to achieve efficient management of working capital in all kinds of organization whether they are manufacturing or non-manufacturing. Due to his, it must not be underestimated, rather it should be managed properly.

The proportion of cash and bank balance with reference to current assets and total assets are tabulated and calculated below.

Table No. 5

Proportion of cash to Current Assets and Total Assets

Figure in Rs 000

F/Y	Cash	Current assets (CAs)	Total assets (TAs)	% of cash on CAs	%of cash on TAs	% change on CAs	% change on TAs
061/62	1043.437	21998.339	25506.051	4.74	4.09		
062/63	3625.130	19952.641	23379.340	18.17	15.50	14.01	11.41
063/64	3250.295	38201.112	41133.348	8.51	7.90	(9.66)	(7.6)
064/65	2836.307	21161.109	24450.637	13.40	11.60	4.89	3.7
065/66	2046.402	22324.391	26130.793	9.17	7.83	(4.23)	(3.77)
Total	12801.571	123638.092	140600.169	53.99	46.92	5.01	3.74
Average	2560.314	24727.618	28120.034	10.35	0.09	1.00	0.75
δ	922.07379	6786.41536	6573.81141				
C.V.	36.01%	27.44%	23.78%				

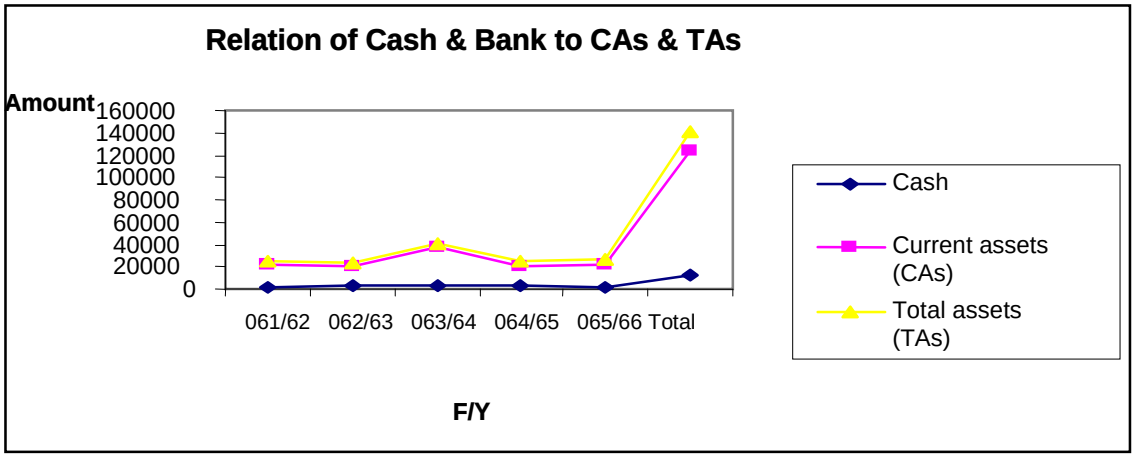
Source: Appendix – v

Above table implies the most erratic trend of cash and bank balance level to current assets and total assets investment during the sleeted period of study. In F/Y 061/62, the total amount of cash is Rs 1043437 only and the proportion of current assets and total assets and lowest of 4.74% and 4.09% respectively. In the following year 14.01% and 11.41% increase to 18.17%and 15.50% but in the F/Y 063/64 the proportion of cash and bank balance in current assets and total assets goes down to 8.51% and 7.90% to its former level. The proportion of cash and bank balance to current assets and total assets are highest in the F/Y 064/65 where the proportion is 13.40% and 11.60% respectively. But in the F/Y the proportion of cash and bank balance is reduced to 9.17% and 7.83% of current assets and total assets decreasing by 4.23% and 3.77% respectively.

C.V. of cash is 36.01%, which indicate that there is high fluctuation in cash. And also C.V. of current assets is 27.44% and C.V of total assets is 23.78%. Comparing among three, there is high fluctuation in cash then in current assets and total assets. Which indicate high fluctuation in cash then in current assets and total assets.

The relationship between cash and bank balance, current assets and total assets can be clarified by the graphic representation, which is presented below.

Graph No. – 5



The graph No 4 clarifies that the cash and bank balance held by the company is not proportionate to current assets as well as to total assets. Increasing or decreasing in cash and bank balance do not affect the position of current assets as well as total assets.

4.7. PROPORTION OF INVENTORY TO SALES:

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

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

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

The proportion of inventory to sales has been presented below.

Table No. – 6

Proportion of inventory of sales

(Figure in Rs 000)

F/Y	Inventory	Sales	% of inventory on sales	% change	Inventory turnover (times)	Change in turnover
061/62	10703.077	13753.413	77.82		1.28	0.68
062/63	7727.412	15173.820	50.93	(26.89)	1.96	(0.54)16.83
063/64	14913.330	21186.465	70.39	19.46	1.42	(12.38)
064/65	2116.215	38620.175	5.48	(64.91)	18.25	4.59
065/66	3871.055	122722.710	17.04	11.56	5.87	0.92
Total	39331.089	211456.583	221.66	(60.78)	26.82	
Average	7866.218	42291.317	35.29	12.16	5.36	
δ	4620.66414	41177.35215				
C.V.	58.74%	97.36%				

Source: Appendix V and VI

The above table shows that the proportion if inventory to sales is maximum in the F/Y 061/62. The proportion of inventory to sales in this year is 77.82% where the sales amount to Rs. 13753.413 only but the inventory amount to Rs 10703.077. The proportion of inventory to sales is minimum in the F/Y 064/65, which is only 5.48%, where the sales amount to Rs 38620.175 and inventory amount to Rs 2116.215 only.

The five year trend presented in the above table shows that the inventory is not proportion to the sales volume of the period. In F/Y 064/65, the sales has been increased from Rs 21186465 to Rs 38620175 but in the same period the inventory has been decreased from Rs 14913330 to Rs 2116215, where the proportion of inventory to sales is only 5.48% which is reduce by 64.91% to its previous level. In the F/Y 065/66, the amount of

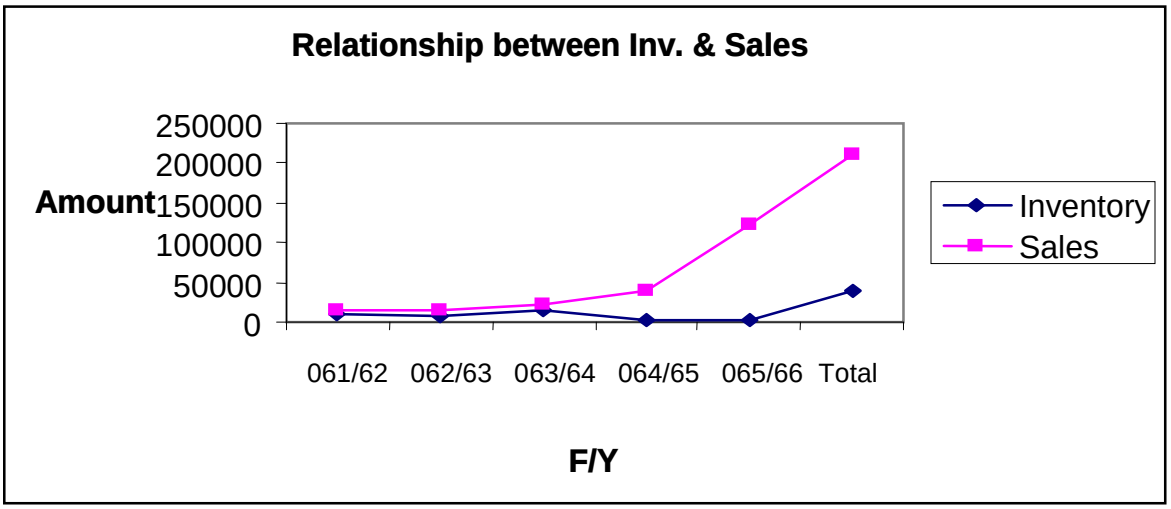
sales decreased to Rs. 122722710 but inventory is increased to Rs 3871055. The average proportion of inventory to sales is 35.29%, which indicated inefficiency with which inventory turnover into sales. The lower the ratio the more efficiency of the inventory is considered to be managed.

It can also be studied from the point of view of inventory turnover. The table shows that inventory turnover are 1.28 times, 1.96 times, 1.42 times, 18.25 times and 5.87 times to sales in 061/62, 062/63,063/64, 064/65 065/66 respectively. In the F/Y 064/65 the highest turnover is 18.25 times and the average inventory turnover in the period of observation is 5.36 times. A low level of inventory turnover ratio indicates an inefficient management of inventory due to the cause of over investment in inventory, dull business and poor quality of stock accumulations slow moving stock.

C.V. of sales is 97.36%, which indicate that three is very high fluctuation in sales. And also C.V of inventory is 58.74%, which also indicate high fluctuation in inventory. Comparing sales and inventory C.V. is high in sales then in inventory. Which indicate high fluctuation in sales then in inventory.

The increasing trend of inventory turnover ratio from F/Y 061/62 to 062/63 is a favorable situation. It refers that more frequently the stock are converted into other forms of assets. The relationship between inventory and sales can be clarified by the graphic presentation below.

Graph No. – 6



In the graph, the sales & inventory is nearly equally in F/Y 061/62, 062/63& 063/64. The sales value is over the nest year. The five year trend presented in the above table shows that the inventory is not proportion to the sales volume of the period.

4.8. PROPORTION OF RECEIVABLE TO SALES:

Receivable is also the one of the component of working capital. In order to increase the business activities the company has to increase the sales volume. The sales volume can be increased by giving product in credit to the costumers. When the firm provides its product on credit to costumers the level of receivable goes up, because generally, receivable is created credit sales. The credit sales policy is applied to increase the sales level. Hence, the increase in receivable should the sales volume. Here the proportion and turnover of receivable indicated how receivable or debtors are converted into cash. Receivable turnover ratio also indicates the speed with which debtors are being collected. it shows the relationship between credit sales and debtors of the company. Dividing receivable by sales and multiplying by 100 calculate which can be calculated by dividing sales by the end balance of debtor and the proportion.

The following table analysis the proportion of receivable to sales and the turnover of receivable.

Table No- 7

Proportion of Receivable to Sales.

(Figure in Rs 000)

F/Y	Receivable	Sales	% of receivable on sales	% change	Receivable turnover (time)	Change in receivable turnnover
061/62	9897.759	13753.413	71.96		1.39	
062/63	6455.360	15173.820	42.54	(29.42)	2.35	0.96
063/64	12754.160	21186.465	60.20	17.66	1.66	(0.69)
064/65	14882.384	38620.175	38.53	(21.67)	2.59	0.93
065/66	15047.298	122722.710	66.22	27.69	1.51	(1.08)
Total	59036.961	211456.583	279.45	(5.74)	9.5	0.12
Average	11807.392	42291.317	52.97	(1.15)	1.9	0.02
δ	3260.0577	41177.35215				
C.V	27.61%	97.36%				

Source: Appendix V and VI

The above table shows that the proportion of receivable to sales is the highest in the beginning year of the study period 061/62, which is 71.96%, where the receivables amount to Rs 9897.759 and the sales amount to Rs 13753.413 only. The proportion of receivables to sales is minimum in the F/Y 064/65, which is only 38.53% where the receivables amount to Rs 14882.384 only and the sales amount to Rs 38620.175.

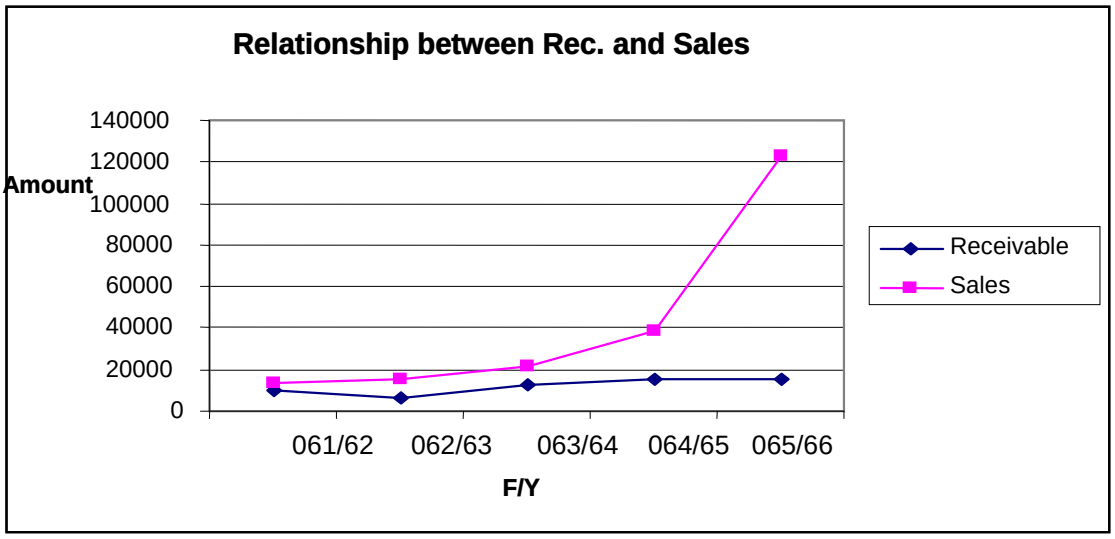
The proportion of receivables to sales is 71.96% in the F/Y 061/62, which is decreased by 29.42% and reaches to 42.54% in the F/Y 062/63 but in the F/Y 063/64 it is increased to 60.20%. Again the proportion has been

decreased by 21.67% and reaches to 38.53% in the F/Y 064/65. In the F/Y 065/66 it has been increased to 66.22%.

C.V. of sales is 97.36%, which indicate that there is very high fluctuation in sales. And also C.V. of receivable is 27.61%, which also indicate fluctuation in receivable. Comparing between two there is high C.V in sales then in receivable. Which indicate high fluctuation in sales then in receivable.

The figure clarifies that the receivables are not in proportion to sales. This can be further clarified by graphic presentation.

Graph No. – 7



There are two lines of the graphs, the sales value is increasing day by day in every year but receivable is decreasing in F/Y 062/63and other year is increasing in each year. That the receivables are not in proportion to sales.

4.9. RECEIVABLE TURNOVER AND CREDIT COLLECTION PERIOD:

Average collection period indicates the number of day it takes on an average to collect account receivables. It is computed by dividing days in year by receivables turnover. The following table can clarify it.

Table No – 8

Average collection period in Days.

(Figure in Rs 000)

F/Y	Days in year	Debtors turnover ratios (time)	Average collection period (in days)
061/62	360	1.39	259
062/63	360	2.35	153
063/64	360	1.66	217
064/65	360	2.59	139
065/66	360	1.51	238
Total	1800	9.5	1006
Average	360	1.9	190

Sources: Calculated on the basis of Table No – 7

As per the table presented above the receivable turnover is lowest in the F/Y 061/62, having the turnover of 1.39 times. The receivable turnovers and 2.35 times, 1.66 times, 2.59 times, 1.51 times in the F/Y 062/63, 063/64, 064/65, 065/66 respectively. The average receivable turnover in this of observation is 1.9 times.

The collection period of credit sales is very poor in the F/Y 061/62 where the credit collection period was 259 days. The credit collection period and 153 days, 217 days139 days, 238 days in F/Y 062/63, 063/64 , 064/65 , 065/66 respectively. The credit collection period in average under the period of observation is 190 days.

The receivable turnover ratio is indicative of the efficiency of trade credit management. The higher the turnover ratio and the shorter the average collection period (i.e. lower the receivable sales ratio) the better is the trade

credit management and the better the liquidity of debtors. As short collection period and high turnover ratio imply prompt payment on the part of debtors and vice-versa.

As per the table analyzed above the receivable turnover ratio is very lower and average collection period is no high, which is the very week symptom of MMP Ltd. over trade credit management. Thus, it is assumed that company is facing different problems like the block of fast circulation of business life, loss of the golden opportunity due to slow receivable collection.

4.10. CASH TURNOVER (Cash Conversion Cycle):

Cash is one of the main parts of current assets, which has greatest value to meet the current obligations occurred in the business. It should be just adequate to run the business and excess cash has no meaning, as it earns nothing. So, the company always sees the risk return trade off of maintain the just adequate cash balance. Cash turnover measures the relationship between level of cash and volume of sales over a period of time. The greater the sales volume the better the cash turnover would be provided so that cash balance is maintained at a desirable level. The cash turnover is computed by dividing yearly sales by cash and bank balances.

The following table shows the cash turnover position of the MMP Ltd. during the period of study.

Table No 9

Cash Turnover

(Figure in Rs 000)

F/Y	Cash and bank	Sales	Cash turnover (time)	Cash conversion cycle (days)
061/62	1043.437	13753.413	13.18	27
062/63	3625.130	15173.820	4.18	86
063/64	3250.295	21186.465	6.52	55
064/65	2836.307	38620.175	13.62	26
065/66	2046.402	122722.710	11.10	32
Total	12801.571	211456.583	48.57	226
Average	2560.314	42291.317	8.71	45
δ	922.07379	41177.35215		
C.V.	36.01%	97.36%		

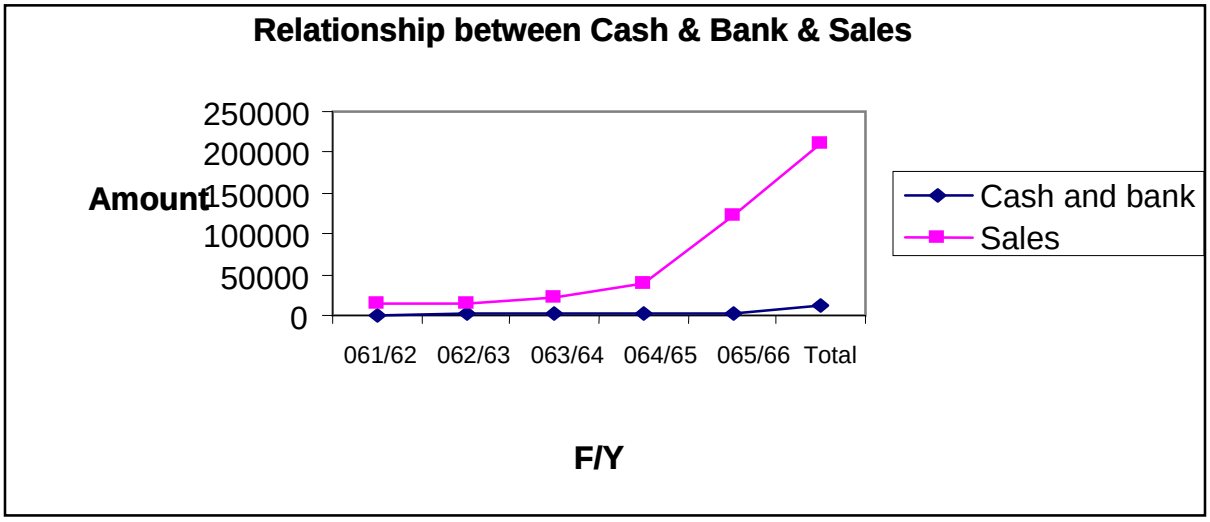
Sources: Appendix V and VI

As per the table presented above the cash turnover is highest in the F/Y 064/65 having the turnover of 13.62 times. In this particular year company holds only Rs. 2836307 cash and bank balance where as sales amounting to Rs 38620175. High cash turnover ratio is because of low holding of cash and bank balance. The lowest ratio is 4.18 times in the F/Y 062/63, when it holds more cash in relation to sales. The cash turnover ratio in other remaining F/Y 061/62, 063/64, 065/66 are 13.18 times, 6.52 times and 11.10 times respectively. The average cash turnover in the period of observation is 8.71 times. The company has been able to maintain cash conversion cycle of 45 days in an average.

C.V. of cash and bank 36.01% , which indicate fluctuation in cash and bank balance. Where C.V of sales 97.36%, which indicate that there is very high fluctuation in sales. Comparing sales and bank balance C.V is high in

sales and cash balance. Which indicate high fluctuation sales then in cash and bank balance.

Graph 8



As per the grapes, highest cash turnover ratio is F/Y 063/64 is different in sales and cash & bank. And nearest cash turnover ratio is F/Y 062/63 is lowest different in the curve.

4.11. PROPORTION OF WORKING CAPITAL (GROSS) TO SALES:

Sales are one of the most important activities of manufacturing industry like MMP Ltd.. The survival and growth of the industry depend on the sales policy as per the resource availability and market demand. The market demand, the sales policy greatly affect the production policy which affect the financial policy i.e. the total assets and the working capital required by the company to run it as per plan. Hence, the co-ordination between these three units of the company is very important. Each and every information should pass through all units. Increase in sales certainly cause increase in production, which require more input. To keep the stock of raw materials, there should be adequate amount of working capital. The amount

of working capital is also affected by sales policy. If the credit sales are increased, more working capital will be required to meet the daily requirements. On the other hand, if tight credit policy is applied, the amount of working capital to replace the amount held by credit sales will be decreased. It brings and effect of decrease in working capital need.

The proportion of working capital (gross) and sales mainly focuses to measure the efficiency of utilizing working capital (gross). This proportion shows the requirement of working capital for one rupee of sales. This proportion is computed by dividing sales by working capital (gross) which is shown using the information of MMP Ltd. in the following table.

Table No - 10

Proportion of working capital to Sales

(Figure in Rs 000)

F/Y	Working capital	Sales	%working capital to sales	% change	Working capital turnover (time)	change
061/62	21998.839	13753.413	159.95		0.62	
062/63	19952.641	15173.820	131.49	(28.46)	0.55	0.14
063/64	38201.112	21186.465	180.31	48.82	1.82	(0.21)
064/65	21161.109	38620.175	54.79	(125.52)	0.99	1.27
065/66	22924.391	122722.710	100.89	46.1	4.74	(0.83)
Total	123638.092	211456.583	627.43	(59.06)	0.95	0.37
Average	24847.618	42291.317	110.93			
δ	6748.05593	41177.35215				
C.V.	27.16%	97.36%				

Sources: Appendix V and VI

The table shows the relationship between sales and working capital (gross) of MMP Ltd.. The tabulation data shows the fluctuation relationship

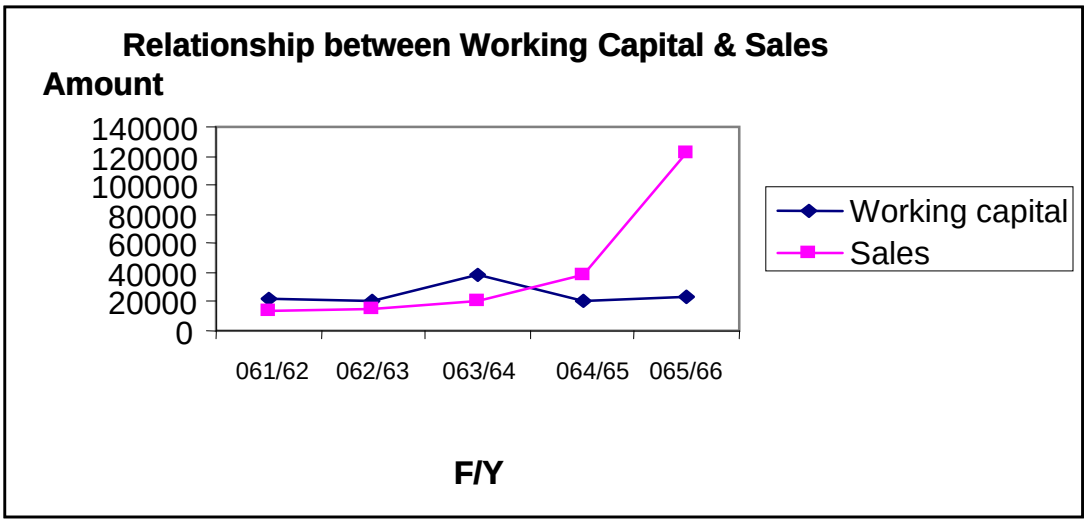
between them. In the F/Y 061/62 the percentage of working capital to sales is 159.95% and succeeding year 060/061, the sales is slightly increased where as working capital is decreased. But F/Y 064/65, it has decreased to 54.79%. Even though both working capital and sales are increased in amount it shows that the working capital and sales are not increasing at the same proportion.

In F/Y 061/62 the working capital turnover to sales ratio is 0.62 times, which is slightly increased to 0.76 times, in the F/Y 062/63. It shows the effectiveness of utilizing working capital in relation to sales in comparison with F/Y 061/62. After than in F/Y 063/64 & 065/66 the working capital turnover ratio follows the decreasing trend and goes down to 0.55 & 0.99 times. In this way, the average working capital turnover ratio is 0.95 times, which means a rupee invested in total current assets generated sales of Rs 095 only. So, overall working turnover ratio is not satisfactory because company has invested excess current assets in comparison to sales during the study period except F/Y 064/65. However, the ratios are generally increased trend. It indicated that current assets utilization has been improving in the later year as compared to the previous year of the study.

C.V of sales of 97.36%, which indicate that there is very high fluctuation in sales. And also C.V of working capital is 27.16%, which also indicate fluctuation in working capital. Comparing sales and working capital C.V is high in sales then in working capital. Which indicate high fluctuation in sales then in working capital.

The relationship between working capital (gross) and sales can be clarified by the graphic presentation below.

Graph no – 9



The graphic representation clarifies that the working capital is not proportion to sales. The sales are ineffective by the volume of working capital kept by the company. The curve of sales is independent of the curve of working capital (gross).

So, as to get touch with the probable relationship between working capital and sales volume of MMP Ltd. during the period of the study. Karl Person's correlation co-efficient (r) is calculated as below.

Karl person's correlation co-efficient.

$$R = \frac{N\sum XY - \sum X.\sum y}{\sqrt{\frac{\sum x^2}{N} - \frac{(\sum y)^2}{N}}\ \sqrt{\frac{\sum y^2}{N} - \frac{(\sum y)^2}{N}}}$$

Where as,

X = current assets (Gross working capital)

Y = sales

$\sum dxdy = -5.87$

$\sum dx = 9.62$

$\sum dy = -5.5$

$\sum dx^2 = 246.24$

$\sum dx^2 = 397.73$

N = 5

R = -0.05

PE = 0.67

(sources: Appendix III)

The above figure shows that correlation coefficient in between gross working capital and sales during the study period is negative, i.e. there is negative correlation between gross working capital and sales. Thus, ordinary increase in sales cause decrease in working capital and vice-versa. Since 'r' is not six times of PE, the relationship is not considered as significant.

4.12. RELATIONSHIP BETWEEN CURRENT ASSETS AND FIXED ASSETS:

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

Table No. 11

Proportion of Current Assets to Fixed Assets

(Figure in Rs 000)

F/Y	Current assets (CAs)	Fixed Assets (FAs)	% of CA of FAs	% Change
061/62	21998.839	3507.212	62.84	
062/63	19952.641	3426.699	582.27	519.43
063/64	38201.112	2932.236	1302.80	720.53
064/65	21161.109	3289.528	643.29	(659.51)
065/66	22924.391	3806.402	586.49	(56.8)
Total	123638.092	48462.077	3177.69	523.65
Average	24727.618	9692.415	255.12	104.73
δ	6737.1009	12660.4919		
C.V.	27.02%	130.62%		

Sources: Appendix V

If we look at the percentage of current assets to fixed assets, it is fluctuating year after year. It is maximum 1302.80% in the F/Y 063/64 while is minimum 62.84% in the F/Y 061/62. In an average it is 255.12%. The level of current assets can be measured by relating current assets to fixed assets. A higher current to fixed assets ratio indicates a conservative current assets policy and lower current assets to fixed assets ratio means an aggressive current assets policy. Other things assuming constant, a conservative policy (i.e higher CA/FA ratio) implies greater liquidity and lower risk while an aggressive policy (i.e. lower CA/FA ratio) indicates higher risk and poor liquidity. The current assets policies of the most firms may fall between these two extreme policies and moderate current assets policy maintains the ratio between CA/FA neither higher nor lower.

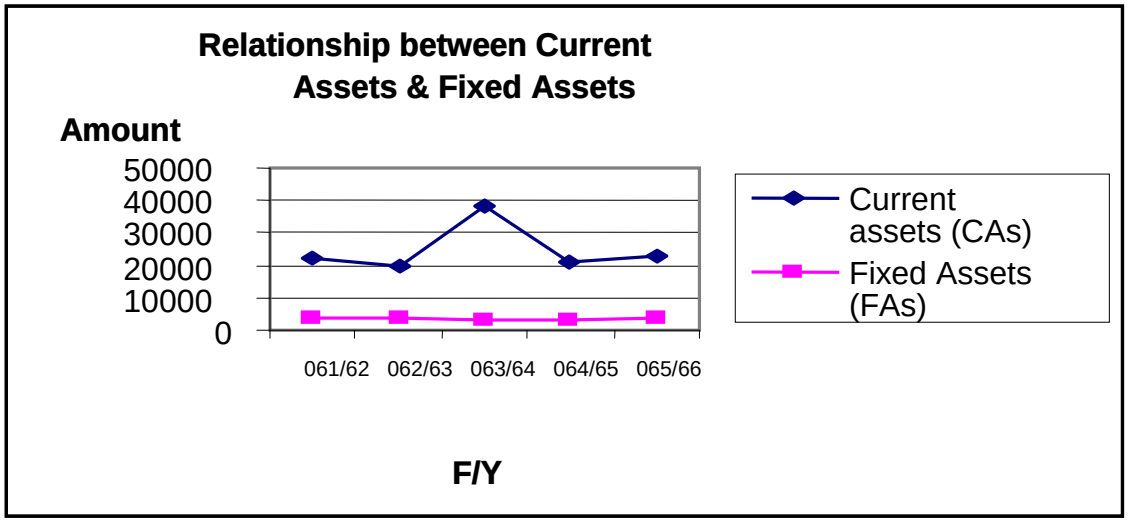
With reference to MMP Ltd., the percentage of CA/FA is very high which indicates the firm moves under conservative policy. This implies greater liquidity and lower risk. Thus, MMP Ltd. has less risk.

The study shows that the fixed assets sometimes increase and sometimes decrease. There are no any particular trends on overall picture and it does not show any pattern. In F/Y 064/65 and 065/66 the percentage of current assets on fixed assets are decreased by 659.51%, 56.8% respectively. But the percentage of current assets on fixed assets is increased by 519.43% and 720.53% in F/Y 061/62 and 062/63.

C.V of fixed assets is 130.62%, which indicate that there is very high fluctuation in fixed assets. And also C.V of current assets is 27.02%, which also indicate fluctuation in current assets. Comparing fixed assets and current assets C.V. is high in fixed assets then in current assets. Which indicate high fluctuation in fixed assets then in current assets.

This can be further clarified by graphical presentation.

Graph No. –10



In order to examine the relationship between the aforesaid variables in context to MMP Ltd.'s five year trend analysis, Karl person's correlation co-efficient (r) is calculation as following:

X = current Assets	Y = Fixed Assets
∑dxdy = 5.84	∑dx = 12.67
∑dy = 0.55	∑dx2 = 259.23
∑dy2 = 0.46	N = 5
R = -0.75	PE = 0.50

Source: Appendix II

The above figure shows that correlation co-efficient in between current assets and fixed assets during the period of study is negative i.e. there is negative correlation between current assets and fixed assets. Since 'r' is not six times greater than PE, the relationship is not considered to significant.

4.13. TREND ANALYSIS OF WORKING CAPITAL:

The trend analysis of net working capital is studied under this head. The F/Y 061/62 has been taken as a base year. The following table shows the trend of net working capital for five years.

Table No 12

Comparative Working Capital Trend Analysis

(Figure in Rs 000)

F/Y	Current assets	Trend %	Current liabilities	Trend %	NWC	Trend %
061/62	219	100	54	100	165	100
062/63	199	91	32	59	166	100
063/64	382	174	206	381	175	106
064/65	211	96	23	43	188	114
065/66	229	102	59	109	164	99
Total	1240	563	374	692	858	520
Average	248	113	75	138	172	104
δ	68.09		66.95		9.09	
C.V.	27.59%		86.50%		5.29%	

Source: Appendix - V

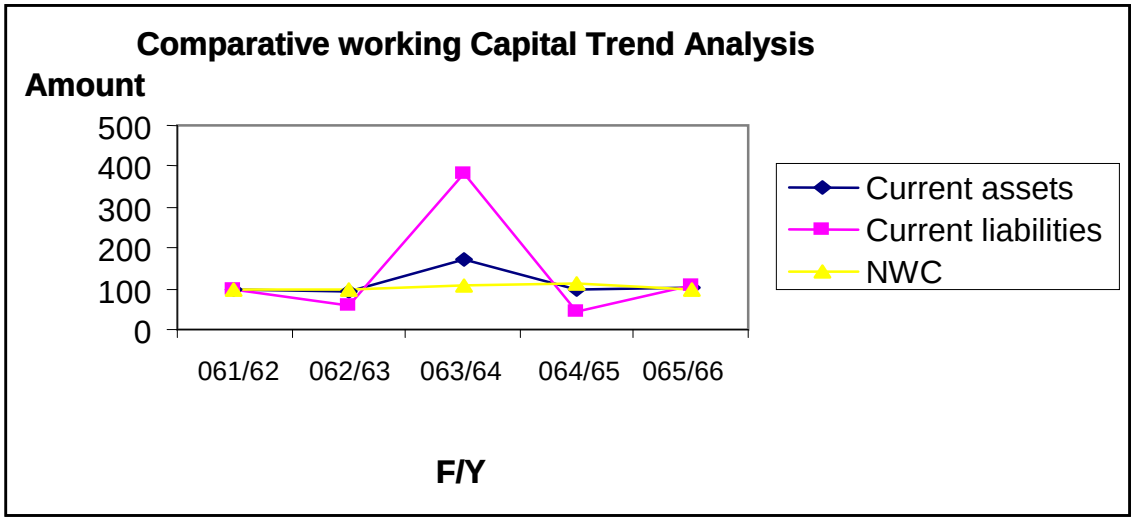
Above table shows comparative working capital trend of MMP Ltd. from the F/Y 061/62 to 065/66 along with base figure or F/Y 061/62.

Under the period, the rend of current assets has grown up only in F/Y 061/62, 063/64 while it has decreased in the F/Y 062/63 and 064/65 and it has average growth rate of 113%. Similarly, the trend of current liabilities has also increased in F/Y 061/62, 062/63 and 064/65 and 065/66. The average growth rate is 138%.

C.V. of current liabilities is 86.50%, which indicate that there is very high fluctuation in current liabilities. And also C.V. of current assets and net working capital is 27.59% and 5.29% respectively. Which also indicate fluctuation in both. Comparing among three there is high C.V in current liabilities. Which indicate high fluctuation in current liabilities.

It is also presented in a graph below.

Graph No – 11



The rend percentage of net working capital shows increasing trend in the F/Y 061/62, 062/63 and 064/65 and 065/66 while it show only slightly

decreasing trend in the F/Y 065/66. Hence, the average increasing trend of net working capital is 104% during the study period. This indicates that there is little significant improvement in net working capital over the study period.

4.14. ANALYSIS OF LIQUIDITY RATIO:

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. In order to ensure short-term solvency, the company must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor highly liquid.

The liquidity ratio of the firm is not enough it will result in bad credit ratings, loss of creditor's confidence which eventually may lead to the bankruptcy. If the firm has high degree of liquidity, fund will be unnecessarily tied up in current assets and can earn nothing. Thus, the firm should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency.

4.14.1. Current Ratio:-

Current ratio is frequently used to measure the liquidity position of the firm. This ratio shows the availability of current assets in rupee of every one rupee of current liabilities. Generally, the current assets of the firm should be twice than current obligation to be technically solvent. Technical solvent means the ability of firm to meet current obligations duly as and when they become due. A relatively high value of current ratio is considered as an indication that the firm is liquid and has the ability to pay it's bill the vice-verse.

The current ratios of selected study years of the MMP Ltd. are computed in the table No. 13 by dividing the current assets by current liabilities i.e.

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

Table No. – 13

Computation of Current Ratio

(Figure in Rs 000)

F/Y	Current assets	Current liabilities	Current ratio	Change in ratio
061/62	21998.839	5421.619	4.06:1	
062/63	19952.641	3257.261	6.12:1	2.06
063/64	38201.112	20642.779	1.85:1	(4.27)
064/65	21161.109	2347.519	9.01:1	7.16
065/66	22924.391	5906.951	3.78:1	(5.23)
Total	123638.092	37576.129	24.82:1	0.28
Average	24727.618	7515.226	3.29:1	
δ	6737.1009	6695.33939		
C.V.	27.02%	89.09%		

Sources: Appendix - V

The figures presented above shows current ratios which cover five years period, they are 4.06:1, 6.12:1, 1.85:1, 9.01:1 and 3.78:1 respectively. The maximum current ratios are 4.06:1, 6.12:1 and 9.01:1 in the F/Y 061/62, 062/63 and 064/65 respectively, which are above standard level of current ratio (i.e. 2:1). A high current ratio indicates excessive investment in current assets leading to under utilization of firm's resources, lower current liabilities and lower deposit collection and cause to lower profitability position. Similarly the lower current ratio is 1.85:1 in F/Y 063/64, which is below the standard norm. But this in not poor liquidity position of MMP Ltd. because of nearer the standard norm. A lower current ratio indicates inability to meet its short-term obligation that may lead to loss of goodwill and lower margin of safety. The F/Y 061/62 is able to meet the standard norm. Therefore, the satisfactory level of current ratio leads the firm into higher profitability position and ability maintain short-term solvency. If 2:1

is assumed to be an appropriate current ratio, MMP Ltd. should hold strong liquidity position.

Current ratio is a test of quality of the liquidity position not a test of quality position. In this regard, after analysis of ratio it may be concluded that the liquidity in this regard, after analysis of ratio it may be concluded that the liquidity position in relation to current ratio of MMP Ltd. is quite better even though it shows fluctuating trend.

C.V. of current liabilities is 89.09%, which indicate that there is very high fluctuation in current liabilities. And also C.V. of current assets is 27.02%, which also indicate fluctuation in current assets. Comparing current assets and current liabilities C.V is high in current liabilities then in current assets. Which indicate high fluctuation in current liabilities then in current liabilities.

4.14.2. Quick Ratio:

Quick ratio is more refined measure of the firm's liquidity. This ratio establishes a relationship between quick assets and current liabilities. The assets is said to be quick which can be converted into cash within operating cycle without loss in value of assets. Thus, cash is the most liquid asset. The other assets, which are considered to be relatively liquid, are included in the quick assets, which are book debt and marketable securities. Inventories are excluded because it takes time to sell finished goods, and convert raw materials and work in process into finished expenses should also be excluded form quick assets because it cannot be converted into cash. The quick ratio is finding out by dividing quick assets by current liabilities.

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

The quick or acid test ratio is called. "Liquidity Ratio", the quick ratio is considered as perfect when it comes to 1:1. It means the company has one rupee of quick assets to pay each rupee of its current liabilities. The quick ratio of the company can be compute as under.

Table No. – 14

Computation of Quick Ratio

(Figure in Rs 000)

F/Y	**Quick asset**	**Current Liabilities**	**Quick ratio**	**% change**
061/62	10941.196	5421.619	2.02:1	
062/63	10080.490	3257.261	3.09:1	1.07
063/64	16004.455	20642.779	0.77:1	(2.32)
064/65	17718.691	2347.519	7.55:1	6.78
065/66	17093.700	5906.951	2.89:1	(4.66)
Total	71838.532	37576.129	16.32:1	0.87
Average	14367.706	7515.226	1.91:1	
δ	3208.12353	6695.33939		
C.V.	22.33%	89.09%		

Sources:- Appendix - V

The quick ratio presented in table no 14 covers a period from F/Y 061/62 to 065/66. Generally speaking, an acid test ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. The quick ratio in F/Y 061/62, 062/63 and 064/65 are 2.02:1 , 3.09:1 and 7.55:1 respectively which indicates the ability to meet its current liabilities by quick assets. There are 2.02, 3.09 and 7.55 rupees of quick assets for its current obligation of one rupee. But in the F/Y 063/64 the quick ratio of the industry is 0.77:1, which is below the standard norm means that this year company has not sufficient cash to pay its current obligation that may cause excessive liabilities over the amounts of quick assets. The proportion of quick ratio

shows that it has widely varied over a period of time. This is not a satisfactory position. That's why, after analyzing and measuring the quick ratio of MMP Ltd. it can be said that company has poor management in cash balance and receivable and it has made excessive investment in inventory.

C.V of current liabilities is 89.09%, which indicate that there is very high fluctuation in current liabilities. And also fluctuation in quick assets whereas, C.V is 22.33%. Comparing current liabilities and quick assets C.V is high in current liabilities then in quick assets which indicate high fluctuation in current liabilities then in quick assets.

4.15. PARTICIPATION OF SHORT-TERM FINANCING (STF) AND LONG-TERM FINANCING (LTF) ON CURRENT ASSETS COMPOSITION.

To fulfill the requirement of working capital (gross) of a firm, the amount is financed by various way (i.e. short-term only, long-term only, both short-term and long-term). The investment of STF and LTF on working capital should be coordinated to keep an optimal level. Otherwise, the company may have to bear the risk of uncertainty if the company may be failure to launch operational activities when all working capital is financed by short- term resource. On the other hand, if it is financed by only LTF, the company may not be able to raise its shares as soon as it needs. So to operate the business in proper way, both types of finances on working capital is needed.

Hence, to find out the condition of financing on working capital of MMP Ltd., a computation is made in table below.

Table No. 15

Participation of STF and LTF on current assets composition.

(Figure in Rs 000)

F/Y	Current assets	Short-term financing (STF)	% of STF	Long-term Financing (LTF)	% of LTF
061/62	21998.839	5421.619	25.00	20084.432	91.30
062/63	19952.641	3257.261	16.32	20122.079	100.85
063/64	38201.112	20642.779	54.04	20490.569	53.63
064/65	21161.109	2347.519	11.09	22103.118	104.45
065/66	22924.391	5906.951	26.46	20223.842	90.59
Total	124238.092	37576.129	132.91	103024.040	440.82
Average	24847.62	7515.226	40.00	20604.808	83.32
δ	6737.1009	6695.33939		762.48763	
C.V.	27.44%	89.09%		3.70%	

Sources:- Appendix – v

Above table shows the fluctuation participation of short-term financing and long-term financing in investing total current assets is level during the period of study.

Short-term financing covered 25%, 16.32%, 54.04%, 11.09% and 26.46% of total current assets level in the F/Y 061/62, 062/63, 063/64, 064/65 and 065/66 respectively. The highest proportion of short-term financing on total current assets is 54.04% in the F/Y 063/64 where as lowest proportion of short-term financing is only 11.09% in the F/Y 064/65. The average participation of short-term financing sources in total current assets is 40% during the study period. The participation of long-term sources in investing the total current assets level in the same period is higher than that of the short-term financing. It covered 91.30% in the F/Y 061/62 but increased to 100.85% in the following year. Similarly, in the F/Y 063/64 it decreased by 47.22% to its former level and financed 53.63% of the total

current assets level. But in the F/Y 064/65 long-term financing was covering 104.45% of the total current assets level, which is increased by 50.62% to its former level. In the F/Y 065/66, it is again decreased to 90.59% having decreasing rate of 13.86%, in this way the average participation of long-term financing sources in total current assets is about 83.32% during the study period.

C.V. of current assets, short-term financing and long-term financing is 27.44%, 89.09% and 3.70% respectively. Where C.V. is highly fluctuation in short-term financing comparing current assets, short-term financing and long-term financing. C.V is high in short-term financing then in other which indicate high fluctuation in short-term financing.

After analysis, it is fund that the financing pattern over current assets of MMP Ltd. is highly influenced by long-term financing sources in comparison with short-term financing sources which is the symptom of conservative financing policy.

4.16. PARTICIPATION OF STF AND LTF:

Table No. - 16

Participation of STF & LTF on Total Funds

F/Y	Short term fund (STF)	Long term fund (LTF)	% of STF on LTF	% change
061/62	5421.619	20084.432	26.99	
062/63	3257.261	20122.079	16.19	(10.8)
063/64	20642.779	20490.569	100.74	84.55
064/65	2347.519	22103.118	10.62	(90.12)
065/66	5906.951	20223.842	29.20	18.58
Total	37576.129	103024.040	103.74	2.21
Average	7515.226	20604.808	36.47	0.44
δ	6695.33939	762.48763		
C.V.	89.09%	3.70%		

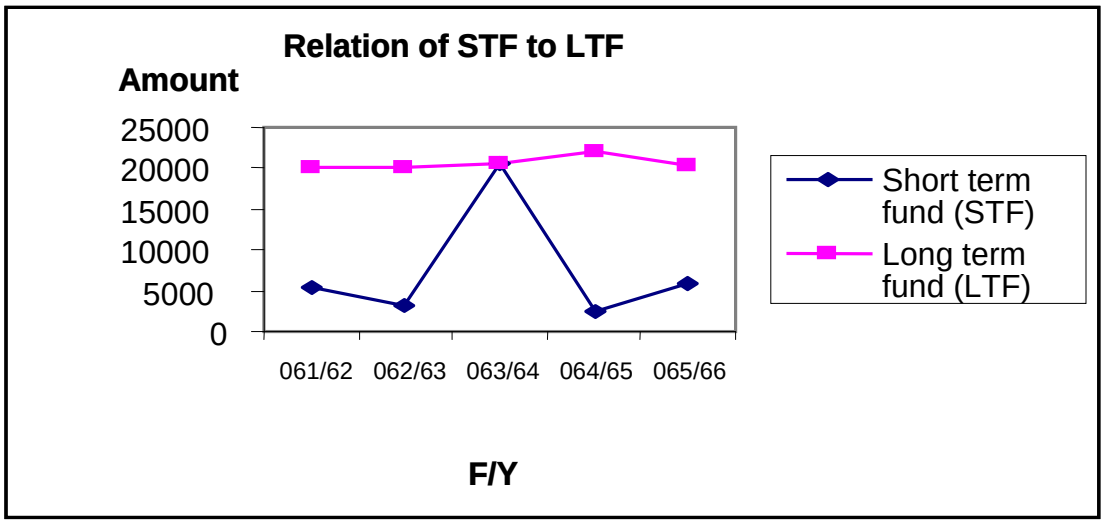
Source:- Appendix - V

The figure shows the declining tendency of ratio between short term financing and long-term financing for the period of study. It is 26.99% in the F/Y 061/62, which is decreased to 16.19% in the following year. But in the F/Y 063/64 it is increased to 100.74% having 84.55% increasing rate. In the F/Y 064/65 it again decreased to 10.62% having 90.92% decreasing rate. And in the last F/Y of the study it is inclined to 29.20% having 18.58% increasing rate. In this way the ratio between STF and LTF lies in between 10.62%, which is decreased by 0.44% annually in an average.

C.V. of short-term financing is 89.09%, which indicate that there is high fluctuation in short-term fund and also fluctuation in long-term financing, whereas C.V. is 3.70%. Comparing between two C.V is very high in short-term financing then in long-term financing which indicate high fluctuation in short-term financing then in long-term financing.

It is also presented by graph below.

Graph No. 12



The graph No- 11 reveals that F/Y 062/63 the firm finance needs by long-term funds, which refers to be a conservation policy. In F/Y 063/64, a slight incline of long-term funds and augment in a portion of short-term

funds indicate to rumble in the path of moderate financing plan. In F/Y 064/65, the short-term finance is highly decreased but long-term finance increased to Rs 22103118 and decreased to Rs 20223842 in the following year, which is the symptom of conservative financing plan. The average annual growth rage of short-term finance to long-term finance is 0.44% which indicates that the firm indebted to the conservative plans.

4.17. RELATIONSHIP BETWEEN SHORT-TERM FINANCING AND TOTAL FUND:

Relationship between short-term financing and total fund of MMP Ltd. is presented in the following table.

Table No – 17

Relationship between STF and TF

F/Y	Short term financing (STF)	Total Fund (TF)	STF / TF	% change
061/62	5421.619	25506.051	21.26	
062/63	3257.261	23379.340	13.93	(7.43)
063/64	20642.779	41133.348	50.18	36.25
064/65	2347.519	24450.637	9.60	(40.58)
065/66	5906.951	26130.793	22.60	13
Total	37576.129	140600.169	111.57	1.24
Average	7515.226	28120.034	26.72	0.25
δ	6695.33939	6573.81141		
C.V.	89.09%	23.37%		

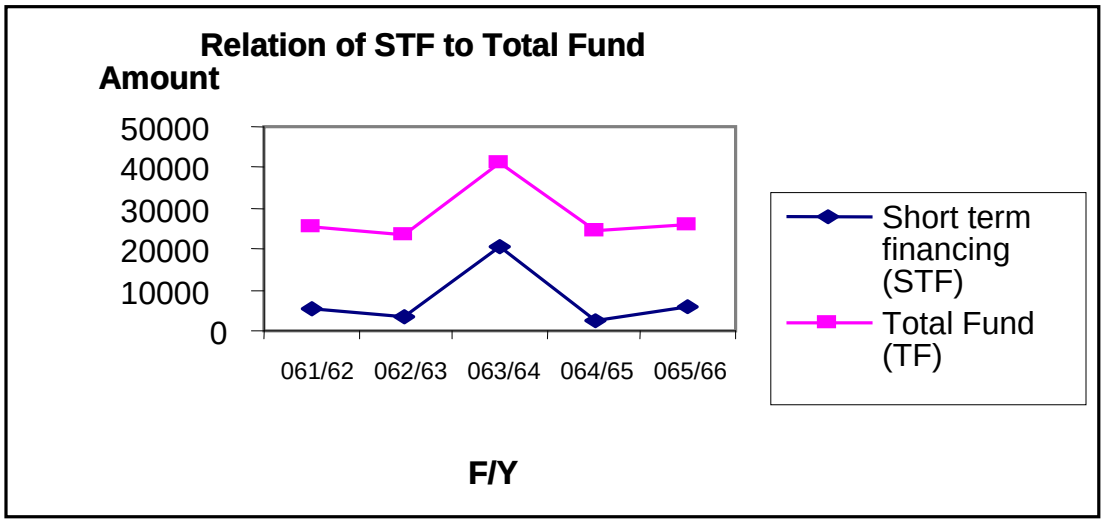
Sources:- Appendix - V

The above table shows that the ratio between short-term financing and total fund lies 9.60% to 50.18% between during the study period. The highest ratio is 50.18%, which lies in F/Y 063/64 and lowest ratio is 9.60%, which lies in F/Y 064/65. The ratio is in F/Y 061/62, 062/63 and 065/66 and

21.26%, 13.93% and 22.60% respectively. In an average it is 26.72% having decreasing rate of 0.25% annually in an average during the five years study period.

C.V of short-term financing is 89.09%, which indicate that there is very high fluctuation in short-term financing and also C.V. of total fund is 23.37%, which also indicate fluctuation in total fund. Comparing short-term financing and total fund C.V. is high in short-term financing then in total fund which indicate high fluctuation in short-term financing then in total assets.

Graph No. – 13



The above a graph show is that the STF and TF highest lines F/Y 063/64 and lowest lines is F/Y 064/65. In F/Y 062/63and 064/65 is decreasing and 063/64 & 065/66 is increasing the total fund.

4.18. PROFITABILITY OF WORKING CAPITAL:-

A company must earn profit for its survival and growth in the future. In fact, sufficient profit must be earned to sustain the operations of the business to be able to acquire funds from investors for expansion. Thus

profitability ratio is used to measure the performance of efficiency or ability of the firms. Profitability ratio can be computed in relations to investments of working capital is computed to convey to what extent the components of working capital is computed to convey to what extent the company is able to earn profit. These are some ratios that are considered to measure the efficiency of MMP Ltd.

- Return on current assets
- Return on inventory
- Return on receivable
- Return on working capital.

4.18.1. Return on Current Assets.

Assets that can quickly be converted into cash within an accounting period with loosing any value are termed as current assets. So it includes cash and near cash items. It has direct relationship with day-to-day operation of a firm. This is the rate of return on assets or working capital employed by the firm. It measures the profit with respect to its total current assets. It gives the utilization of current assets effectiveness. So it plays vital role in profit earnings. The return on current assets of MMP Ltd. is calculated and presented in the table below.

Table No. – 18
Return on Current Assets.

(Figure in Rs 000)

F/Y	Current Assets	Net Profit	Return in %	% change
061/62	21998.839	673.503	3.06	
062/63	19952.641	609.426	3.05	(0.01)
063/64	38201.112	771.062	2.02	(1.03)
064/65	21161.109	1937.532	9.12	7.1
065/66	22324.391	1093.776	4.90	(4.22)
Total	123638.092	5085.299	22.15	1.84
Average	24727.618	1017.060	4.11	
δ	6737.1009	489.46214		
C.V.	27.44%	48.12%		

Sources:- Appendix – V, VI

Above date shows the ratio of return on current assets. The different ratios in percentages are 3.06%, 3.05%, 2.02%, 9.12% and 4.90% in F/Y 061/62, 062/63, 063/64, 064/65 and 065/66 respectively. During the study period there is no negative return due to positive NPAT. Company has highest return on current assets is 9.12% in the F/Y 064/65 and company is unable to cover proper return on current asset, which is lowers in F/Y 063/64 i.e. 2.02%. The average return on current assets is 4.11% only, which is not satisfactory. While summarizing result of the ratio calculated in the above table, comparatively higher investment in current assets is found.

C.V. of net profit is 48.12%, which indicate that there is high fluctuation in net profit. And also C.V. of current assets is 27.02%, which indicate fluctuation in current assets. Comparing current assets and net profit C.V is high in net profit then in current assets which indicate high fluctuation in net profit then in current assets.

4.18.2. Return on Inventory:

Inventory is one of the components of working capital, which is considered to be essential to measure efficiency of the firm. It also shows in what extent the inventory is acquiring return in its investment. Thus, it is also on effective measure of profitability. Hence, this ratio is the relationship between net profit after tax and inventories. It is calculated by dividing NPAT by inventories.

The following table represents the return on inventories ratio and also the profitability of working capital of MMP Ltd..

Table No. – 19

Return on Inventory

(Figure in Rs 000)

F/Y	Inventories	Net Profit	Return in %	% Change
061/62	10703.077	673.503	6.29	1.6
062/63	7727.412	609.426	7.89	(2.72)
063/64	14913.330	771.062	5.17	3.99
064/65	2116.215	1937.532	9.16	19.09
065/66	2116.215	1093.776	28.25	21.96
Total	39331.089	5085.299	56.76	
Average	7866.218	1017.060	12.9	
δ	4620.66414	489.46214		
C.V.	58.74%	48.12%		

Sources: - Appendix – V, VI

Above table shows the fluctuating trend of return on inventory ratio. The ratio is the F/Y 065/66 are 6.29%, 7.89%, 5.17%, 28.25% and 6.29% respectively. While analyzing the ratio of different five year, they show positive ratio, due to positive NPAT. In the F/Y 065/66, the firm has mobilized inventories in proper way, which results that it can earn praiseworthy return on inventories in proper way, which results that it can earn praiseworthy return on inventories. But besides those years, the company has become inefficient to earn satisfactory return. This impacts the profitability.

C.V of inventory is 58.74%, which indicate that there is very high fluctuation in inventory. And also C.V of net profit is 48.12%, which also indicate high fluctuation in net profit. Comparing inventory and net profit C.V is high in inventory then in net profit which indicate high fluctuation in inventory then in net profit.

In Conclusion it can be pointed out that the investment in inventories that not been properly managed and mobilized.

4.18.3. Return on Receivable:-

The receivables are tools to provide credit facility to firm's customers. It must make a proper plan to what extent receivable should be maintained so that return on its sum may be maximum. So the ratio between NPAT and receivable is calculated to test how the firm has mobilized and made the quick running or collection of receivable. This is computed by dividing NPAT by receivable of MMP Ltd. in the table below.

Table No. – 20

Return on Receivable

(Figure in Rs 000)

F/Y	Receivable	Net Profit	Return in %	% Change
061/62	8987.759	673.503	6.80	
062/63	6455.360	609.426	0.44	2.64
063/64	12754.160	771.062	6.04	(3.40)
064/65	14882.384	1937.532	13.02	6.98
065/66	15047.298	1093.776	7.27	(5.75)
Total	59036.961	5085.299	42.57	0.47
Average	11807.392	1017.060	8.61	
δ	3260.0577	489.46214		
C.V.	27.61%	48.12%		

Sources:- Appendix V,VI

The above table shows that receivables are generally increased except in F/Y 063/64 to 065/66. But due to the positive NPAT, all ratios are positive. The highest ratio is 13.02% in the F/Y 064/65 and lowest ratio is 6.04% in the F/Y 063/64.

C.V. of net profit is 48.12%, which indicate there is high fluctuation in net profit and also fluctuation in receivable whereas, C.V. 27.61%. Comparing receivable and net profit C.V. is high in net profit then in receivables which indicate high fluctuation in net profit then in receivables

Thus, during the observation period, the industry has successfully managed the receivable resources efficiently to some extent.

4.18.4. Return on Net Working Capital:

Net working capital is the excess of current assets over current liabilities. The ratio of NPAT on net working capital is obtained by dividing NPAT by net working capital to measure the profitability condition on the investment of net working capital. To operate business efficiency, profit-earning ratio on working capital should also be satisfactory. In this regard, C.R Kothari has said, "This ratio in Standard business units is usually taken at 14.5%."

Here, the computation of this ratio of MMP Ltd. is made from F/Y 061/62 to 065/66 in the following table.

Table No. – 21

Return on Net working Capital

(Figure in Rs 000)

F/Y	Net working capital	Net Profit	Return in %	% Change
061/62	16577.220	673.503	4.06	
062/63	16695.380	609.426	0.65	(0.41)
063/64	17558.333	771.062	4.39	0.74
064/65	18813.590	1937.532	10.30	5.91
065/66	16417.440	1093.776	6.66	(3.64)
Total	96061.963	5085.299	29.06	2.6
Average	17212.393	1017.060	5.91	
δ	892.88339	489.46214		
C.V.	5.19%	48.12%		

Sources:- Appendix V, VI

Above table shows the highest ratio of return on net working capital, which is 10.30% in the F/Y 064/65 and lowest is 0.65% in the F/Y 062/63. Thus, it is unable to maintain standard ratio (i.e.14.5%) during the study period.

C.V. of net profit and net working capital are 48.12% and 5.19% respectively. Which indicate that there is very highly fluctuation in net profit then in net working capital.

It means MMP Ltd. has been incapable to keep an optimum level of net working capital.

4.19. FUND FLOW ANALYSIS:

The term "Funds" refers to net working capital and another term 'flow' denotes movement of this working capital. As name suggests, funds flow analysis analyzes movement of funds in and out of the firm. It is the widely used technique of analysis of working capital. Under this analysis, of statements named by funds flow statement is prepared. Fund flow statement is a statement, which depicts the source of funds and their application during the prescribed period. Moreover, it is a technical device furnished with a view to analyze the changes in the financial position of a business concern between two dates.

According to Dr. Shukla, "fund flow statement is statement, which shows shoes sources and application of funds in a summary from over a period of time and indicates increase of decrease in net working capital of the enterprise during the period".

According to Smith and Brown, "A fund flow statement is prepared in a summary from to indicate changes (and trends if prepared regularly) occurring in items of financial condition between two balance sheet dates"

Therefore, if the company assumed working capital as a fund and prepared the statement for finding out source and uses of funds on the basis of change in working capital, the statement is called funds flow statement. Hence, in fact, funds flow is the flow of working capital. In other words source and application of working capital is known as funds flow. Moreover funds flow statement is a financial statement prepared with a view to inform about the financial transaction which brings alternation in the source and means of the organization. Thus, it is appropriate to furnish such statement for the real evaluation and well information of financial standing of the business. Specially, in western countries, it is mandatory to prepare but it is taken as a optimal statement in our country. It has given various names such as source and application of fund, statement of funds raised and used, statement of sources and uses of working capital, where got and where gone statement etc.

This funds flow statement is based on working capital concept of fund working capital concept is medium approach between two extremes: cash concept i.e., deLtd. approach and all resources concept i.e., wider approach.

The table No. 22 exhibits the funds flow statements of MMP Ltd.. On working capital bases for the period of four F/Y only and a brief analysis of funds flow statement is performed thereafter.

Table No. 22

Statement of Sources and uses of fund showing cash from operation (Working Capital Basis)

Particular	062/63	063/64	064/65	065/66
Sources in amount				
1.Decrease in W/C				2396150
2. Sale of Fixed Assets	80513	49446		
3. Funds from Operation	37647	368490	1612549	
Total Sources	118160	862953	1612549	2396150
Uses in Amount				
1.Increase in W/C	118160	862953	1255257	
2.Purchases of Fixed Assets			357292	516874
3. Loss from Operation				187926
Total Uses	118160	862953	1612549	2396150

Sources: - Appendix – V

The table 22 is designed to reveal how changes in working capital of the company took place. The table shows that net working capital of the company is increasing yearly. The increasing balance in the F/Y in 2nd & 3rd year shows remarkable progress year after. These increasing balance are Rs 862953 & 1255257 respectively.

The source of increasing of increasing net w/c is consisted borrowing loan and operating profit. The operating profit shows positive balance all year. On the other hand decrease in w/c is one of the major sources of fund of the company to later the need of funds and it is the use of W/C failure and contraction of working capital.

In 1st MMP get earn less profit in the comparison of other F/Y. But following year the company's w/c increased, that increase amount w/c as well as purchase of fixed assets is fund to be maintained by borrowing loan. The increase amount of w/c along purchased of fixed assets. The uses of funds in MMP Ltd, is the use of same in purchase of fixed assets.

To acquire current or reduce current liabilities, the company used funds obtained from various sources. Given table showing sources and application of funds reveal that increase in w/c is regular sources of fund during the study period, except in F/Y 065/66. This F/Y the decrease in w/c is Rs. 2396150. In F/Y 063/64 w/c is increased to Rs 862953. In F/Y 064/65 is increased to 1255257. In the final year, amount of w/c is 2396150 which is decrease figure. The total funds which are the highest increasing position study of the period. In this way MMP Lit, has compelled to sell continuously on increase w/c as major sources of fund.

In all industries, there must be same fixed assets. The investment in fixed assets depends of nature of the industry. MMP Ltd. is rudimentary and machinery is being used for production. So, MMP Ltd. had to invest on fixed assets in the F/Y 062/63. This company has been using available fund to increase production capacity and for the betterment of the quality in production MMP Ltd, has choose useful and productive fixed assets, In the F/Y 062/63 and 063/64 the company sold the fixed assets is Rs > 80513 and 494463 respectively.

In the F/Y 064/65 and 065/66 the company purchase of fixed assets in Rs 357292 and Rs 516874 respectively. The investment was made mainly on machinery and equipment by the industry.

Form the above statement it is clears that:

1. The company has not adopted the policy to investment outside the business.
2. The company does not show depreciation of fixed assets.
3. The company's working capital policy is sound since, it is increasing each year.
4. The fixed assets purchase in F/Y 064/65 to 065/66 and sold all F/Y

In conclusion, funds flow statements suffer from various drawbacks. This technique of analysis of w/c is only useful to the internal management and does not through height of the water to effective utilization of w/c, it gives some additional information about flow of w/c by making comparison too. It does not show various flow of summary term. It contest of MMP Ltd, in overall of the study period although the company is not ensure from accumulated loss, company does not show depreciation, company doesn't issue any share in the running period. In this the company applied conservative policy.

CHAPTER – FIVE

SUMMARY, CONCLUSIONS AND ECOMMENDATIONS:

5.1. SUMMARY:

Nepal is an underdeveloped, landlocked and agricultural country where about more than 80% of the total economically active populations are engaged on agriculture for their livelihood. Industrialization is the yardstick of economic development of any country. It is a major instrument of progress, modernization and social change. Therefore, it is the major tools with the aid of which vicious circle of backwardness and poverty can be broken. Economic development of a country can be accelerated only with the growth of rapid industrialization. In a country like Nepal, where the economy is basically agriculture based the industrial development can play a vital role in replanting, employment and substitution of imports through increased domestic production. In this context, MMP Ltd., a prorate manufacturing company, is acting as a key element of fulfill the demand of Plastic Product i.e, PVC pipe.

MMP Ltd. situated at Morang, Biratnagar has been successfully operated since 2042 B.S. The study focuses on the working capital management of MMP Ltd.. The objectives of the study are to analyze the participation of various components of current assets, utilization of assets, liquidity position etc. On the other hand, MMP Ltd. has been newly operated. Hence, various internal and external variables have to be analyzed before presenting the solution of the problem.

Here, the study is designed to judge the working capital management, which is based on published financial statement of MMP Ltd. for five years period. The period is from F/Y 061/62 to 065/66.

Working capital is one of the components of financial administration. It is life-blood and never of a business enterprises. It is current operating expenses and to make full utilization of long-term assets in which large investment is made. But both excessive and inadequate amount of working capital are dangerous to the firm. Thus, in fact, business concern should by to maintain sound, proper and adequate amount of working capital to that total cost of the investment become minimum and the operational activities are performed regularly without any disturbances.

Working capital is categorized according to different bases components and time. Components include cash, marketable securities, receivables, and debtors where as time base include permanent or fixed verses variable or temporary. Although they are no set rules to determine working capital requirements of the firm, a large number of factors such as nature and size of business, production cycle, rate of growth of business, demand conditions and other directly affect working capital needs of a business. So far as financing of working capital is concerned, there are mainly three basic approaches viz, hedging, conservative and aggressive. Risk-adverse investors generally follow conservative approach while risk-seeker investors follow aggressive approach. Hedging is the balance between these two extremes and therefore, following by risk-neutral investors.

The study is designed to judge the working capital management, which is based on published financing statement of MMP Ltd, for five year from fiscal year 061/62 to 065/66. It has been divided in five chapters i.e., introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendations.

In the first chapter, focus of the study has been stated, industrialization and its role in Nepal, its importance in Nepal and overall

picture of MMP Ltd, is presented under this head. Also it followed by mentioning the objectives as to find out the working capital portion of this industry and problem examined in this research paper.

In the second chapter, review of literature gives the concept of working capital, where different views of different book author are reviewed. Then the journals and articles published by different management export, which are available also reviewed in order to fulfill the basic need of the study.

In the third chapter, methodology is described under this head, where research design, nature and sources of data collection, data gathering procedures, data processing procedures and research analytical tools have been discussed.

In the four chapter, financial data of MMP Ltd, have been presented, analyzed and interpreted to arrive at the efficiency of working capital position with the help of some significant financial tools i.e, ratio analysis, trend analysis, co-efficient of correlation, and funds flow statement.

In the last chapter, an attempt has been made to present summary, conclusion and some suggestion for MMP Ltd, as recommendation.

5.2. CONCLUSIONS:

The main conclusion of the study are presented below:

1. Total current assets and total current liabilities of MMP Ltd are highly positively correlated.
2. Current assets show increasing trend in third and fifth year while it shows decreasing trend in second and forth year of the study period.

3. The return on the total assets, net worth and working capital of MMP Ltd, is found to be satisfactory. This can be further improve by the proper utilization of assets, sound credit policy, inventory management policy etc.
4. As the out come of credit sales, receivable are inevitable in today's business world. The receivable, constitute on important part in assets of the company. There is positive correlation in between receivable to current assets and total assets.
5. In case of receivable, it also occupies major shares on total current assets. It is some times highly increased where as sometimes highly decreased and ranged from 27.61% to 60.87%.
6. In terms of proportion of inventory, it seems the MMP Ltd has hold high proportions of inventory on current assets than other components i.e, investment in cash and receivables.
7. Inventory ratio is low and varied from 1.28 times to 18.25 times. Low inventory turnover is the sign of inefficient inventory management; it indicates that the sales are very slow moving in inventory. Moreover, company is unable to utilize more stock caused by poor co-ordination between inventory and sales.
8. Major shares of MMP Ltd's current assets are occupied by the less liquid form of assets viz, inventory and receivable.
9. The indices of net working capital shows increasing trend in general except in the last year and it is the symptom of good liquidity position.
10. After analyzing collection period, it proved that MMP Ltd. has not strict policy toward slow payer, which any cause the loss of more opportunity and block of fast circulation of business life.
11. The management of cash balance resources of MMP Ltd. is effective and efficient. After all, it is not a poor position but it is in satisfactory level.

12. In the five years research period, short term obligation by quick assets is unable to meet and analyzing to measuring of the quick ratio. It is found that company has poor management in cash balance and receivables and it has made excessive investment in inventory.
13. During the working capital, return on current assets ratios is found to be (3.06%, 3.05%, 2.02%, 9.12% and 4.90%) in five years. In research period there is no any negative percentage of return on current assets due to the positive NPAT. Since the positive ratios are tiny, it can be stated that the company has invested high amount in current assets.
14. Under the topic of trend analysis various items related to working capital have been calculated and presented in tabular form in terms of trend percentage.
15. The trend of total current assets, total current liabilities, total assets, total liabilities and inventory show fluctuating trend but as compared to the base year they are decreasing trend except F/Y 063/64.
16. On the other hand, generally sales, receivables and net working capital show increasing trend as compared to be base year.
17. MMP Ltd. adopts the unscientific accounting system and techniques for recording the costs. It has not clarified about cost items and no any systematic accounts and cost control program are applied to keep record in company.

5.3. RECOMMENDATIONS:

In the regards of analysis and conclusions of the study following recommendations have made.

1. The fluctuation size of various components of current assets may be negatively influenced in future. So, the company should be aware off excessive and inadequate investment in current assets which can be inspected through various financial tools and techniques i.e., ratio analysis, fund flow analysis, cash flow analysis, trend analysis etc.
2. Company should utilize advertisement media for further strengthening and extending its market share and absorbing more opportunity.
3. Management of MMP Ltd. should give highest priority in inventory management and apply various systematic and stable inventory control policies to make sufficient inventory level.
4. For the controlling the bulk of receivable, the management of MMP Ltd. needs a proper and fixed policy to collect the due amounts and to control the delay on its receivable collection.
5. Fixed assets having lower proportion been found to compare with current assets should be increased for better utilization of the working capital.
6. During the sales study period, it has not been as per the size of working capital. To reach an optimum size of sales as per the size of current assets, the company should invest amount in advertisement sector as well as other promotional factors.
7. The company needs to operate in a proper way so that it can have lesser operating cost, which further maximize its profitability and maximize its shareholders return.
8. The credit collection period of the company is nearly 14 days in an average, which is favorable period for collection. The company is recommended that it should little more minimize its collection period.
9. While recommending from the point of view of the liquidity ratio, current ratio is found to be higher then that of the standard level in all

year. But quick ratio is nearly satisfactory position. Thus this company should also maintain optimum current position.

10. Receivable are also consisting second large portion of the current assets level. In this regard management is advised to curtail it marketing policy and should be integrated with credit policy. The credit policy and should largely affect the sales. Certain target would be set for credit policy and avoid unnecessary increase in the volume of receivable.

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APPENDIX – 1

Calculation of Correlation Co-efficient (r) in order to test the relationship in between current assets and total assets.

F/Y	Current Assets (x)	Total Assets (y)	Deviation taken from assumed mean x-22.32=dx	dx2	Deviation taken form assumed mean y-25.51=dy	dy2	dxdy
061/62	22.00	25.51	0.32	0.10	0	0	0
062/63	19.95	23.38	-2.37	5.62	-2.13	4.54	5.05
063/64	38.20	41.13	15.88	252.17	15.62	243.98	248.04
064/65	21.16	24.45	-1.16	1.34	-1.06	1.12	1.23
065/66	22.32	26.13	0	0	0.62	0.38	0
∑	123.63	140.06	12.67	259.23	13.05	250.02	254.32

Let, Current assets and total assets denoted by x and y respectively.
Karl Pearson's correlation Co-efficient,

$$R = \frac{\sum dxdy - \frac{\sum dx . \sum dy}{N}}{\sqrt{\sum x^2 - \frac{(\sum x)2}{N}} \sqrt{\sum y^2 - \frac{\sum y\,2}{N}}}$$

APPENDEX – II

Calculation of correlation co-efficient (r) in order to test the relationship in between current assets and fixed assets.

F/Y	Current Assets (x)	Fixed Assets (y)	Deviation taken from assumed mean x-22.32=dx	dx2	Deviation taken from assumed mean y-25.51=dy	dy2	dxdy
061/62	22.00	3.51	0.32	0.10	0.23	0.05	0.07
062/63	19.95	3.43	-2.37	5.62	0.15	0.02	-0.35
063/64	38.20	2.93	15.88	252.17	-0.35	0.12	-5.56
064/65	21.16	3.28	-1.16	1.34	0	0	0
065/66	22.32	3.80	0	0	0.52	0.27	0
∑	123.63	16.95	12.67	259.23	0.55	0.46	-5.84

APPENDEX – III

Calculation of correlation co-efficient (r) in order to test the relationship in between working capital (gross) and sales.

F/Y	Working capital (x)	Sales (y)	Deviation taken from assumed mean x-22.32=dx	dx2	Deviation taken from assumed mean y-25.51=dy	dy2	dxdy
061/62	21.99	13.75	-0.93	0.86	-7.44	55.35	6.92
062/63	19.95	15.17	-2.97	8.82	-6.02	36.24	17.89
063/64	38.20	21.19	15.28	233.47	0	0	0
064/65	21.16	38.62	-1.76	3.09	17.43	303.80	-30.68
065/66	22.92	22.72	0	0	1.53	2.34	0
∑	124.22	111.45	9.62	246.24	5.5	397.73	-5.87

APPENDEX – IV

Calculation of correlation co-efficient (r) in order to test the relationship in between Current Assets and Current Liabilities.

F/Y	Current Assets (x)	Current Liabilities (y)	Deviation taken from assumed mean x-22.32=dx	dx2	Deviation taken from assumed mean y-25.51=dy	dy2	dxdy
061/62	22.00	5.42	0.32	0.10	-0.48		-0.15
062/63	19.95	3.26	-2.37	5.62	-2.64	0.23	6.26
063/64	38.20	20.64	15.88	252.17	14.74	6.97	234.07
064/65	21.16	2.35	-1.16	1.34	-3.55	217.27	4.12
065/66	22.32	5.90	0	0	0	1.79	0
∑	123.63	37.57	12.67	259.23	8.07	226.26	244.30

APPENDEX – V

Comparative Balance Sheet of MM Plastic (pvt) Ltd.
As at 31 Ashad 061/62 to 065/66

Particular	061/62	062/63	063/64	064/65	065/66
Source of Funds:-					
Share Holder's Fund					
a) Share Capital	20000000	20000000	20000000	20000000	20000000
b) Reserve and Surplus	84432	122079	490569	2103118	223842
Grand Total	20084432	20122079	20490569	22103118	20223842
Application of Funds:					
Fixed Assets (Net)	3507212	3426699	2932236	3289528	3806402
Investment					
Current Assets:					
Inventory	10703077	7727412	14913330	2116215	3871055
Advance Payment	354566	2144739	7283327	1326203	1359636
Account Receivable	8987759	6455360	12754160	14882384	15047298
Cash & Bank Balance	1043437	3625130	3250295	2836307	2046402
Total Current Assets (A)	21998839	19952641	38201112	21161109	22324391
Current Liabilities (B)	5421619	3257261	20642779	2347519	5906951
Net Current Assets (A-B)	16577220	16695380	17558333	18813590	16417440
Pre-operation exp. (Written off)	25506051	23379340	41133348	24450637	26130793
Grand Total	20084432	20122079	20490569	22103118	20223842

Sources: Annual audit report of MMP Ltd from F/Y 061/62 to 065/66.

APPENDIX – VI

Statement showing
Comparative Income Statement of MMP Ltd.
Morang, Nepal
Fiscal Year Form 061/62 to 2065/66

Particular	061/62	062/63	063/64	064/65	065/66
Income From Sales	13753413	15173820	21186465	38620175	22722710
Less: Cost of goods sold	11299464	13239079	18646607	33060597	19003142
Gross Profit	2453949	1934741	2539858	5559578	3719568
Less: Operating Expenses	1601286	1171569	1511776	2976202	
Net Operating Profit	852663	763172	1028082	2583376	145868
Add: Other Income	10840	49396			
Net Profit Before Tax (EBT)	863502	812568	1028082	2583376	145868
Less: Income Tax	190000	203142	257020	645844	364592
Profit For the year (NPAT)	673503	609426	771062	1937532	1093776

Sources: Annual audit report of MMP Ltd for F/Y 061/62 to 065/66.

Step – 1
Schedule of changes in working capital F/Y 061/62 to 062/63

Particular	Year		Effect in w/c	
	061/62	062/63	Increase	Decrease
A. Current Assets	21998839	19952641	2164358	2046198
B. Current Liabilities	5421619	3257261		
(A-B) Working Capital	16577220	16695380		
Increasing in Working U Capital	118160			118160
Total	16695380	16695380	2164358	2164358

Step – 2

Dr Fixed Assets A/C Cr

Particular	Rs	Particular	Rs
To Balance b/d	3507212	By Sales a/c (S)	80513
		By Balance c/d	3426699
Total	3507212		3507212

Dr Share Capital A/C Cr

Particular	Rs	Particular	Rs
To Balance b/d	20000000		
		By Balance c/d	20000000
Total	20000000		20000000

Step – 3

Dr Adjusted P/L A/C Cr

Particular	Rs	Particular	Rs
		By Balance c/d	84432
To Balance b/d	122079	By FFO (S)	37647
Total	122079		122079

Step – 4

Fund Flow Statement

Particular	Rs	Particular	Rs
Fund Flow	37647	Increase in we	118160
Operation	80513	By FFO (S)	
Sale of fixed assets			
Total	118160		118160

Step – 1

Schedule of changes in working capital F/Y 061/62 to 062/63

Particular	Year		Effect in w/c	
	062/63	063/64	Increase	Decrease
A. Current Assets	19952641	38201112	18248471	
B. Current Liabilities	3257261	20642779		17385518
(A-B) Working Capital	16695380	17558333		
Increasing in Working U Capital	862953			
Total	17558333	17558333	18248471	18248471

Step – 2

Sale of Fixed Assets = 3426699 – 2932236 = 494463 (S)

Step – 3

Dr Adjusted P/L A/C Cr

Particular	Rs	Particular	Rs
		By Balance c/d	122079
To Balance b/d	490569	By FFO (S)	368490
Total	490569		490569

Step – 4

Fund Flow Statement

Particular	Rs	Particular	Rs
Fund Flow Operation	368490	Increase in we	862953
Sale of fixed assets	494463		
Total	862953		862953

Step – 1

Schedule of changes in working capital F/Y 062/63 to 063/64

Particular	Year		Effect in w/c	
	063/64	064/65	Increase	Decrease
A. Current Assets	38201112	21161109		17040003
B. Current Liabilities	20642779	2347519	18295260	
(A-B) Working Capital	17558333	18813590		
Increasing in Working U Capital	1255257			
Total	18813590	18813590	18295260	18295260

Step – 2

Sales of Fixed Assets = 3289528 – 2932236 = 357292(U)

Step – 3

Dr Adjusted P/L A/C Cr

Particular	Rs	Particular	Rs
		By Balance c/d	490569
To Balance b/d	2103118	By FFO (S)	1612549
Total	2103118		2103118

Step – 4

Fund Flow Statement

Particular	Rs	Particular	Rs
Fund Flow	1612549	Increase in we	862953
Sale of fixed assets		Purchase of fixed assets	357292
Total	1612549		1612549

Step – 1

Schedule of changes in working capital F/Y 063/64 to 064/65

Particular	Year		Effect in w/c	
	064/65	065/66	Increase	Decrease
A. Current Assets	21161109	22324391	1163282	
B. Current Liabilities	2347519	5906951		3559432
(A-B) Working Capital	18813590	16417440		
Decrease in Working S Capital		2396150	2396150	
Total	18813590	18813590	3559432	3559432

Step – 2

Purchase of Fixed Assets = 3806402 – 3289528 = 516874 (U)

Step – 3

Dr Adjusted P/L A/C Cr

Particular	Rs	Particular	Rs
To LFO (U) To Balance b/d	1879276 223842	By Balance c/d	2103118
Total	2103118		2103118

Step – 1

Fund Flow Statement

Particular	Rs	Particular	Rs
Decrease in working capital	2396150	Loss from operation purchase of fixed assets	1879276 516874
Total	2396150		2396150