CHAPTER-I

1. Introduction

Finance is a business term which deals with the study of fund management of finance is to be accepted as weapon which enables an organization to pay its bills promptly it is necessarily linked with the flow of fund. The management may accept or reject a business provision on the basis of financial viabilities. It guides investment where opportunity is the greatest, producing relatively uniform yardstick for judging most of a firm's operations and projects and is continually concerned with achieving and adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

The function of finance involves three major decisions which, the firm must make the investment decision, financing decision and the dividend decision. An optimum combination of the three will maximize the value of the firm. In other words entire activities relating the finance are done with the help of financial management. So in this area of management there are two main functions, firstly to assemble the funds necessary to initiate a new business economically and secondly to provide the basis of continue new operation.

The management may accept or reject a business provision on the basis of financial viabilities. As P.V. Kulkarni Stated, "Financial Management may be defined as that part of Management which is concerned mainly with raising funds in the most economic and suitable manner, using these funds as profitable as possible, planning future operation, and controlling current performance and future developments

through financial accounting cost accounting, budgeting, statistics, and other means, It guides investment where opportunity is the greatest, producing relatively uniform yardstick for judging most of a firm's operations and projects and is continually concerned with achieving an adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

Financial management mainly deals with three sectors of finance: (i) Liquidity: Under liquidity, Management should forecast the cash flow, raise funds and manage the flow of internal funs: (ii) Profitability: Under this, the function of cost control, pricing forecasting future profit and measuring the cost of capital are performed of short-term and long-term funds.

Short-term assets are those assets which can be converted into cash within an operational period. Generally, these refer to cash, marketable securities, receivables, inventory etc. Short-term liabilities' or 'a Current liability' generally means the liabilities such as bills payable trade credit. Bank overdraft, outstanding expenses, interest on unsecured loan, provision for tax, dividend etc. These liabilities should be paid in a reasonable short-term period.

Some times working capital is called circulating capital as it keeps on circulating in the course of business operation. Business starts with cash firstly which is converted into inventory after some times. Inventory may be invested in three ways: raw material, Semi finished goods and finished goods or goods for sale. These inventories are also converted into receivable and receivable into cash again. So it is a continuous process of business operation.

We know that firms aim at maximizing the wealth of shareholders. In its effort to maximize shareholders, wealth, the firm should earn sufficient return from its operations. Earning a sound amount of profit requires successful business activities. The firm has to invest enough funds in current assets for the success of business activity. Current assets are needed because sales do not convert into cash immediately. Investment in current assets should be just adequate, or not more not less, to the needs of the business firm. It should be realized that the working capital needs of the firm may be fluctuating with changing business activity. This may cause excess or shortage of working capital frequently. The management should be too prompt to begin an action and current imbalances. Thus, the firm should have knowledge of the sources of working capital funds as well as investment avenues where idle funds may be temporarily invested.

Thus the study of working capital is of prime importance to internal and external analysts because of its close relationship with the current day-to-day operations of a business enterprise. Management of working capital in a business enterprise is very important mainly for four reasons. Firstly, an enterprise must determine the adequacy of investment in current assets, otherwise, it would seriously erode their liquidity base. Secondly, they must select the type of current assets suitable for investment so as to raise operational efficiency, Thirdly, they are required to ascertain the turnover of current assets that greatly determine the profitability of the enterprise. Lastly, they must find our the appropriate source of funds to finance current assets. It is therefore, a recognized fact that any mistake made in management of working capital can lead to adverse affects in business and can reduce the liquidity turnover and profitability of the firm.

Cash Management

Cash is the lifeblood of any business and most businesses need some financial help to get started, grow and develop. Generally cash of a company refers to cash in hand and cash at bank. Cash itself is, by definition, the most liquid of assets; other assets have varying degree of liquidity, depending upon the case with which they can be turned into cash. Cash holds the main part of working capital of any firm. The management of cash must be effective because bankruptcy cost and benefits relating to cost are determined by the level of cash holding. Thus against the benefits associated with maintaining of liquidity one must balance the cost. However, there are three motives of cash holding; the transaction motive, the precautionary motive and the speculative motive.

Cash is the lifeline of a company, so if this lifeline deteriorates so does the company's ability to fund operations, reinvest, and meet capital requirements and payments Understanding a company's cash flow health is essential to making investment decisions. A good way of judging a company's cash flow prospects comes from looking at its working capital management (WCM). This document explains the concept of working capital and its significance in valuation. *(www.bnet.com/abstract.asp)*

Inventory Management

Managing inventory is a juggling act. Excessive stocks can place a heavy burden on the cash resources of a business. Insufficient stock can result in lost sales, delays for customers etc. The key is to know how quickly your overall stock is moving or, put another way, how long each item of stock sit on shelves before being sold, obviously, average stock-holding periods will be influenced by the nature of the business.

Inventories are one step nearer to cash. They are subject to change in market value and must be sold before they come available for debt-paying

purpose. If holding of inventories is higher than the required level, earning cost and other risk involved in it may reduce the profit. On the other hand, it the level of inventory is lesser than the required level, it may interrupt even day-to-day operations. Thus the key issue for a business is to identify the fast and slow stock movers with the objectives of establishing optimum stock levels for each category and thereby minimize the cash tied up in stocks.***(Source: www.planware.org)***

Receivable Management

Receivable is the money which is owed to a company by a customer for products and services provided on credit. This is treated as a current asset on a balance sheet. A specific sale is generally only treated as an account receivable after the customer is sent an invoice. ***(www.investorwords.com)***

In case most of the sales are done on a cash basis, receivables management may not play a significant role. Being one of the important perimeters of modern marketing mix, credit sales result in assent accounts representing amounts owed to the firm by customers from sale of goods or services. The level of receivables is highly affected by the firm's credit policy although the firm's investments in receivables are also affected by general economic conditions, industry norms, pace of technology change, competition etc. The optimum credit policy should occur at a point where there is a trade-off between liquidity and profitability.

Current Liabilities

Most of the business organization procures goods and services on credit basis, not on commodity aid or direct purchase basis. It is a short-

term obligation which is payable within a year. Current liabilities generally denotes trade creditors, bills payable, secured and unsecured loans dividend, accrued expenses, amount payable to customers, to other corporation and to suppliers and provision for different obligations. The management of current liabilities is directly related with the procurement of fund to operate a firm. The main objective of procuring fund is to get fund at the least rate to attain overall objective of the firm.

Bank is also a business organization where monetary transaction occurs. It creates funds form its client's savings and lends the same to needy persons or business companies in terms of loans, advances and investment. So proper financial decision making is more important in banking transaction for its efficiency and profitability. Most of the financial decisions of bank is different form other types of business enterprise Investment in working capital and we can consider deposits and short-term borrowings as a part of current liabilities.

Bank's Profile

Bank of Kathmandu Limited (BOK) is a culmination of a comprehensive vision of the promoters to take the Nepalese economy to a newer realm in the global market, Each promoter of Bank of Kathmandu has successfully demonstrated leadership skills, business acumen and entrepreneurial talents in his/her respective field. Incorporated in 1993, Bank of Kathmandu came into operation in March 1995 under the commercial bank Act. 2031 with the following predominant objectives:

- Identify business prospects not yet catered by then existing commercial bank and offer new banking products and services.
- Introduce modern banking technology facilitating bank and business operations and transactions.

Bank of Katmandu's activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inward and outward remittances and funds and portfolio management, The company has introduced many facilities to the customer. Despite of unfavorable conditions, the bank has been able to make a substantial marketing of products, expansion of areas and diversification of service using latest technology, which will ultimately, helps it to grow further, Bank of Kathmandu is committed to providing products and services of the highest standards to its customers by understanding their requirements best suiting the market needs.

In pursuit to deliver the products and services of the highest standards, Bank of Kathmandu has state-of-art technology for appropriate and efficient Management information system (MIS) and rendering quality services, VSAT and Radio Modem for networking, SWIFT for international trade and transfer of funds around the world, correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operation for better risk management, consistent service deliveries and lowering operating cost. The bank has sifted form wholesale lending to retail lending, considering the growing demand and prevailing scenario of investment, Bank of Kathmandu has been providing anywhere banking facilities, From which customer can deposit and withdraw form any of nine BOK branches including head office.

Bank has launched consumer-oriented service such as hire purchased, educational loan, housing loan and foreign employment loan

scheme. Bank of Kathmandu Limited launched the mobile Banking service through SMS. The service provided includes account balance inquiry with an added feature of mobile phone bill payment and instruction SMS the first of its kind in Nepal.

Capital Structure of Bank of Kathmandu

Authorized Capital	Rs.1,000,000,000.00
Paid up Capital	Rs. 603,141,300.00

Shareholding Pattern

Promoters	Rs. 42%
General Public	Rs. 58%

Independent and self-governing board, involving a pool of endowed and farsighted directors, each director of the board has been recognized and well-acclaimed for his/her contribution in the development and growth of Bank of Kathmandu. Young, seasoned and talented bankers, each with years of banking experience and proven competency, constitute the Management Team of Bank of Kathmandu In the present economic scenario the bank has to compete with other existing and new commercial banks of Nepal. It has already established itself as an innovative bank that introduces new modern technology in the banking industry. In short, BOK has made a significant contribution to support the country's economic system and development efforts. ***(Source: www.bokltd.com.np)***

1.1 Background of the study

Working capital management is an important decision making area of financial management of an enterprise. It requires understanding for how to raise and allocate financial resources, how to relate short-term investments, and financial decisions to the overall objectives of the firm,

and how to relate short-term financial decisions to certain long-term financial decisions. ***(Upadhyaya, 1985:40)***

Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash. ***(www.studyfinance.com)***

Working capital is used to pay short-term obligations such as your accounts payable and buying inventory. If your working capital dips too low, you risk running out of cash. Even very profitable businesses can run into trouble if they lose the ability to meet their short-term obligations. The calculator assists you in determining working capital needs for the next year, Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is calculated by subtracting current liabilities from current assets. Due to differences in businesses and the fact the working capital is not a ratio but an absolute amount it is difficult to predict what the ideal amount of working capital would be for your business. To calculate working capital requirements this calculator uses the "Current ratio" to determine a target amount of working capital see the "Current Ratio" definition for more information. ***(Source: www.planware.org)***

There are two concepts of working capital-gross concept and net concept. Gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets which

can be converted into cash within an accounting year and include cash, Short-term securities, debtors, bills receivables and stock. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to nature for payment within an accounting year and include creditors, bills payable and outstanding expenses, Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets. *(Pandey, 1995:665)*

Working capital management is a process of short-term decision making regarding the current assets and liabilities affecting he long-term operation of an organization. It is a process of planning and controlling the level and mix of current assets of the firm as well as financing these assets. It includes decisions regarding cash and marketable securities, receivables, inventories, and current liabilities with an objective of maximizing the overall value of a firm.

In general, the concept of working capital is synonymous with the fund available for meeting day-today requirements of a company. But according to a group of authorities, working capital refers to the amount of investment in total current assets only. It means they are supporting the gross concept of working capital. Thus the gross concept of working capital denotes short-term assets only, it does not include short-term liabilities. However, a business can not exist only with the current assets, it needs current liabilities too. Actually, the amount of working capital heavily depends upon the amount of current liabilities. In this sense

working capital, means the excess of current assets over current liabilities. This concept of working capital is called as net concept.

1.2 Statement of the problem

Working capital management has been regarded as one of the conditioning factor in the decision making issues. It is needless to say that it is very difficult to point out as to how much working capital a particular business organization requires. The organization which is not willing to take risks can go for more short-term liquidity. The more of short-term liquidity means more of current assets and less of current liabilities. The less current liability implies less short-term financing heading to the lower returns resulting from the use of more high cost long-term financing. Hence, it is very important to analyze and find out problems and its solutions to make efficient use of fund for minimizing the risk of loss to attain profit objective.

It will not be an exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of them which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets, and the level and structure, the cheaper source of fund and to invest it at the best opportunities etc. come under the heading of financial decision making, the management of short-term assets and source of finance which entails an analysis of the effect of risk and profitability can not be overlooked.

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making. To achieve the goal of overall business, the determinants of working capital should be neither

more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation and determining which one is more beneficial to the corporation and which is not.

Working capital of the organization can not be managed in an easy way and it should not be neglected. Further, the banker's problem in this regard is more difficult bank and great monitory institution, important to the general welfare of the economy. More than any other financial institutions, they have a vastly sobering and exacting responsibility they must be ready to pay "on demand" without warning or notice, a good share of their liabilities Different types of deposits are the main source of fund which they can use of giving loans and advances to different sectors. Hence in order to have a higher return form their transaction, banks must try to increase their deposits as well as their investment. To fix the level of deposits and the capacity of mobilizing these deposits is main problem of working capital management of banks. Banks can get higher profit they invest their increasing deposits in proper places, otherwise profitable of the bank can not be expected. Some specific problems felt in this study are as follows:

a. What is the position of Current Liability & Assets of BOKL?
b. What is the effect of Working Capital Management in the operating income?
c. What is the liquidity position of BOK?
d. Is the fund properly and productively utilized or not?

1.3 Objectives of the study

A banker's efficiency mainly consists in attracting more deposit, increasing loans and advances and maximizing profit. The objective of the study is **to know the working capital Management effectiveness.**

- To Point out the Position of Current Liability & Assets of Bank of Kathmandu Limited over the year.
- To know the effect of Working Capital Management on operating income.
- To point out the liquidity position of BOK over the years.
- To find out that the bank utilize their fund effectively.

1.4 Significance of the study

Working capital is the size of investment in each type of current assets. Each of the current assets should be managed efficiently and affectively. It is because decision regarding working capital affects not only the profitability of the firm in the short-term but also its very survival in the long-run. The management of working capital should not be neglected by enterprises. Otherwise, they will seriously erode their financial viability As the commercial banks in Nepal are exacting grater and greater influence on the economy of the country. an effective and efficient management of their current assets is needed to better the profitability of the firm.

The need of the study like this arises form the real nature of the banking business and also forms the impact that, it has in the economy of the country Because the business of banks is to accept deposits and advance loans, and the level of deposits and loans depends up the working

capital policy, the study of this type will be most important for the bankers the economists, and the public at large. It provides the literature to he researcher who wants to carry on further research in this field. Therefore, it has been felt very necessary to evaluate the position of working capital management and to focus on the important the working capital management in Bank of Kathmandu Limited.

1.5 Limitation of the study

This study is simply a partial requirement of Master of Business Study (MBS) program so this study will be limited by following factors.

- There are many factors that affect working capital management of the bank however only those related factors will be considered in this study.
- This study will be focused on working capital management of Bank of Kathmandu Limited only. Thus the findings of the study may not be applicable for other banks and firm and companies as well.
- This study will considered only working capital management of the bank. So the study can not judged other financial aspect of the bank.
- The study is mostly based on secondary data which may or may not provide exact vision of the field.
- The study only covers the period of five fiscal year form 060/061 to 064/065.

1.6 Organization of the study

This thesis will divide into five chapters. They will as follows:

1. Introduction

The first chapter deals with introduction, background of the study, statement of problems, objective of the study, significance of the study, limitations of the study and organization of the study.

2. Review of Literature

The second chapter deals with the review of related literatures and available studies written and prepared by different experts and researchers in the field of working capital.

3. Research Methodology

The third chapter presents the methodology used in this study. It deals with research design, sources of data, data gathering procedures, population and samples and data processing procedures.

4. Presentation and Analysis of Data

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the help of various financial and statistical tools followed by methodology. At the last part of this chapter, an explanation of the interview and the major finding of the whole study have been presented.

5. Summary, Conclusion and Recommendations

The fifth chapter summarized the whole study. Moreover, it draws the conclusion and forwards the recommendations for the improvement of working capital management of Bank of Kathmandu Limited.

At the end, an appendix has been included according to the test of relationship in between various variables of working capital and a bibliography a card has been included according to the literatures are reviewed.

CHAPTER II

2. Review of Literature

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprises including the available information of commercial banks. After selecting the topics of the research, researcher study different magazines, Journals and newspaper book to collect the information about their subject matter. This process of studying different materials. Which we concerned with the selected topics of the research, is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

2.1 Conceptual Framework

The management of the funds of business can be described as financial management Financial Management is mainly concerned with two aspects. Firstly, fixed assets and fixed liabilities; in other words, long-term investment and sources of funds. Secondly, current assets and current liabilities, which are concerned with current uses and sources of funds. Both of these types of funds play a vital role in business finance, Business firms need various types of assets in order to carry out its operation. Some assets are required to meet the needs of regular production and some others are required specially to meet day to day expenses and short-term obligations. The assets such as cash, marketable securities, account receivables and inventories, which are known as current assets are required

to be maintained at a certain level depending upon the volume of production and sales.

The cash and marketable securities are respectively considered as purely liquid and near liquid assets whereas the account receivable and inventories are not. However, they can be liquidated as and when necessary within a period of less than one year. The capital invested on these assets is known as working capital In short, working capital is the source of financing current assets and it includes short as well as long-term financing working capital is a controlling nerve of business. It is an important and integral part of financial management as short-term survival is a pre-requisite to long-term success. As pointed out by Ralph Kennedy and steward McMullar the inadequacy or mismanagement of working capital is the heading cause of business failure. Unless the payment is made at the maturity of the particular debt, the firm is at worst and the creditors may force the firm of terminate its business. *(Flink and Donald 1964:13)*

Firms need cash to pay for all their day-to-day activities. They have to pay wages. Pay for raw materials. Pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets as these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has at its disposal.

Working capital is therefore.

Working capital (WC) =	Current Assets (CA) = Stock + debtors + Cash	- Current liabilities (CL)

Thus working capital is the same as net current assets, and is an important part of the top half of the firm's balance sheet. It is vital to a business to have sufficient working capital to meet all its requirements. Many businesses have gone under, not because they were unprofitable. But because they suffered from shortages of working capital *(www.bized.ac.uk)*

Working capital refers to the cash a business requires for day-to -day operations, or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for payment, Among the most important items of working capital are levels of inventory, accounts receivable, and accounts payable, Analysts look at these items for signs of a company's efficiency and financial strength. The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for investors. *(www.studyfinance.com)*

Therefore, the role of working capital management is more significant for every business organization irrespective of their nature. There have been a number of studies on working capital management form different experts in various enterprises.

2.2 Concept of working capital

The term working capital management is closely related with short-term finance and it is concerned with collection and allocation of the resources. Working capital management related to the problems that arise in attempting to mange the current assets the current liabilities and the inter-relationships that exist between them. Thus the management of working capital is no longer viewed as an accounting task but as a strategic

method for increasing the financial performance of leading organizations While early initiatives for reducing days sales outstanding (DSO) have largely focused on post invoice collections and dispute management today the ability to drive working capital management throughout the entire quote-to-cash cycle has proven to deliver an exponential effect on DSO and the overall customer experience. *(www.bambooweb.com)*

There are two schools of thoughts or concepts regarding the meaning of working capital, according to one school of thought, working capital is meant for the current assets only, it is concerned nothing with the liabilities side. According to other school of thought working capital is the excess of current assets over current liabilities. The former concept which can be termed as gross concept, is important to newly established companies where liabilities have not been acquired immediately, but the latter one which can be termed as net concept. Is important for both newly established and operating concerns where some amount of current liabilities has been maintained for payment of different creditors, income taxes. Bills payable, severed and unsecured loan, etc. the term current assets refers to those assets which in the ordinary course of business can be or will be turned into cash within one year without undergoing a diminishing in value and without disrupting the operations of the firm such as cash, marketable securities, accounts receivables and inventory etc. current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business such as accounts payable, bank over-draft and outstanding expenses etc. Mainly there are two concepts of working capital Gross Concept and Net Concept.

Gross Concept

According to gross concept, WC refers to the capital invested in current assets of a firm. If focuses only the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory and account receivables, The level of current assets may be fluctuating with the changing business activity. Thus this concept can help earning more profit through maximum utilization of current assets. This concept is called quantitative concept. *(Pradhan, 1986:119)*

Working capital in gross concept means the total sum of current assets only, The view was supported by distinguished authorities like Mean, Baker, Milled, Pandey, Pradhan Field and Adam smith. Adam smith called, Circulating Capital' for current assets. The use of this term emphasizes on the short-term cash cycle of the firm. The short-term cash cycle refers to the recurring transactions from cash to inventory, inventory to receivables and receivables to cash again.

Net Concept

According net concept, Working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds. It is not very useful to compare the performance of different firm as a measure of liquidity, but it is quite useful for internal control. This concept helps to compare the liquidity of the same firm over a time. *(Khan and Jain, 1999:604)*

The term net working capital refers to the difference between current assets and current liabilities, Current liabilities are those claim of outsiders

which are expected to nature for payment within an accounting year, and includes; creditors, bills payable, bank overdrafts and outstanding expenses or accrued income. Net working capital arises when current assets exceed current liabilities. A negative WC occurs when current liabilities are in excess of current assets. *(Pandey: 1995:730)*

According the well known Indian Professor I.M. Pandey, there are specially two concepts of working capital; Gross concept and Net Concept, The gross working capital simply called as corking capital refers to the firm's investment in current assets. Current assets are those assets, which can be converted into cash within an accounting year and included cash, short-term securities, debtors, bills receivables, stock and prepaid expenses.

According to James C. Van Horne, there are two major concepts of working capital -net working capital and gross working capital. When accountants use the term working capital, they are generally referring to net working capital, which is the dollar difference between current assets and current liabilities. This is one measure of the extent to which the firm is protected from liquidity problems. From a management viewpoint, however, makes little sense to talk about trying to actively manage a net difference between current assets and current liabilities, particularly when the difference is continuously changing.

Financial analysts, on the other hand, mean current assets when they speak of working capital. Therefore, their focus is on gross working capital. Since it does make since for the financial manager to be involved with providing the correct amount of current assets for the firm at all times, we will adopt the concept of gross working capital. As the discussion of

working capital management unfolds, our concern will be to consider the administration of the firm's current assets-namely, cash and marketable securities receivables, and inventory and the financing needed to support current assets. *(Van Horne: 1996:204)*

Thus, there are two concepts of WC: gross concept and net concepts. However, concept of WC is related not only with gross and net concepts of WC but also wing organization borrowings. The management of any organization has to pay attention towards the total amount of both current assets as well as borrowings, And along with this the management has to check where profit earning capacity of the organization favorable of not because it is higher tan the cost of borrowings, In a corporation or any type of firms the financial manager should pay attention to the aspects of profitability. He should also aim to ensure the liquidity of the firm. Any established business is a constant should also aim to ensure the liquidity of the firm. Any established business is a constant ‘debtor’ It borrows from financial institutions. It purchases merchandise on credit and it has tax obligations to the government of or the concerned authorities. Thus in every step of the business of corporation activities there is an obligation of creditors. So, to satisfy their creditors, the firm must have that much of liquid cash for making payment of all these obligations in time. Hence, both concepts of net and gross working capital are necessary for the business finance. Both current assets and current liabilities are two main parts of management of working capital. In WC management we mange the financial resources needed by a firm and use it in a most profitable field without keeping any idle fund as far as possible.

2.3 Classification of Working Capital

Before turning our attention to the way working capital should be financed, we need to take a slight detour and classify working capital Working capital can be classified into two types:

(i) Permanent of Fixed working capital

(ii) Variable of temporary or fluctuating working capital.

A firm's permanent working capital is the amount of current assets required to meet long-term minimum needs. You might call this 'Bare Bones" working capital. Temporary working capital, on the other hand, is the investment in current assets that varies with seasonal requirements. Figure in below illustrates the firm's changing needs for working capital over time while highlighting both the temporary and permanent nature of those needs.

Figure 2.1

Permanent and temporary working capital

Temporary working capital

Amount

Permanent working capital

Time Period

Permanent working capital is similar to the firm's fixed assets in two important respects First the amount investment in both of these asset groups is long term. Therefore suppliers of capital to the firm need to realize that the funding needs for permanent current assets is ling term despite the seeming contradiction that the assets being financed are called "Current" Second. for a growing firm the level of permanent working capital needed will increase over time in the same way that a firm fixed assets will need to increase over time. However, Permanent working capital is different from fixed assets in one very important respect - it is constantly changing. Permanent working capital does not consist of particular current assets staying errantly in place, but is a permanent level of investment in current assets, whose individual firm are constantly turning over, viewed still another way, permanent working capital is similar to the level of water that you find in a bay at low tide.

Like permanent working capital, temporary working capital also consists of current assets in a constantly changing form. However, since the need for this portion of the firm's total current assets is seasonal, we may want to consider financing this level of current assets from a source which can itself be seasonal or temporary in nature *(Van Horn, 1996:205).*

Thus the permanent working capital refers to the level of current assets which is required on a continuous basis over the entire year and the temporary working capital represents that portion of working capital which is required over permanent working capital.

2.4 Need of Working Capital

Efficient management of working capital is an integral art of overall financial management and has a bearing on the objective of the

maximization of the owner's wealth. Sufficient profit is needed to achieve this objective profit position of the firm depends upon the amount of sale. In other words a good sales program is needed to gain sufficient profit. But the amount of sales shown in the book can not reflect the real income. Some time lag between sales and cash realization is needed. As the operation cycle in this period can not be stopped some amount of liquid assets is needed to run the operation without interruption. That very amount of liquid assets is called working capital. Indeed the concepts of working capital (gross and net) are exclusive; rather they are equally significant from the management point of view. However, the firms differ in their requirement of working capital.

The management of working capital has been regarded as one of the conditioning factors in the decision making issue. It is no doubt, very difficult to point our as to how much working capital is needed by a particular company, but it is very essential to analyze and find out the solution to make an efficient use of funds for minimizing the risk of loss to attain profit objectives. Thus goes the importance of working capital in operating life of a company. A successful business keeps its working capital moving rapidly; hence it is also a lead circulating capital or a moving capital. The transmutation of a company’s working capital into income and profits and back into working capital is one of the most dynamic and vital aspects of business operation. And only this movement of current assets keeps the business alive. A fully equipped factory without the stock to sell is of no use. These circumstances emphasize the importance of working capital in a business firm. *(Ghimire; 2002:73)*

The need for working capital or current assets cannot be overemphasized. The objective of financial decision making is to

maximize the shareholders' wealth. To achieve this, it is necessary to generate sufficient profits. The extent to which profit can be earned will naturally depend upon the magnitude of the sales among other things. A successful sales program is, in other words, necessary for earning by any business enterprise. However, sale does not convert into cash instantly, there is invariably a time log between the sale of goods and receipt of cash. There is, therefore, sufficient working capital is necessary to sustain sales activity. Technically, this is referred to as the operating or cash cycle. The operating cycle can be said to be at the heart of the need for working capital "Operating cycle is the time duration required to convert sales. After the conversion of resources into inventories, into cash" *(Pandey; 1996:713)*

Most of the firms aim at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit can be earned naturally depends upon the magnitude of sale among the other things. For constant operation of business, every firm needs to hold the working capital components like cash, receivable inventories etc. therefore every firm needs working capital to meet the following motives:

1. The transactional motive

According to transactional motive, a firm holds cash and inventories to facilitate production and sales operation in regular. Thus, the firm needs the working capital to meet the transaction motive.

2. The precautionary motive

Precautionary motive sis the need to hold cash & inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such a strike, failure of important customer, unexpected slow down in collection of account receivable, cancellation of some order

for goods and some other unexpected emergency, thus, the firm needs the working capital to meet any contingencies in future.

3. The speculative motive

Speculative motive refers to the desire of a firm to take advantages of following opportunities.

a) Opportunities of profit making investment.
b) An opportunity of purchasing raw materials at a reduced price on payment of immediate cash.
c) To speculate on interest rate and
d) To make purchases at favorable price etc. Thus the firms need the working capital to meet the speculative motive.

2.5 Working Capital Cycle

Cash flow in a cycle into, around and out of a business. It is the business's life blood and every manager's primary task is to help[keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash and expire, the faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help. Improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two elements in the business cycle that absorb cash - inventory (Stocks and work-in-progress) and Receivables (debtors owing you money). The main sources of cash are payables (your creditors) and Equity and Loans.

Figure 2.2

Working Capital Cycle

Equity &

Loans

Cash

Payables

Receivable Inventory

Sales

Each component of working capital (namely inventory, receivables and payables) has two dimensions ..... Time ..... and MONEY. When it comes to managing working capital- TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved term with suppliers e.g. get longer credit or an increased credit limit, you effectively create free finance to help fund future sales.

If you	**Then .....**
Collect receivables (Debtors) Faster	You release cash from they cycle
Collect receivables (Debtors) slower	Your receivables soak up cash
Get better credit (in terms of duration or amount) from suppliers	You increase your cash resources
Shift inventory (Stocks) faster	You free up cash
Move inventory (Stocks) slower	You consume more cash

It can be tempting to pay cash, if available, for fixed assets e.g. computers, plant, vehicles etc. If you do pay cash, remember that this is now longer available for working capital, Therefore. if cash is tight, consider other ways of financing capital investment- loans equity, leasing etc. Similarly, if you pay dividends r increase drawings, these are cash outflows and like water flowing downs a plug hole, they remove liquidity from the business. ***(Source: www.planware.org)***

2.6 Working Capital Policy

A firm's net working capital position is not only important as an index of liquidity but it is also used as a measure of the firm's risk. Risk in this regard, means chances of the firm being unable to meet its obligations on due date. *(Pandey: Op. cit: 738)*

Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. These decisions involve trade off between risk and profitability. The greater the relative proportion of liquid assets, the lesser the risk of running out of cash all other things being equal. Profitability, unfortunately, also will be

less. The longer the composite maturity schedule of securities used to finance the firm, the lesser the risk of cash insolvency all other things being equal.

Again the profits of the firms are likely to be less. Resolution of the trade off between risk and profitability with respect to these decisions depends upon the risk preferences of management.

Working capital policy refers to the firm's basic policies regarding target level of each category of current assets and how current assets will be financed. *(Western and Brigham: 1996:333)*

So, first of all, the firm has to determine how much funds should be invested in working capital in gross concept. Every firm can adopt different financing policy according to the financial manager's attitude towards the risk-return trade off. One of the most important decisions of finance manager is how much current liabilities should be used to finance current assets. Every firm has to find out he different sauces of funds for working capital.

2.6.1 Current Assets Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. How much a firm will invest in CA will depend on its operating cycle. There are three alternative current assets investment policies-fat cat, lean and mean moderate. *(Western and Brigham; 1996:344)*

i) Fat Policy

This is known as relaxed current assets investment policy. In this policy, the firm holds relatively large amount of cash, marketable securities, inventory and receivable to support a given level of sales. This policy creates longer inventory and cash conversion cycles. It also creates the longer receivable collection period due to the liberal credit policy. Thus this policy provides the lowest expected return on investment with lower risk

ii) Lean and Mean Policy

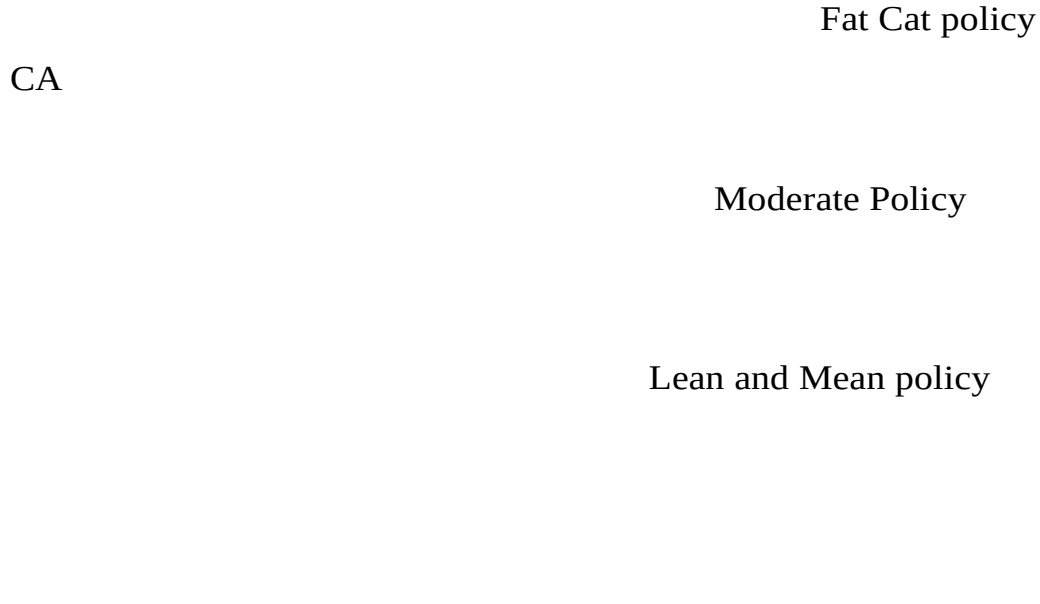
In lean and mean policy, a firm holds the minimum amount of cash, marketable securities, inventory and receivables to support a given level of sales. This policy tends to reduce the inventory and receivable conversion cycle. Under this policy firm follows a light credit policy and bears the risk of losing sales.

iii) Moderate policy

In this policy, a firm holds the amount of current assets in between the relaxed and restrictive policies. Both risk and return are moderate in this policy.

Figure 2.3

Alternative current Assets Investment policy



CA: Current assets

The relationship between output and current assets level for these alternatives illustrated in above figure. We see form the figure that the greater the output, the greater the need for investment in current assets to support that output and sales. This relationship is based on the notion that it takes a greater proportional investment in current assets when only a few units of output are produces than it does later on, when the firm can use its current assets more efficiently.

2.6.2 Current Assets Financing Policy

It is the manners in which the permanent and temporary current assets are financed current assets are financed with fund raised form different sources. But cost and risk affect the financing of any assets. Thus,

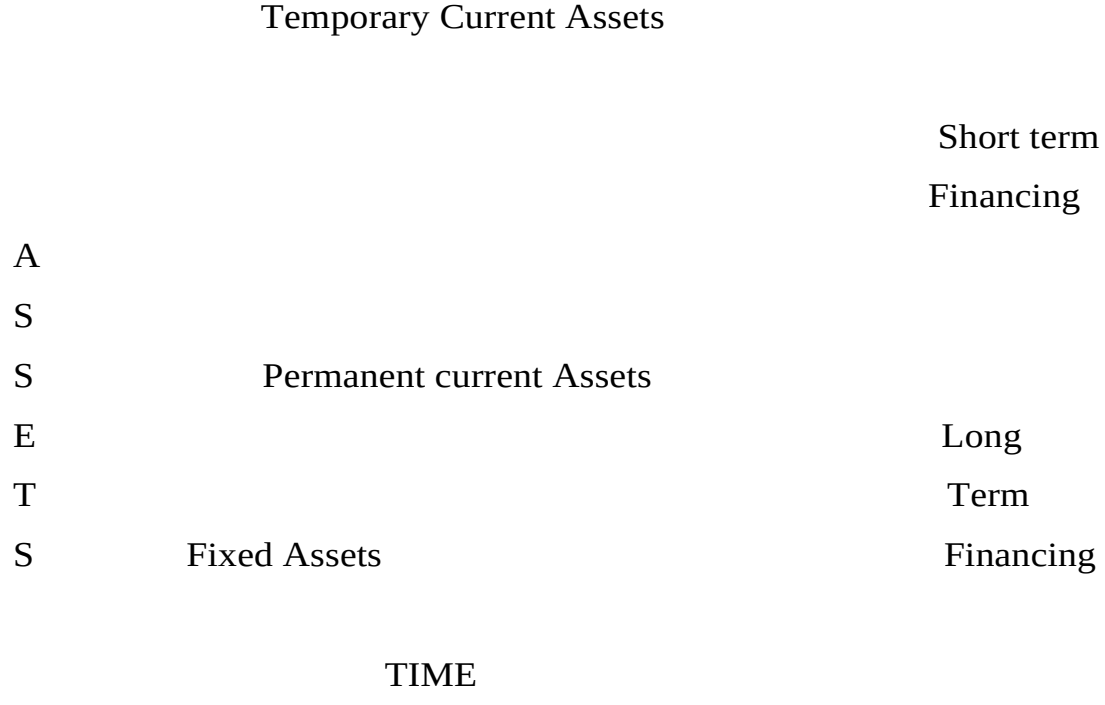
current assets financing policy should clearly outline the sources of financing. There are three policies - aggressive, conservative and matching or hedging policies of current assets financing.

i) Aggressive Policy

In this policy, the firm finances a part of its permanent current assets with short-term financing and rest with long-term financing. In other words, the firm finances not only temporary current assets but also a part of permanent current assets with short-term financing. In this policy the liquidity position will be low and the risk will be high. A low liquidity position may expose the firm to opportunity cost. If a firm relies heavily on short-term borrowings, during the period of high money credit may be rational and the firm may be unable to obtain all the financing its needs.

Figure 2.4

Aggressive Financing



Above figure shows that short-term financing finances 50 percent of the permanent current assets. In general, interest rate increases with time i.e. shorter the time, lower the interest rate. It is because lenders are risk adverse and risk generally increases with the length of lending period. Thus, under normal situation the firm borrows on a short-term financing rather then long-term financing. On the other side, if the firm finances its permanent current assets by short-term financing, then it runs the risk of renewing the borrowing again and again. This continued financing exposes the firm to certain risk. It is because, in future the retest expenses will fluctuate widely and also, it may be difficult for the firm to raise the funds during the stringent credit periods. In conclusion, there is higher risk, hither return and low liquidity position under this policy.

ii) Conservative Policy

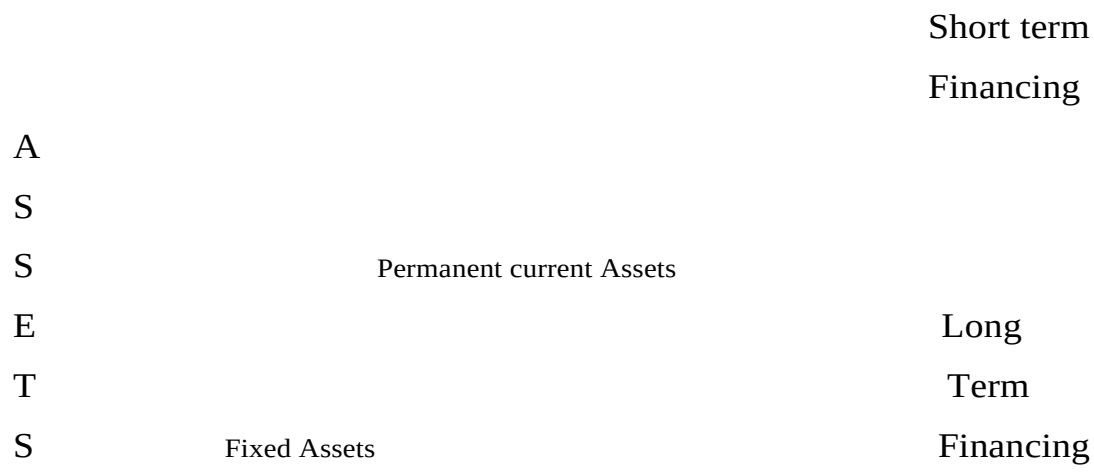
In this policy, the use of short-term fund is restricted to the emergency situation when there is necessity to invest current assets. Otherwise, the long-term fund should be used as far as possible in financing of investment in current assets. However the cost of financing in this policy will be more, the liquidity will be relatively greater and risk will be minimized.

A firm may adopt a conservative policy in financing its current and fixed assets. The financing policy of the firm is said to be conservative when it depends more on long-term funds for financing needs. Under a conservative plan, the firm finances its permanent assets and a part, of temporary current assets with long-term financing. Thus in periods when the firm has no temporary current assets, it stores liquidity by investing surplus fund into marketable securities. The conservative financing relies heavily on long-term financing and therefore is less risky. The

conservative financing policy is shown in figure below. (Pandey: 1995:684)

Figure 2.5

Conservative Financing Policy



In above figure the conservative financing policy is shown. Not that when the firm has no temporary current assets (at the level of slope) the long-term funds released can invested in marketable securities to build up the liquidity position of the firm.

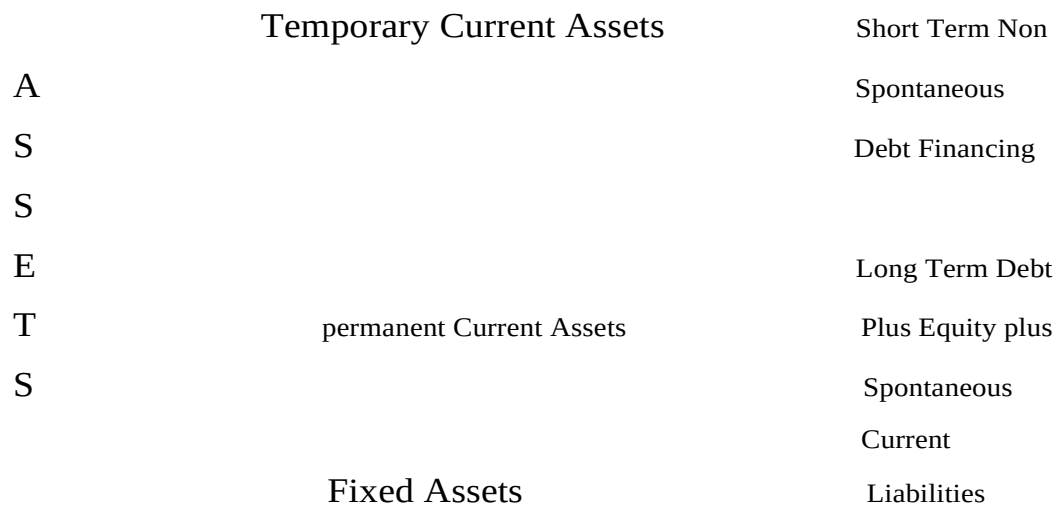
iii) Matching Policy

In this policy, the firm finances the permanent current assets with long-term financing and temporary with short-term financing. It lies in between the aggressive and conservative policies. It deals to neither high nor low level of current assets and current liabilities. Figure in below

shows the temporary working capital financed by short-term financing and long-term financing. Thus no working capital is zero under this policy.

Figure 2.6

Matching Policy



Thus, when the firm follows matching policy also known as heading policy, long-term financing will be used to finance fixed assets and permanent current assets and short-term financing to finance temporary or variable current assets. Figure 2.6 is used to illustrate the matching policy over time. The firm's fixed assets and permanent CA are financed with long-term funds and as the level of these assets increases, the long-term financing level also increases. The temporary of variable CA are financed with short-term funds and as their level increases, the level of short-term financing also increases.

2.7 Financing of working Capital

The firm's working capital assets policy is never set in a vacuum; it is always established in conjunction with the firm's working capital financing policy. Every financial company requires additional assets whether they are in stable or growing conditions. The most important function of financial manger is to determine the level WC and to decide how it is to be financed. Financing of any asset is concerned with two major factors cost and risk. Therefore, the financial manager must determine an appropriate financing mix or decide how CL should be used to finance CA., However, a number of financing mixes are available to the financial manager. He can resort generally three kinds of financing.

i) Long-term Financing

Long-term financing has high liquidity and low profitability. Ordinary share, debenture preference share, retained earning and long-term debts of financial institution are major sources of long-term financing.

ii) Short-term Financing

A firm must arrange its short-term credit in advance. The sources of short-term financing of working capital are made credit and bank borrowing.

Trade Credit refers to the credit that a customer gets form suppliers of goods in the normal course of business. The buying firm have not to pay cash immediately for the purchase is called trade credit. It is mostly an informal arrangement and is granted on an open account basis. Another

form of trade credit is bills payable. It depends upon the term of trade credit. ***(van Horne: 1996:248)***

Bank credit is the primary institutional sources for working capital financing for the purpose of bank credit, amount of working capital required has to be estimated by the borrowers and banks are approached with the necessary supporting data. After availability of this data, bank determines the maximum credit based on the margin requirement of the security. The types of loan provided by commercial banks are loan arrangement overdraft arrangement, commercial papers etc.

iii) Spontaneous Financing

Spontaneous financing arises form the normal operation of the firms. The two major sources of such financing are trade credit and accruals. Whether trade credit is free of cost of not actually depends upon the term of trade credit. Financial manager of the firm would like to finance its working capital with spontaneous sources as much as possible. In practical aspect the real choice of CA financing is either short-term & long-term sources Thus, the financial manager concentrates his power in short-term versus long-term financing. Hence, the financing of working capital depends upon the working capital policy which is perfectly dominated by management attitude towards the risk-return.

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

a) Hedging Approach
b) Conservative Approach
c) Aggressive Approach

a) Hedging Approach

The firm can adopt a financial plan which involves the match in of the expected life of assets with the expected life of the sources of funds raised to finance assets. *(Pandey: 1995:683)*

In this approach the long-term assets are financed by short term funds. It is called hedging approach because it matches the risk-regarding activities. M.Y. Khan and P.K. Jain express that the term hedging is often used in the sense of a risk-reducing investment strategy involving transitions of a simultaneous, but opposite nature, so that the effect of one is likely to counter balance the effect of the other. With the heading approach short term of seasonal variations in CA would be financed with short-term debt, the permanent components of CA would be finished with long-term debt of equity. In this approach assets are classified into there categories.

- Funds requirement for seasonally needed CA.
- Funds requirement for regularly needed CA.
- Funds requirement for fixed of log-term assets.

According hedging approach, we should finance variables or short-term WC from CL or short-term funds and long-term funds should be used to finance the fixed portion of CA.

b) Conservative Approach

The financing Policy of the firm is said to be conservative when it depends more on long term funds for financing needs. Under a conservative plan the firm faineances its permanent assets and also a part of temporary current assets, with long-term financing the periods when the

firm has no need for temporary current assets the idle long-term funds can be invested in the tradable securities to conserve liquidity.

The approach relies heavily on long term financing; as a result firm has less possibility financing the problems of shortage of funds. In conservative approach, permanent capital is used to finance all permanent assets requirements or also to meet some or all of the seasonal demands. (***Western and Brigham, 1996: 27)***

c) Aggressive Approach

A firm can follow aggressive policy in financing its assts. Under an aggressive approach the firm finances a part of its permanent current assets with its short-term financing "The relatively more use of short-term financing mace the firm more risky" *(Pandey, 1995: 685)*

The grater the portion of the permanent asset need financed with short-term debt, the more aggressive the financing is said to be" *(Van Horne: 1996:209)*

2.8 Determinants of Working Capital

The total requirement of working capital is determined by a wide variety of factors. The influence of these factors is different in different business organizations. Perhaps none of them can neglect the management of adequate W.C. Therefore, an analysis of the relevant factors should be made in order to determine the total investment in WC The description of the factors which generally influence the WC requirement of the firm is given below.

i) Nature and size of Business

The working capital requirement of a firm is basically related to size and nature of the business. If the size of the firm is bigger, then it requires more working capital. Trading and financial firm have a very low investment if fixed assets. Contrary to this, public utilities have a very limited need of working capital and have to invest abundantly in fixed assets. Their working capital requirements are nominal.

ii) Manufacturing Cycle

The manufacturing cycle starts with the purchase and use of raw material and completes with the production of finished goods. Longer the manufacturing cycle, larger will be the firm's working capital requirements. An extended manufacturing time span means a larger tie-up of funds in stocks. Thus, if there are alternative ways of manufacturing cycle should be chosen. Once a manufacturing process has been selected, it should be ensure that manufacturing cycle is completed within the specified period. This needs proper planning and co-ordination at all levels of activity. Non-manufacturing firms, service and financial enterprises do not have manufacturing cycle. *(Pandey: 1995:674)*

iii) Production policy

We just noted that a strategy of constant production may be maintained in order to resolve the working capital problems arising due to seasonal changes in the demand for the firm's product. A steady and the firm will be exposed to greater inventory costs and risks. Thus, if costs and risks of maintaining a constant production schedules in accordance with changing demand. Those firms, whose productive capacities can be

utilized for manufacturing varied products, can have the advantage of diversified activities and solve their working capital problems. *(Pandey: 1995:675)*

IV) Operating Efficiency

The operating efficiency of a firm relates to the optimum utilization of resources at minimum costs. The firm can not effectively contribute to its working capital when the operating efficiency is low. Working capital turnover is improved with a better operation and financial efficiency of a firm. Efficiency of operation accelerates the pace of cash cycle and improves the working capital turnover. It releases the pressure on working capital by improving profitability and improving the internal generation of fund.

V) Profit Margin

The net profit is a source of working capital to the extent that has been earned in cash the capacity to generate profit differs from company to company. In the words of I. M. Pandey, "Some firm enjoy a dominate position, due to quality product or good marketing management or monopoly power in the market and earn a high profit margin" Higher profit margin contributes to more working capital. The level of working capital is determined not only by the profit margin, but also by the way of appropriation for taxations. Dividend, reserves and depreciation. Only after providing for these items internal funds can be set aside for working capital. As the provisions for these items are higher, the amount of working capital will be lesser.

VI) Level of Taxes

The level of taxes also influences working capital requirement of a firm. The amount of taxes to be paid in advances is determined by the prevailing tax regulations. But he firm's profit is not constant, or can't be predetermined. Tax liability in a sense of short-term liquidity is payable in cash. Therefore, the provision for tax amount is one of the important aspects of working capital planning. If tax liability increases, it needs to increase the working capital and vice-versa.

Besides the above factors there are many other factors also which may have a greater role in determining the size and composition of working capital. For example, firm's attitude to take risk firm's policies toward the financial management in the inflationary period co-ordination among production distribution, developed transport and communication system etc. could also play in important role in determinants affects both temporary and permanent working capital.

2.9 Review of Articles/Journals

Articles, Journals and bulletins are of great significance for thesis writing. So, various published and unpublished articles by-different experts and journals and bulletins relating to working capital management have been revised The study is only related with working capital management thus I have considered with working capital only.

Dr. Manohar K. Shrestha, in a article "ISDOC" bulletin has considered ten selected PEs and studied the working capital management in those public enterprises. He has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis he found that

four PEs has excessive and the remaining four had failed to maintain desirable liquidity position. Dr. Shrestha had brought certain policy issues such as lack of suitable financing planning, negligence of working capital management, deviation between liquidity and turnover of assets and in ability to show positive relationship between turnover and return on net working capital. At the end, he had made some suggestive manure to over conform the above policy issues, Viz, identification of needed funds, development of management information system, positive attitude toward risk and profit and determination of right combination of short-term and long term sources of funds to finance working capital needs. *(Shrestha ISDOC Vol 8: 1982)*

Pradhan and Koirala had jointly conducted a study on "Working Capital Management in Nepalese Corporations" They had focused on evaluation of working capital of selected manufacturing and six non-manufacturing public companies. This study was concentrated in the size of investment in current assets, significance of current assets management. The major findings of the study were as follows.

- Investment on total assets had declined over a period of time in both manufacturing corporations. However, the manufacturing corporations had consistently more investment in cash and receivable as compared to non manufacturing corporations.
- Inventory Management was of great significance in manufacturing corporations and the management of cash receivable was of great significance in non-manufacturing corporations.
- Management of working capital was more difficult than that of fixed capital and the major motive for holding cash in Nepalese corporation was to provide a reserve for routine net outflows of

cash to keep on the production process (Pradhan and Koirala: 1982)

Another article published by Dr. K. Acharya was relating to capital management He has described the two major problems-operational problems and organizational Problem regarding the working capital management in Nepalese public enterprises. The operational problems, he found are increase of current liabilities than current assets, not allowing the current ration 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability. Thin transmutation of capital employed to sales, absence of apathetic management information system, break even analysis, funds flow analysis and ratio analysis were ineffective for performance evaluation. Finally, monitoring of the proper functioning of working capital management has never been considered a managerial job.

In the second part, he has listed the organizational problem in the public enterprises. In most of the public enterprises there is lack of regular internal and internal audit system as well as evaluation of financial results. Similarly, very far public enterprises have been able to present their capital requirement. Functioning of finance department is not satisfactory and some public enterprises are even facing the underutilization of capacity *(Acharya; ISDOC, Vol 10: 1985)*

R.S. Pradhan has prepared another article relating to working capital management. He has studied on "The demand of working capital by Nepalese enterprises" for the analysis; he has selected nine manufacturing companies with the twelve years data Regression equation has been adopted for the analysis. Form the study he has concluded that the earlier

studies concerning about the demand for cash and inventories by business firm didn't report unanimous findings. A lot of controversies exits with respect to the presence of economies of scale roles of capital cost, capacity utilization rates, and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively, The pooled regression result shows the presence of economics of scale with respect to the demand for working capital and its various components the regression results suggest strongly that the demand for working capital and its components is function of both scales and their capital cost. The estimated result show that the inclusion of capacity utilization variable in model seems to have contributed to the demand function of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivable, and gross working capital in doubtful. *(Pradhan, Vol. 8 No. 1:1988)*

When we're making a request for a working capital-related loan, be sure our business plan reflects our specific goals. 'Bankers are more receptive if we show that we know exactly how we want to use the working capital and where it will bring our company down the rod," says Valier's whether it's R&D to commercialize new products, implementing quality standards or simply buying inventory, small business owners need to demonstrate that an injection of working capital will help them grow. Another piece of advice he offers entrepreneurs is to avoid using working capital to pay for fixed assets, such as equipment. Ultimately, he says companies are better to use long-term borrowing to pay those long-term assets.

(www.bdc.ca/en/my_Project/growth/working_capital.htm)

2.10. Review of Related Thesis

Lastly, the views of various items of thesis and dissertation relating to my study which have already been furnished can be reviewed as under some of the dissertation relating to working capital management.

Mr. Suresh Pradhan, in his study on working capital policy of manufacturing public enterprises in Nepal sought to sort out the problems of low economic performance and financial management in manufacturing public enterprises. He also examined, there any association between the various aspects of working capital policy in financial management and the poor financial performance of manufacturing public enterprises, Hence, this study deal with liquidity position, utilization of working capital, profitability, position, source of financing of current assets and determinants of working capital in manufacturing public enterprises, The main findings of the study are as follows.

- The selected manufacturing public enterprises had sufficient liquidity.
- The use of CA in selects in selected public manufacturing public enterprises was satisfactory and there was high turnover of cash and receivable in comparison of inventory.
- Most of the manufacturing public enterprises were incurring losses and were unable to meet even the operating expenses with their sales revenue,
- There was higher use of long-term funds followed by trade creditor's short-term bank loans and operating profit in CA financing.

Ultimately, he had made some suggestions for improvement of working capital management and efficiency in the manufacturing public enterprises. The manufacturing public enterprises should follow aggressive working capital policy. *(Pradhan; MBA Thesis 2007)*

Rajendra Sapkota, in his study on short term financing of Nepalese manufacturing companies examined, the mix financing pattern has followed by Nepalese manufacturing companies. The have not planned how much funds to be raise form which sources. They did not analysis the source and rise the fund what ever they get. They did not care any other things regarding to this sources. The main findings of the study are as follows.

- The liquidity position of Nepalese manufacturing companies is not good.
- Working capital management of Nepalese manufacturing companies have to lower and most of the companies have negative working capital.
- The account receivable is in increasing trend during the study period due to poor collection policy of Nepalese manufacturing companies.
- Cash and the ratio of inventory to short-term financing is widely varied among the manufacturing companies during the study period.
- Most of the companies have commonly usage the account payable in financing but they have not effective utilize the account payable. *(Sapkota. T.U. Thesis 2008)*

Other study relating to working capital management was made by Arjun Lal Joshi analyzed the poor liquidity. Position. Stock loads,

minimum cash balance, heavy dependency on bank credit. He focused his study to give an insight into the problem of working capital management. The major findings of his study were inventories insufficient cash balance and negative working capital. he made some suggestions for the future course action. He has suggests planning, realistic turnover target specimen, use of short-term bank credit, maintain optimum cash balance. (Joshi: MBA Thesis 2008)

Narendra Bahadur Amatya, in his thesis entitled "An appraisal of financial position of Nepal Bank Ltd. has analyzed, examined and interpreted the financial position of the bank. Main findings of his study were as follow.

- The liquidity position of the bank is in better position. But the bank has been following a uniform policy to finance current assets and current liabilities.
- The bank is successful in deposit collection but it has always adopted conservative and traditional credit policy.
- The trade and commerce advances are playing major role in the credit composition of the bank. Although the reserve of the bank s increasing gradually, the reserve plays a nominal role in the credit expansion control.
- The trade and commerce advances are playing major role in the credit composition of the bank. Although the reserve of the bank is increasing gradually, the reserve plays a nominal role in the credit expansion control.
- The major portion of investment of the bank is in government's securities. And the volume of transaction is high in all respect but the bank does not show higher ratio of

profit or it shows a decreasing trend of profit. (Amatya, T.U. Thesis 2008)

Pradeep Kumar Pathak had carried out a research study on "An evaluation of working capital management on Nepal lube oil limited" The objectives of his study were to appraise the working capital management of Nepal lube oil limited with respect to cash, credit ad inventory management, to study the relationship between sales and different variables of working capital and to suggest the appropriate working capital management for the Nepal lube oil limited. The methodologies used in this study are ratio analysis, correlation analysis and test of hypothesis. He derived the following conclusions form his studies.

- There is significant positive correlation between investments in total assets which means both of them are going hand in hand. This growing tendency if investment over current assets could have adverse effect in Nepal lube oil Ltd's wealth maximization goal in the long run.
- Cash is relatively holding tiny portion of total assets and if we only consider the position of cash we can see that the cash in increasing every year during the study period.
- As an important aspect of current asses, inventory is holding the highest portion of total assets in comparison to its rest partners.
- Portion of receivable to total assets is in increasing trend which indicates the rowing inefficiency in credit collection.
- The inventory turnover ratio is in increasing trend and receivable turnover ratio is in decreasing trend.

- The company's current ratio and quick ratio both are lower than the standard.
- Nepal lube oil limited is presently following the conservative policy in financing its total capital and is forwarding towards following moderate policy in financing its total capital. (Pathak SDC Thesis 2009)

A research work entitled "A study on working capital management of Dairy development corporation" had been carried out by Basudev Shrestha. He conducted his study on the basis of different year's data. The objectives of his study were to present overall picture of dairy development corporation, to analyze the current assets and current liabilities of corporation and their impact and relationship to each other. During his study, he had basically used the secondary data and mainly financial tools are embodied for analyzing the working capital management of DDC. He had derived following major findings form his study:

- The corporation's investment in the form of working capital has been increasing and DDC following the conservative working capital policy with respect opt current assets management.
- The average investments in current assets is lower with respect to net fixed assets during the study period and DDC has no clear vision about the investment in current assets portion cash and bank balance holds the second largest portion of the current assets and has fluctuating trend.
- Other major components of current assets i.e. inventories ad receivables are in fluctuating trend. The company does not follow credit sales policy.

- The company has been able to maintain its current ratio in an average 1.78:1 during the study period which is regarding satisfactory level.
- The gross and net profit margin in DDC shows that company is suffering form a heavy loss during the study period.
- The overall return position of DDC is negative, not in favorable condition. It is because of inefficient utilization of current assets total assets and shareholders wealth. (Shrestha: SDC Thesis 2009)

Hiramai Ghimire in his thesis entitled "A study on working capital position of Arihanta Multi-fibers Limited" has covered the period of five years data. In this study he had kept the following objectives like to show the working capital position of the selected company's current assts and current liabilities properly, to see the affect of working capital on profitability and to examine the nature of funds, their sources and utilization. The methodologies used in his study are ratio analysis, trend analysis and correlation analysis. He had drawn the following conclusion from his study:.

- The company's current assets consists of mainly sock of raw material, finished products, packing materials, sundry debtors, advance and receivables, cash and bank balances and so on. The inventory occupies major share i.e. 61.04%.
- The company's CL mainly consists of sundry creditors advance, payable and provision, Sundry creditor occupies the largest share i.e. 51.15%.
- The overall percentage of current assets on total assets is in increasing trend.

- The percentage investment in the current assets to fixed assets is in increasing trend during the period.
- The ratio in current assets to sales is in increasing trend for first three years and decreasing trend for last two years.
- The percentage of cash and bank balance to current assets is sometimes in increasing trend and sometimes in decreasing trend. *(Ghimire, T.U. Thesis: 2009).*

2.11 Research Gap

Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to a case study of a single manufacturing company and some are comparative in nature. Keeping in view, the fact that there is no study of working capital management particularly in Nepalese commercial bank. Thus, "Working capital management", a case study of Bank of Kathmandu Limited has been taken for the study of working capital position and to suggest overcoming form such difficulties.

In this study, by use of coefficient correlation analysis, the strength of relationship between two variable (e.g. Investment on Government Securities on Total Deposit, Loan & Advances on Total Deposit , Cash & Bank balance on Current Liabilities & Loan & Advances on Net Profit) have determined.

CHAPTER-III

Research Methodology

A brief introduction of this study has been already presented in the first chapter. Besides, the reviews of literature with possible review of ideas, theories and research finding have also been presented in second chapter. Now, it is important to have choice of research methodology that helps to make my analysis meaningful. So, this chapter deals with the methodology adopted for the study.

Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain object in view. (*Kothari: 1986:19)*

In this study, research methodology has been paid due attention to achieve the objectives of the study.

3.1 Research Design

Research Design is the plan, structure and strategy of investigation conceived so as to obtain answers to research question and to control variances. The plan is the overall scheme or program of the research. *(Krelings; 1986:275)*

Research design means a definite procedure and technique which guides the study and propounds ways for doing research. For the study of working capital management in BOK, research design followed is an

exploratory research approach. In this study descriptive and analytical survey is done. The justifications for the choice of these methods are many and various. The descriptive method is preferred because it includes reliable data and information covering a long time and avoids numerous complex variables operating into formulation and adoption of credit and investment policies.

3.2 Sources of Data

This study is mainly based on secondary data. The main sources of data are the finance statements and reports of BOKL, different circular regarding rules and regulations of BOKL, NRB's directives to the commercial banks, reports of the corporation coordination council, other published and unpublished materials, magazines and newspapers, some ideas and information's have been collected form the discussion with managers of BOKL.

3.3 Population and sample

Until Jan, 2010, 27 commercial banks (Including government owned, private and joint venture) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting form population, Bank of Kathmandu Limited is selected as a sample for the study and analysis.

3.4 Data Gathering Procedures

As this study is mostly based on secondary data. Therefore, data were directly collected form the information department of the concern

bank, research department of the Nepal Rastra Bank and form different web sites.

3.5 Data Processing Procedures

Data Collected from various sources were in raw form. They were classified and tabulated as per the nature of the study and in accordance of the data. Simple percentage tool was used as arithmetic tool and different financial and statistical were also used to analyze the collected data.

3.6 Research Variables

Working capital was major research variable of this study. As being the research based on working capital management, total assets, total deposit, current assets, current liabilities total investment, total loan and advances etc. were also taken as secondary research variables.

3.7 Tools and Techniques of Analysis

On the basis of historical data both financial and statistical tools are used to analytical of different valuables.

3.7.1 Financial Tools

In this research study various financial tools are employed for the analysis. The analysis of this study is based on following financial tools.

a) Working Capital

Working capital is used by lenders to help gauge the ability for a company to weather difficult financial periods. Working capital is

calculated by subtracting current liabilities from current assets. Due to difference in business and the fact that working capital is not a ratio but an absolute amount it is difficult to predict what the ideal amount of working capital would be for the business. (www.planware.org)

Working Capital (WC) =current Assets (CA)-Current Liabilities (CL)

b) Liquidity Ratios

Liquidity ratios indicate the firm's ability to meet it maturing short-term obligations. Your liquidity ratios measure your company's ability to generate cash to meet your short term financial commitments. The current ratio measures debts over the next 12 months, while the quick ratio measures liquidity available for immediate demands. As stated a ratio of 10 or greater is generally acceptable, but depends on the nature of the company.

A comparatively low ratio can mean that you company might have difficulty meeting your obligations and may not be able to take advantage of opportunities that require quick cash. Paying off your liabilities can improve this ratio - your may want to delay purchases or consider long-term borrowing to repay short-term debt. A too-high ratio may mean that your capital is being underemployed You may want to invest your capital.

(Source: www.bdc.ca/en/my_project/projects/growth/working_capital.htm).

i) Current Ratio

Current ratio measures the short-term solvency, i.e. its ability to measure short-term obligation. In other words, current ratio measures the

ability to pay debts. As a measure of creditors versus current assets, it indicates each rupee of current assets available by dividing current assets by current liabilities.

$$\text{current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

Current assets include cash, and those assets which can be converted into cash within a year, such as debtor, receivable, cash and bank balance, prepaid expenses inventory etc. Current liabilities mean all obligations maturing with in a year. Under the current liabilities include secondary creditor, provision for taxation, bank loan, miscellaneous current liabilities and provision.

ii) Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. Thus, QA includes the all or current assets except inventory or stock. Inventory can not be converted into cash immediately. This quick ratio can be found out by dividing the total of quick assets by total current liabilities.

$$\text{Quick Ratio (QR)} = \frac{\text{Current Assets (QA)}}{\text{Current Liabilities (CL)}}$$

iii) Cash and Bank Balance to Deposit (Excluding fixed deposit) Ratio

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by saving margin and current deposits (excluding fixed deposit). This ratio is calculated by using following formula.

$$\textbf{Cash and Bank Balance to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Deposit (Except Fixed deposit)}}$$

iv) Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposit by the amount of total deposit, which is given as follows.

$$\textbf{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

b) Activity or Turnover Ratio

Activity ratios are intended to measure the effectiveness to employment to the resources in a business concern. Throughout these ratios, it is known whether the funds employed have been used effectively into the business activities or not. The following are the ratios employed to analyze the activeness of the concerned bank.

i) Loan and advances to Total Deposit Ratio

This ratio assesses to what extent, the bank are able to utilize the depositor's funds to earn profit by providing loans and advances. It is computed dividing the total amount of loans and advances by total deposited fund. The formula used to compute this ratio is as

$$\textbf{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

High ratio is the symptom of higher or proper utilization of funds and low ratio is the signal of balance remained unutilized or idle.

ii) Loan and Advance to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning. This ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows.

$$\textbf{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}}$$

This ratio examines to what extent the fixed deposits are utilized for income earning purpose.

iii) Loan and Advance to Saving Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and

advances for income generation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income, is calculated diving the amount of loan and advances by total deposit in saving account. The following formula is used to determine this ratio as:

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Saving Deposit}}$$

c) Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term obligations and remaining parts in the liability side of the balance sheet are termed as short-term obligations. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm.

i) Long term Debt to Net worth Ratio

Long term debt refers to the amount of fixed deposits and loans of the banks. The ratio measures the proportion of outsiders and owner's fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owner's claim. It is calculated by using following formula.

$$\text{Loan and Debt to Net worth Ratio} = \frac{\text{Long term Debt}}{\text{Net worth}}$$

ii) Net Fixed Assets to Long term Debt Ratio

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows:

$$\text{Net Fixed Assets to Long term Debt Ratio} = \frac{\text{Net Fixed assets}}{\text{Long term Debt}}$$

d) Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitably ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios used as follows.

i) Interest Earned to Total assets Ratio

It is the ratio, which formed to find out the percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

ii) Net profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula.

$$\text{Net Profit to Total Asset Ratio} = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

iii) Net profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return form deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates the return form investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing. The following formula is used as:

$$\text{Net profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

iv) Cost of services to total assets Ratio

A sound management always tries to utilize its lager amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of services. The ratio can be expressed as below.

$$\text{Cost of Services to Total assets Ratio} = \frac{\text{Cost of Service}}{\text{Total Assets}}$$

3.7.2 Statistical Tools

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated,

compared, analyzed and interpreted. In this study, the following statistical tools are used for analysis.

i) Trend Analysis

It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other word trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know he direction of movement, i.e. whether the movement is favorable or not. Thus, the tools that are used to show grandly increase of decrease of variables over a period of time is known as trend analysis. with the help of trend analysis the tendency of variables over the period can be seen clearly.

ii) Correlation Analysis

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variation in the other and it is denoted by 'r'

The value of coefficient of correlation always lies between ⁄1. A value of -1 indicates a perfect negative relationship between the variables and a value of + 1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer r is

+1 or -1, the closer the relationship between the variables and closer r is to zero (0) the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variables. The correlation coefficients can be calculated as.

$$r = \frac{Cov(XY)}{\sigma_x \sigma_y}$$

$$or,\ r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N \sigma_x \sigma_y}$$

$$or,\ r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2}\ \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

$\sigma_x \sigma_y$ are the standard deviation of the distributions of X and Y values respectively.

COV (X, Y) = Covariance of X, Y value.

$$\sigma = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N \sigma}$$

N = Number of items in the series.

X and Y = Variables.

CHAPTER-IV

4. Data Presentation and Analysis

The major objective of this study is to evaluate the working capital position of Bank of Kathmandu Limited. The other objectives of this study are to throw light on the importance of the proper management of working capital and to make suggestion about how to mange working capital of Bank of Kathmandu Limited from the long-range view point. In this chapter relevant data and information of working capital as well as financial performance of BOL are presented and analyzed accordingly. Data of the years 060/061 to 064/065 have been presented and analyzed. It covers to analyze the ratio as well as trend and composition of working capital which means current assets, liquidity, current liabilities, turnover, leverage and profitability of BOKL. It also used correlation analysis. With the help of these analyses, we can know the working capital as well as financial position of BOKL.

4.1 Working capital

Working capital means current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth also called net current assets or current capital, Therefore.

Working Capital = Current Assets - Current Liabilities

4.1.1 Components of Current Assets

To operate the business, different kinds of assets are needed, For the day to day business operation different types of current assets are required. The composition of current assets or the main components of current assets at BOKL are cash and bank balance. Loan and Advances and government securities. Miscellaneous current assets are also a component of current assets prepaid expenses, outstanding income like interest receivable and other current assets are included in miscellaneous current assets. The following table shows the amount of cash and bank balance, loan and advances, government severities and miscellaneous current assets of Bank of Kathmandu Limited.

Table 4.1

Components of Current Assets of BOKL

(Rs. In Million)

Fiscal Year	Cash & Bank Bal.	Loan and Advances	Government Securities	Misc. CA	Total CA
060/061	782.88	5646.70	1812.39	568.60	8810.57
061/062	740.52	5912.58	2146.19	607.50	9406.79
062/063	728.70	7259.08	2658.37	718.12	11364.27
063/064	1315.90	9399.33	2332.04	819.00	13866.27
064/065	1440.47	12462.64	2113.22	1034.16	17050.49

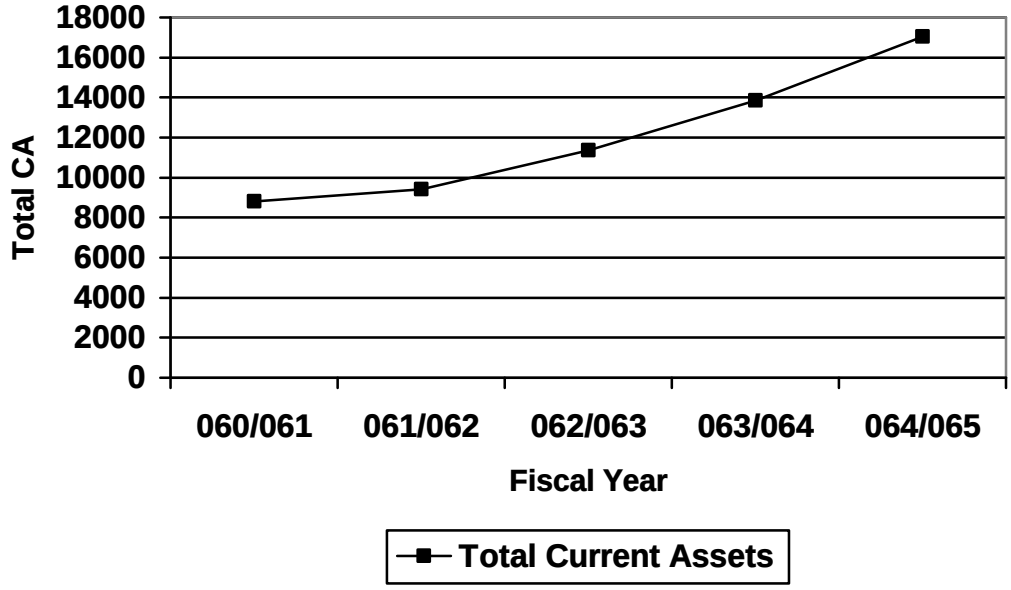
(Sources: Appendix 5- Financial Summary of BOKL

Above table 4.1 depicts that the components of current assets of BOKL consists cash and bank balance, loan and advances, government securities and miscellaneous current assets. In Fiscal year (F/Y) 060/061, total current assets of the bank was amounted to Rs.8810.57 million which included Rs.782.88 million of cash and bank balance, Rs.5646.70 million of loan and advances, Rs.1812.39 million of government securities and Rs.568.60 million of miscellaneous current assets. The CA of the bank

increased slightly in fiscal year 061/062 and reached amounted to Rs.9406.79 million. Similarly, in F/Y 062/063 & 063/064 it also increased amounted to Rs.11364.27million and Rs.13866.27 million respectively. Finally the CA of the bank increase in F/Y 064/065 and reached amounted to Rs.17050.49million,which included Rs.1440.47million, Rs.12462.64 million, Rs.2113.22 million and Rs.1034.16 million cash and bank balance loan and advances, government securities and miscellaneous current assets respectively.

Figure 4.1

Components of Current Assets of BOKL



As stated in above figure 4.1 the current assets of the BOKL increasing gradually up to fiscal year 064/065.

4.1.2 Components of Current Liabilities

Current liabilities is a short-term obligation which is payable with in a year. The composition of current liabilities or the main components of

current liabilities at BOKL are deposit, short term loans, bills payable and miscellaneous current liabilities. Tax provision, staff bonus, dividend payable and other current liabilities are included in miscellaneous current liabilities. The following table shows the amount of deposit and other accounts. Short term loans, bills payable and miscellaneous current liabilities of BOKL.

Table 4.2

Components of Current Liabilities of BOKL

(Rs. In Million)

Fiscal Year	Deposit & other A/C.	Short term Loans	Bills Payable	Misc. CL	Total CL
060/061	7741.64	8.00	38.71	124.05	7912.40
061/062	8942.75	6.00	19.87	157.00	9125.62
062/063	10485.36	550.00	11.62	227.60	11274.58
063/064	12388.93	360.00	25.78	280.00	13054.71
064/065	15833.74	100.00	51.57	252.00	16237.31

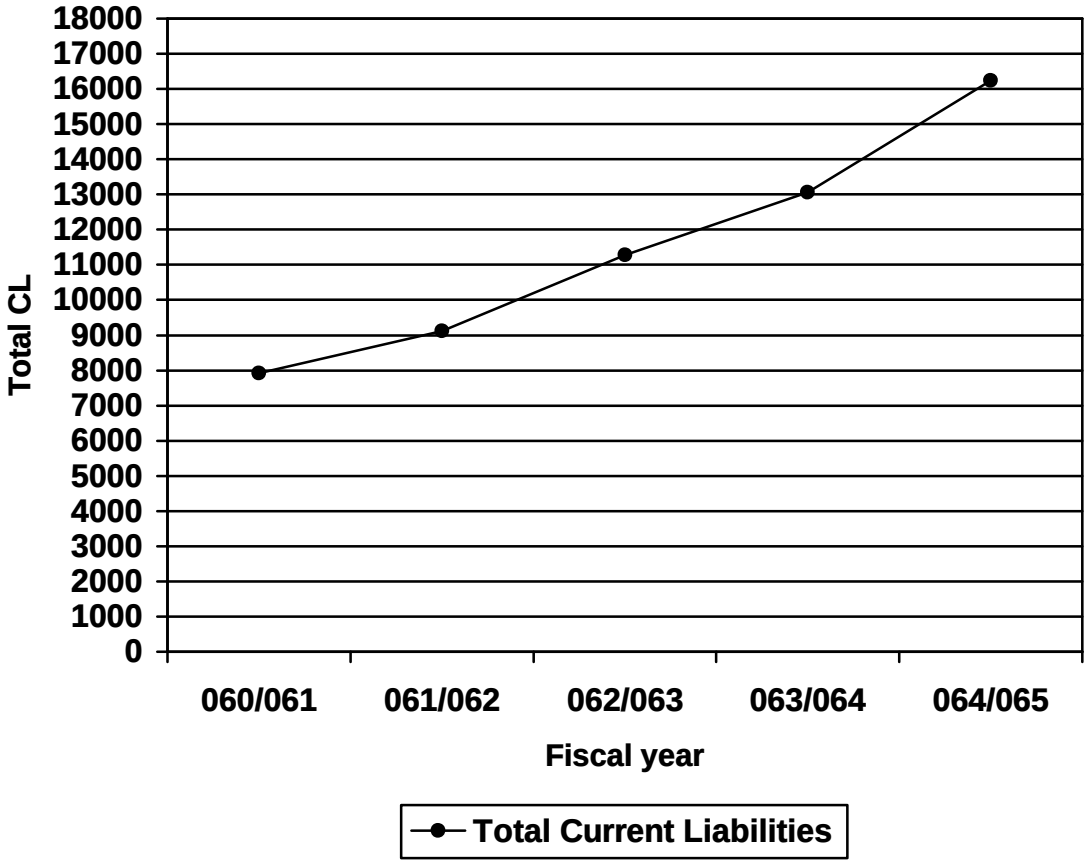
(Sources: Appendix 5- Financial Summary of BOKL)

In above table, we can found that the component of current liabilities which consists deposit and other accounts, short term loan, bills payable and miscellaneous CL. As stated in above table total CL of BOKL was Rs.7912.40 million to fiscal year 060/061. The CL increased in F/Y 061/62, F/Y 062/063 and F/Y 63/064 and reached amounted to Rs.9125.62 million, Rs.11274.58 million & Rs.13054.74 million respectively. At the end of F/Y 064/065 the current liabilities of BOKL is Rs 16237.31million, which consists of Rs.15833.74million, Rs.100million, Rs.51.57million &

Rs.252million of deposit and other accounts, short term loan bills payable and miscellaneous current liabilities respectively.

Figure 4.2

Components of Current Liabilities of BOKL



As stated in above figure 4.2 the current liabilities of the BOKL increasing gradually up to all fiscal year 064/065.

4.1.3 Working capital of BOKL.

The working capital has to be regarded as one of the conditioning factors in the long-range analysis and decision making. To achieve the goal

of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more nor less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in bank, and determining which one is more beneficial to the bank and which is not. The following table shows the amount of working capital of BOKL of the study period.

Table 4.3

Working Capital of BOKL

(Rs. In million)

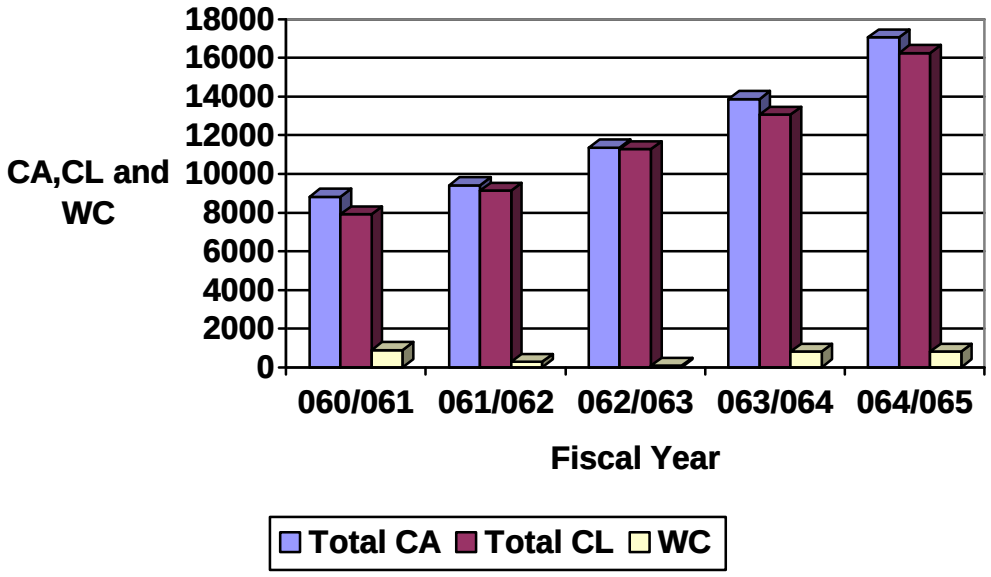
Fiscal Year	Total CA	Total CL	WC= CA-CL
060/061	8810.57	7912.40	898.17
061/062	9406.79	9125.62	281.17
062/063	11364.27	11274.58	89.69
063/064	13866.27	13054.71	811.56
064/065	17050.49	16237.31	813.18

(Sources: Appendix 5- Financial Summary of BOKL)

In above table 4.3 no doubt shows that the increment or decrement of working capital in different study period by different level. In F/Y 060/061, the working capital was amounted Rs.898.17million. In fiscal year 061/62, F/Y 062/63, the bank decreased its working capital to 281.17million & Rs.89.68.69million. In F/Y 063/64 & F/y 064/065 the working capital of the bank was to increasing position and reached to Rs.811.56million & Rs.813.18million respectively.

Figure 4.3

Working Capital of BOKL



As stated in above figure 4.3 the current assets of the BOKL decreasing up to fiscal year 062/063 but in fiscal year 063/064 The BOKL was able to increasing liabilities up to last F/Y 064/065. As shown in the above table, the working capital of the BOKL has been decreasing up to F/Y 062/063 but after study period of F/Y 062/063, it is drastically increased than previous year. The working capital depicts the liquidity position of any organization i.e. higher the working capital higher the liquidity and vice versa. Therefore, above figure states that the liquidity of the BOKL has been increasing up to F/Y 064/065.

4.2. Ratio and Trend Analysis

Ratios are used to create comparisons within any company's performance or within any particular industry, be it by region, country or globally, comparisons may say a lot about any company's financial health

and can uncover trends as well as pinpoint possibilities for improvement in other words. to evaluate the financial conditions and performances for a firm, the financial analyst needs certain yardsticks. Experienced and skilled analysts would obtain a better understanding to the financial conditions and performance of the firm form the analysis and interpretation of various ratios than form analysis of the financial data. Thus we can conclude that the ratio analysis is the powerful financial tools to measure the financial performance of the bank.

It is important to analyze trends in ratio as well as their absolute levels, for the trends give clue to whether the financial situation is improving or whether it is deteriorating. In other words trend analysis of ratios indicates the direction of changes. The significance of a trend analysis of ratios lies in the fact that the analyst can know the direction of movement, i.e. whether the movement is favorable of not.

4.2.1 Liquidity Ratio

Liquidity ratio indicates the company's ability to pay its short term debts, by measuring the relationship between current assets i.e. those which can be turned into cash against the short-term debt value. Liquidity of any business organization is directly related with working capital or current assets and current liabilities of that organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position, Bank is a different organization which is engaged in mobilization of funds, so without sound liquidity position. Bank is not able to operate its function. To measure the bank's solvency position of ability to meet its short term obligation, various liquidity ratios are calculated and to know the trend of liquidity trend analysis of major liquidity ratios have been considered.

4.2.1.1 Current Ratio

This ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other words, Current ratio represents a margin of safety, i.e. a cushion of protection for creditors and the highest the current ratio, greater the margin of safety, large the amount of current assets in relation to current liabilities, more the banks ability to meet its current obligations. It is calculates as follows.

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

The following table shows the current ratio to compare the working capital management of Bank of Kathmandu Limited.

Table 4.4

Current Ratio of BOKL

(Rs. In million)

Fiscal Year	Total CA	Total CL	Current Ratio
060/061	8810.57	7912.40	1.11
061/062	9406.79	9125.62	1.03
062/063	11364.27	11274.58	1.01
063/064	13866.27	13054.71	1.06
064/065	17050.49	16237.31	1.05
Average			**1.052**

(Sources: Appendix 5- Financial Summary of BOKL)

The above table 4.4 depicts that the current assets of BOKL are decreasing for the first three years of study period than it has slightly increased in fourth year and last year current ratio has also decreased.

Similarly, Current liabilities of the bank also have been gradually increasing up to last years. Current ratio of BOKL is increasing up to last F/Y. The highest current ratio is 1.11 in the fiscal year 060/061 and the lowest current ratio is 1.01 in the fiscal year 062/063. The average current ratio of BOKL is 1.052.

Figure 4.4

Current Ratio of BOKL

The above figure 4.4 depicts that the trend line of BOKL decreasing first three years gradually and increased in fiscal year 063/064 and again slightly decreased in fiscal year 064/065, which implies the current ratio of BOKL is fluctuating.

The above analysis helps to find out the liquidity position of the bank. It indicates that the bank has sufficient liquidity to remain solvent even at the ratio of 1.11.1 in fiscal year 060/061. It was the maximum ratio during the period of study. It is true that the higher the ratio supposedly the greater the ability of a firm to pay its bills. But is a firm has more then sufficient current assets it is an indication of unfavorable distribution of current assets.

4.2.1.2 Quick Ratio (Acid - Test Ratio)

Quick ratio is the relationship between current assets readily convertible into cash (usually current assets less stock) and current liabilities. A sterner test of liquidity, In other words, quick ratio is the same as the current ratio, except that it excludes inventories. Which are considered the least liquid portion of current assets? It provides a more penetrating measure of liquidity than does the current ratio. Rule of thumb is 1:1 for the quick ratio or acid test ratio so that, it if a business has quick ratio for at least 100% it is considered a fairly good current financial position. Quick ratio is a more rigorous test of liquidity than the current

ratio and when used in conjunction with it, it gives a better picture of the firm's ability to meet its short-term debts out of short-term assets. There is no difference in current ratio and quick ratio BOKL because bank do not have any stock or inventory. Quick ratio is calculated by dividing the quick assets by the current liabilities i.e.

$$\text{Quick Ratio (QR)} = \frac{\text{Quick Assets (QA))}}{\text{Current Liabilities (CL)}}$$

Table 4.5

Quick Ratio of BOKL

(Rs. In million)

Fiscal Year	Total QA	Total CL	Current Ratio
060/061	8810.57	7912.40	1.11
061/062	9406.79	9125.62	1.03
062/063	11364.27	11274.58	1.01
063/064	13866.27	13054.71	1.06
064/065	17050.49	16237.31	1.05

(Sources: Appendix 5- Financial Summary of BOKL)

The above table 4.5 depicts that the quick assets, which is same as current assets of BOKL are decreasing for the first three years of study period than it has increased in fourth year and slightly decreased in last year, similarly, current liabilities of the bank also has been gradually increasing up to last years. Quick ratio of BOKL is also increasing over all period. The highest quick ratio is 1.11 in the fiscal year 060/061 and the lowest quick ratio is 1.01 in the fiscal year 062/063.

Figure 4.5

Quick Ratio of BOKL

The above figure 4-5 depicts that the trend line of quick assets of BOKL decreasing first three years and increased in fiscal year 063/064.In

F/Y 064/065, trend line of quick assets of BOKL is decreased, which implies the quick ratio BOKL is fluctuating In case of BOKL all current ratios are considered as a quick ratio of the bank because there is no any inventory at the bank over the study period.

4.2.1.3 Cash and Bank Balance to Total Deposit Ratio

The ratio shows the ability of banks immediate funds to cover their (current, margin, call and saving) deposits. It can be calculated by dividing cash and bank balance by deposits excluding fixed deposits. The ratio can be expressed as:

$$\text{Cash and Bank Balance to Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

The following table and figure shows the cash and bank balance to total deposit ratio of the BOKL lover the study period.

Table 4.6

Cash and Bank Balance to Total Deposit Ratio of BOKL

(Rs. In million)

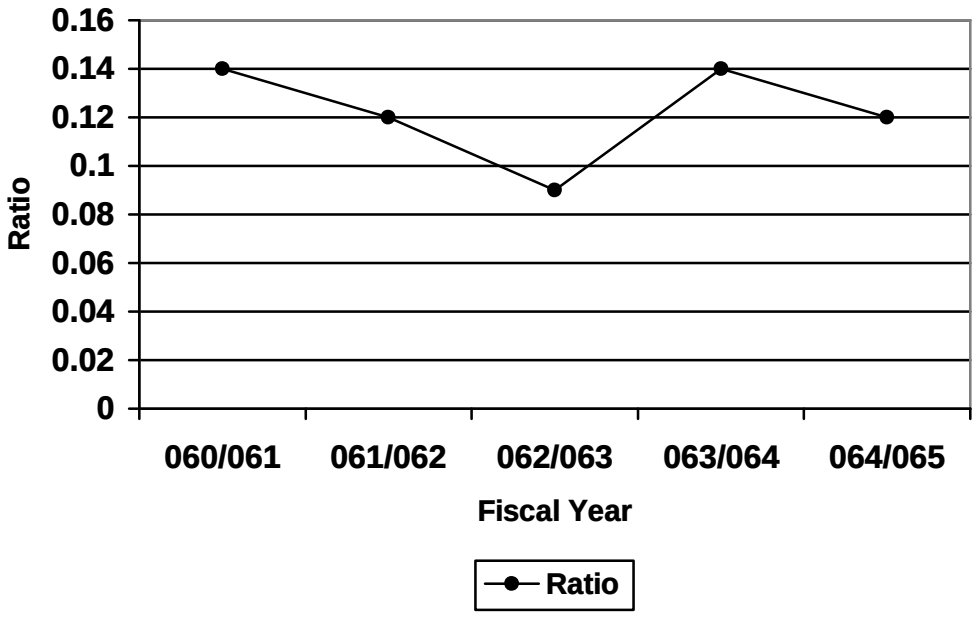
Fiscal Year	Cash and Bank	Total Deposit	Ratio
060/061	782.88	5461.93	0.14
061/062	740.52	6063.88	0.12
062/063	728.70	7775.60	0.09
063/064	1315.90	9351.76	0.14
0640/65	1440.47	12130.56	0.12
Average			**0.122**

(Sources: Appendix 5- Financial Summary of BOKL

The above table depicts that the cash and bank balance to deposit (except Fixed Deposit) of BOKL has been slightly decreasing first three years of the study periods and start increasing in fiscal year 063/064 and F/Y 064/065. Cash and bank balance of the bank is fluctuating over the study period. Similarly, there is no consistency in total deposit of the bank. Total deposit of the bank is drastically increasing. The bank has average ratio of 0.122.

Figure 4.6

Cash and Balance to Total Deposit Ratio of BOKL



As stated in above figure also depicts that the cash and bank balance to deposit ratio excluding fixed deposit ratio has been decreasing up to fiscal year 062/063 and drastically increased in fiscal year 063/064 and then slightly decreased in F/Y 064/065.

The above analysis helps to find our the ability of banks immediate funds to cover its current margin, call and saving deposit of the ban, In other words, the liquidity position of the bank. But the large amount of idle

cash and bank balance badly affect the profitability of the bank. The position of BOKL seems as satisfactory level over the study period.

4.2.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short-term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short-term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given as follows.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

The following table and figure shows the BOKL's saving to total deposit ratio.

Table 4.7

Saving Deposit to Total Deposit Ratio of BOKL

(Rs. In million)

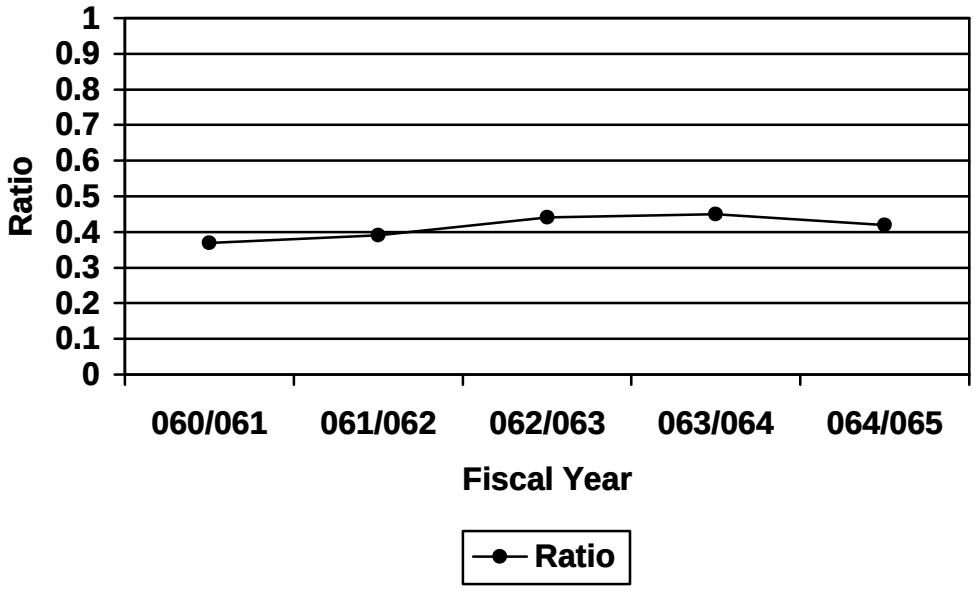
Fiscal Year	Saving Deposit	Total Deposit	Ratio
060/061	2873.81	7741.64	0.37
061/062	3447.44	8942.75	0.39
062/063	4581.96	10485.36	0.44
063/064	5527.29	12388.93	0.45
064/065	6596.11	15833.74	0.42
Average			**0.414**

(Sources: Appendix 5- Financial Summary of BOKL

The above table 4.7 depicts that the amount of saving deposit has been gradually increasing during the study period. Similarly, the total deposit of BOKL has been increasing up to final years of the study period. Likewise, the saving deposit to total deposit ratio of BOKL has been increasing in first fourth years and slightly decreased there after. The average ratio stands at 0.414.

Figure 4.7

Saving Deposit to Total Deposit Ratio of BOKL



As stated in above figure, the saving deposit to total deposit ratio of BOKL increase in first fourth years from 060/61 to and 063/064 than slightly decreased thereafter during the final year.

Although, saving deposit is short-term liability but its nature is long term then current, margin and other deposits. So, the large portion saving deposit in total deposit shows the liquidity of the bank, Bank also pays

interest on saving deposit but current, margin and other deposits are nominal cash fund. It means higher the ratio higher the liquidity position of the bank and vice versa. In other hand, the higher saving deposit increased interest obligation to the bank. Therefore, the higher ratio of saving deposit to total deposit decreased the profitability of the bank form the view pint of profitability the lower ratio is preferable than higher ratio. The ratio of BOKL seems satisfactory level over the study period.

4.2.2. Activity of Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets. The ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover, help in measuring the banks ability to utilize their available resources.

4.2.2.1. Loan and Advances to Total Deposit Ratio

This ratio assesses to what extent, the banks are able to utilize the depositor's funds to earn profit by providing loans and advances, It is computer dividing the total amounts of loans and advances by total deposited funds. The formula used to compute this ratio is as:

$$\text{Loan and advance to Total Deposit Ratio} = \frac{\text{Loand and Advances}}{\text{Total Deposit}}$$

The following table and figure shows the effectiveness in utilization of total deposits of BOKL.

Table 4.8

Loan and Advances to Total Deposit Ratio of BOKL

(Rs. In million)

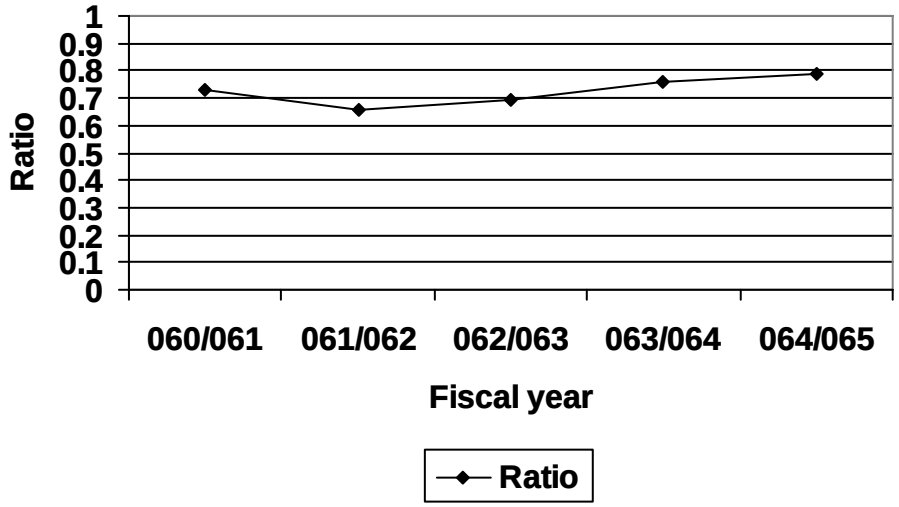
Fiscal Year	Loan and Advances	Total Deposit	Ratio
060/061	5646.70	7741.64	0.73
061/062	5912.58	8942.75	0.66
062/063	7259.08	10485.36	0.69
063/064	9399.33	12388.93	0.76
064/065	12462.64	15833.74	0.79

(Sources: Appendix 5- Financial Summary of BOKL

The above table shows the position and ratio of loan and advances and total deposit or BOKL form fiscal year 060/061 to fiscal year 064/065. The loan and advances of the bank has been gradually increasing up to F.Y 064/065. Similarly, total deposit of the bank has been increasing gradually up to final years. Likewise, the loan advances to total deposit ratio was decreased in F.Y. 061/062 and increased in F.Y. 062/063 and further increased up to 064/065.

Figure 4.8

Loan and Advances to Total Deposit Ratio of BOKL



Above figure 4.8 states that the loan and advances to total deposit ratio was 0.73 in fiscal year 060/061 then decreased in F.Y 061/062 and has been increased up to F/Y 064/065.

Form the above analysis, loan and advances to total deposit ratio clearly shows the low capacity of the bank to mobilize its deposit. The bank has the responsibility of collecting a huge amount of deposit for the purpose of lending a great amount of it to needy people. It's collect money not for keeping it idle, but for using it in a creative work. If it can not utilize its deposits more profitability, it is better to reduce the volume of deposits. So the volume of deposits has some limit which is affected by loans. But there is no limit to the volume of loans However, the rate of interest as well as the volume of deposits highly affects the volume of loans. Once the deposit is more than sufficient, there is no need to pay higher rate of interest on it. On the contrary if the volume of deposit is insufficient for meeting the need of borrowers the interest rate should be increased.

4.2.2.2. Loan and Advance to Fixed Deposit Ratio

This ratio examines that how many times the funds is used in loans and advances against fixed deposits. For commercial banks, fixed deposits are long-term interest bearing obligations, whereas investment in loans and advances are the main sources of earning this ratio is computed dividing loans and advances by fixed deposit as under. A low ratio indicates idle cash balance. It means total funds not properly utilized. This ratio is computed as follows.

$$\text{Loan and advance to Fixed Deposit Ratio} = \frac{\text{Loand and Advances}}{\text{Fixed Deposit}}$$

The following table and figures shows the effective loan and advances to fixed deposit ratio of BOKL.

Table 4.9

Loan and Advances to Fixed Deposit Ratio of BOKL

(Rs. In million)

Fiscal Year	Loan And Advances	Fixed deposit	Ratio
060/061	5646.70	2279.71	2.48
061/062	5912.58	2878.87	2.05
062/063	7259.08	2709.75	2.68
063/064	9399.33	3037.17	3.09
064/065	12462.64	3703.17	3.37

(Sources: Appendix 5- Financial Summary of BOKL

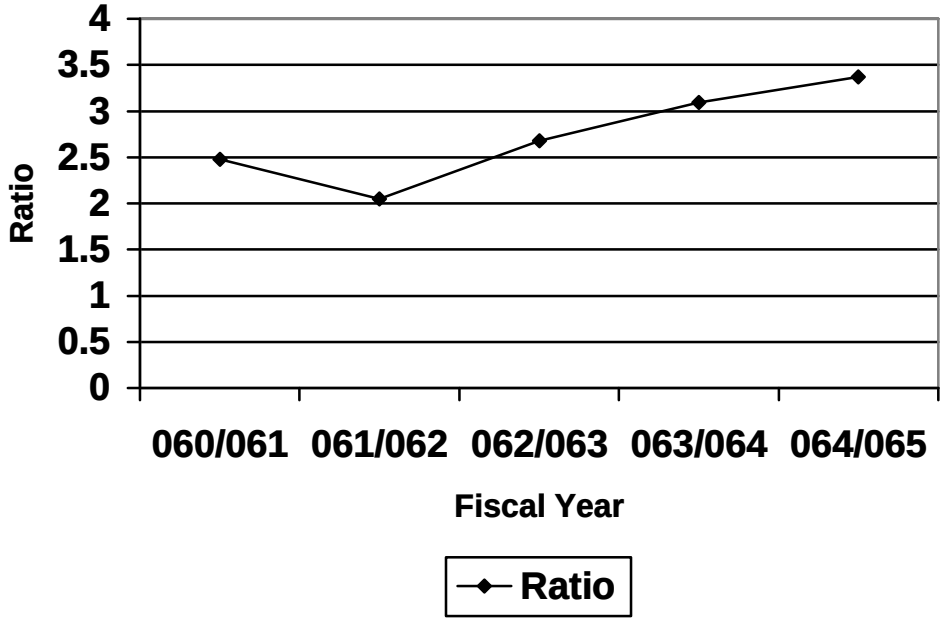
The above table depicts that the loan advances to total fixed deposit ratio of BOKL was decreased in fiscal year 061/062 than previous year 060/061. In Fiscal year 062/063 it increased and reached to 2.68. It was further increased and reached up to 3.37 at the end of fiscal year 064/065.

It indicates that the loan and advances to fixed deposit ratio of BOKL is fluctuating.

For understanding it more clearly, the loan and advances and fixed deposit and its ratio of BOKL can be presented in figure with the help of trend analysis method.

Figure 4.9

Loan and Advances to Fixed Deposit Ratio of BOKL



The above figure 4.9 clearly shows that the loan and advance to fixed deposit of BOKL was decreased in fiscal year 061/062. In F/Y 062/063, F/Y 063/064 & F/Y 064/065 it was increased.

The above analysis implies that the utilization of fixed deposit in loan and advances efficiently or not. The higher ratio implies the efficient mobilization of fixed deposit and vice versa. Form the above trend analysis we can conclude that the BOKL has been mobilizing its fixed deposit quite satisfactory.

4.2.2.3. Loan and Advance to Saving Deposit Ratio

This ratio assesses, how many times the fund is used to loans and advances against saving deposits. Saving deposits are interests bearing short-term obligation and the major sources of investment in loan and advances for income generation and the major sources of investment in loan and advances for income generating purpose by CBs. This ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income, is calculated, diving the amount of loan and advance by total deposit in saving account. The following formula is used to determine this ratio as:

$$\text{Loan and advance to Saving Deposit Ratio} = \frac{\text{Loand and Advances}}{\text{Total Saving Deposit}}$$

The Following table and figure shows the loan and advance to saving deposit ratio of BOKL.

Table 4.10

Loan and Advances to Saving Deposit Ratio of BOKL

(Rs. In million)

Fiscal Year	Loan and Advances	Total Saving Deposit	Ratio
060/061	5646.70	2873.81	1.96
061/062	5912.58	3447.44	1.72
062/063	7259.08	4581.96	1.58
063/064	9399.33	5527.29	1.70
064/065	12462.64	6596.11	1.89

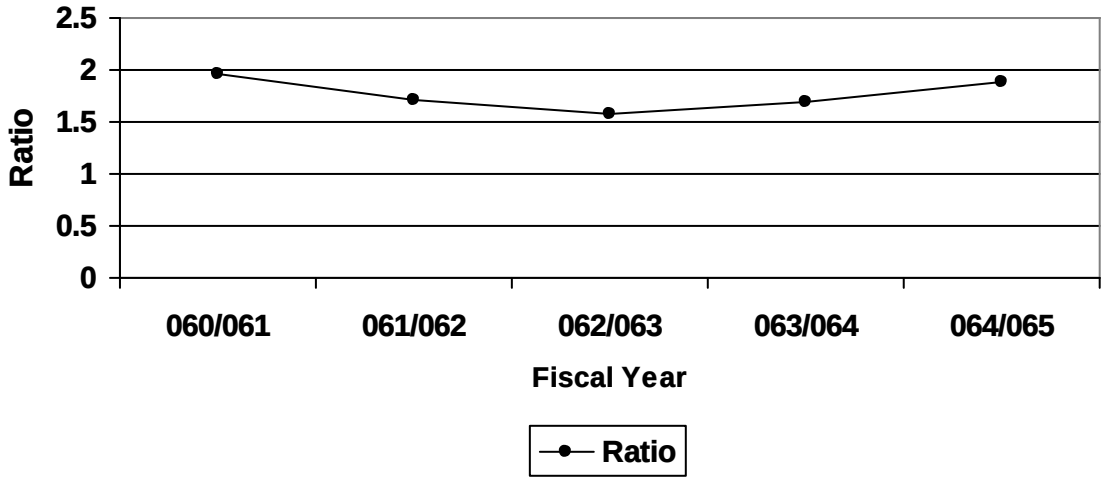
Average	**1.77**

(Sources: Appendix 5- Financial Summary of BOKL

As depicted by above table, the saving deposit of BOKL has been gradually increasing form Rs.2873.81 million in F.Y.060/061 and reached to Rs.6596.11million in F.Y.064/065. In other hand the loan and advances has been gradually increased up to final year of the study period. Likewise, the ratio of loan and advance to saving deposit is seems quite fluctuating. It was 1.96 at the F.Y. 060/061, 1.72 in F.Y. 061/062, which was decreased. In F/Y 062/063 it was decreased and reached to 1.58.In fiscal year 063/064 & fiscal year 064/065 it was increased and reached to 1.70 & 1.89 respectively. The average ratio stands at 1.77.

Figure 4.10

Loan and Advances to Saving Deposit Ratio of BOKL



The above figure clearly shows that the loan and advance to saving deposit ratio of BOKL is very fluctuating.

Form the above analysis it can be concluded that the saving deposit of the bank has been effectively utilized in loan and advances.

4.2.3. Capital Structure of Leverage Ratio

Leverage refers to the ratio of debt to equity in the capital structure of the firm. Debt and equity are long-term obligations and remaining parts in the liabilities side of the balance sheet are trended as short-term obligations. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owner's capital used the firm. The bank often uses these ratios to see how the assets are financed i.e. by creditors or though their own investments. In general, a bank will consider a lower ratio to be an indicator of the ability to repay the creditors. The ratios will vary from industry to industry, and over time, interpreting ratios requires knowledge of the business industry and the reasons for fluctuations.

4.2.3.1. Long-Term Debt to Net worth Ratio

Long term debt refers to the amount of fixed deposit and loans of the banks. The ratio measures the proportion of outsiders and owner's fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the bank by owner's claim. It is the relationship between owned funds and borrowed funds, long term debt includes long term borrowing from government agencies or financial institutions. Deferred payment, liabilities etc. It is calculated by using following formula.

$$\text{Long term Debt to Net worth Ratio} = \frac{\text{Long term Debt}}{\text{Net Worth}}$$

The following table shows the long term debt to net worth ratio of the BOKL over the study period.

Table 4.11

Long- term Debt to Net worth Ratio of BOKL

(Rs. In million)

Fiscal Year	Long Term Debt	Net Worth	Ration
060/061	00	650.74	00
061/062	00	720.74	00
062/063	00	839.73	00
063/064	00	981.98	00
064/065	00	1342.07	00

(Sources: Appendix 5- Financial Summary of BOKL

The above table 4.11 depicts that the Bank of Kathmandu Limited has not any outsider's fund. Therefore, the ratio of long term debt to net worth can not be calculated. It indicates that there is not outsiders claims in total capitalization of the bank. There are only insider's claims. It shows that the BOKL was not risky capital structure because the ratio of long

term debt to net worth ratio reflects the relative contribution of creditors and owners of the bank in its financing. Net worth of the BOKL was increasing drastically over the study period. Which shows that the high efficiency of the bank.

4.2.3.2. Net Fixed Assets to Long-term Debt Ratio

Here, net fixed asses are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows.

$$\text{Net fixed Assets to long term Debt Ratio} = \frac{\text{Net fixed Assets}}{\text{Long term Debt}}$$

Table 4.12

Net Fixed Assets to Long-term Debt Ratio of BOKL

(Rs. In million)

Fiscal Year	Net Fixed Assets	Long-term Debt	Ratio
060/061	83.62	00	00
061/062	95.23	00	00
062/063	110.74	00	00
063/064	320.85	00	00
064/065	387.26	00	00

(Sources: Appendix 5- Financial Summary of BOKL

The above table clearly show that the net fixed assets of BOKL has been increasing gradually form fiscal year 060/061 to fiscal year 064/65 i.e. Rs.83.62 million to Rs.387.26 million. The above clearly indicates that the bank has not any long-term obligations. So, the ratio can not be calculated i.e. zero.

4.2.4. Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. These ratios are mostly used to compare the performance of the bank in different years. Through profitably ratios the lender and investors want to decide whether to invest in a particular business or not. For instance, the business may have experienced a downturn in its net profit margin by 10% over the last 3 years, which may seem worrying. If the years have experienced an average downturn of 21% the business is analyze the underlying data ion order to establish the cause of the downturn as well as create solution for improvement.

4.2.4.1. Interest Earned to Total Assets Ratio

It is the ratio, which formed to find out be percentage of the interest earned to total assets. This is derived by dividing the amount of interest earned by the total assets of the firms.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

The following table and figure shows the interest earned to total assets ratio of the BOKL

Table 4.13

Interest Earned to Total Asset s Ratio of BOKL

(Rs. In million)

Fiscal Year	Interest Earned	Total Assets	Ratio (%)

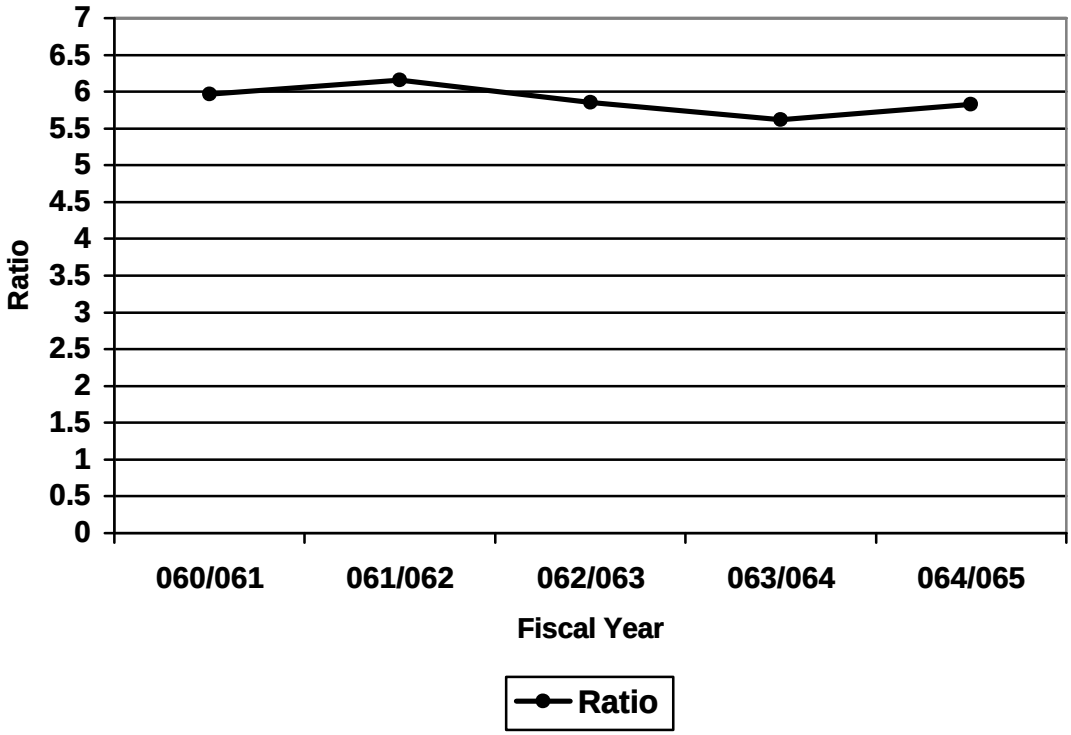
060/061	567.10	9496.34	5.97
061/062	607.09	9857.13	6.16
062/063	718.12	12278.33	5.85
063/064	819.00	14570.10	5.62
064/065	1034.16	17721.92	5.83
Average			5.89

(Sources: Appendix 5- Financial Summary of Bank of Kathmandu Ltd.

The interest earned has been following increasing trend, i.e. the interest earned of BOKL has been gradually every year. The total asset of the BOKL has been also increasing gradually over the study period. Interest earned to total assets ratio of the bank was quite fluctuating. It was stand at 5.97% in fiscal year 060/061. It was slightly increased in fiscal year 061/062 and reached up to 6.16%.In the F/Y 062/063 & F/Y 063/064; it was decreased and reached to 5.85% & 5.62% respectively. It is slightly increased in fiscal year 064/065 than previous year and stand at 5.83%. The average ratio of the BOKL was 5.89 over the study period. The following figure shows the ratio of interest earned to total of the bank.

Figure 4-11

Interest Earned to Total assets Ratio of BOKL



The above figure depicts that Interest earned to total assets ratio of BOKL seems quite fluctuating over the study period. In fiscal year 061/062 the trend of the bank was in increased. But at the fiscal year 062/063 & 063/064 it seems to in declining position than previous year and again a fiscal year 064/065 it started to grow position.

From the above analysis we can conclude that the interest earned to total assets of the BOKL is not so much satisfactory, it is quite ok. It implies that the bank might not be able to use its total assets of funds to earned interest.

4.2.4.2. Net Profit to Total assets Ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. It measures the return on assets is computed by using following formula.

$$\text{Net Profit Total Assets Ratio} = \frac{\text{Net Profit after tax}}{\text{Total Assets}}$$

Table 4-14

Net Profit to Total Assets Ratio of BOKL

(Rs. In million)

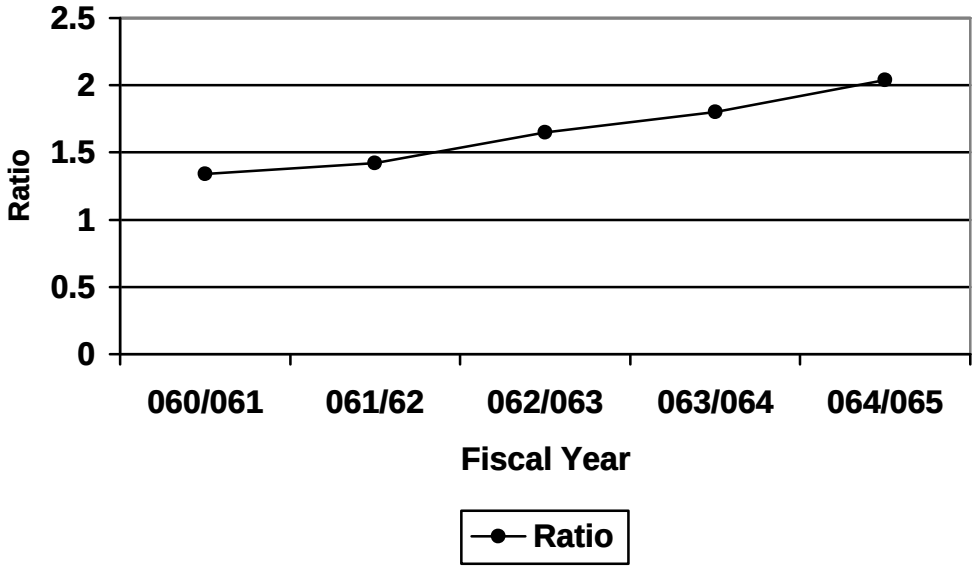
Fiscal Year	Net Profit	Total Assets	Ratio (%)
060/061	127.47	9496.34	1.34
061/062	139.53	9857.13	1.42
062/063	202.44	12278.33	1.65
063/064	262.39	14570.10	1.80
064/065	361.50	17721.92	2.04
Average			1.65

(Sources: Appendix 5- Financial Summary of Bank of Kathmandu Ltd.

As shown in the above table 4-14 the net profit of the bank was Rs. 127.47million in F/Y 060/061, Rs, 139.53Million in F/Y 061/062, Rs 202.44 million in F/Y 062/063, Rs. 262.39million in F/Y 063/064 and Rs.361.50million in F/y 064/065. The net profit has been also increasing gradually over the study period. Likewise the ratio of net profit to Total assets is also increasing. The lowest net profit to total assets is 1.34 in fiscal year 060/061 and highest is 2.04 in fiscal year 064/065. The average of net profit to total assets ratio is 1.65 over the study period.

Figure 4-12

Net Profit to Total Assets Ratio of BOKL



The above figure implies that the growing position of net profit to total assets ratio in percentage of BOKL Above analysis helps to find out whether the bank efficiently used its working funds or total assets to earned higher rate of profit of not. The ratio of net profit to total assets of BOKL implies that the bank could able to use its available working funds more effectively over the study period which signify towards the fast growth of the bank.

4.2.4.3. Net Profit to Total Deposit Ratio

This ratio is used to measuring the internal rate of return deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates the from investment on loans and advances are desirable and lower indicates the funds are not properly mobilizing. The following formula is used as:

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Table 4-15

Net Profit to Total Deposit Ratio

(Rs. In million)

Fiscal Year	Net Profit	Total Deposit	Ratio (%)
060/061	127.47	7741.64	1.65
061/062	139.53	8942.75	1.56
062/063	202.44	10485.36	1.93
063/064	262.39	12388.93	2.12
064/065	361.50	15833.74	2.28
Average			1.91

(Sources: Appendix 5- Financial Summary of Bank of Kathmandu Ltd.

The above table shows that the total deposit of BOKL has been gradually increasing over the period of study. Similarly, the net profit is also increasing from F/Y 060/061 to F/Y 064/065. Likewise the ratio has been gradually decreased in first two years and reached to 1.56 and again start increased from fiscal year 062/063 to fiscal yeas 2064/065 and reached to 1.93, 2.12 & 2.28 respectively. The ratio stands at 1.56 at the end fiscal year 0061/062 is minimum whether it stands at 2.28 in fiscal year 064/065 which is maximum and the average of net profit to total deposit ratio is 1.91 over the study period.

The above analysis helps to find out whether the bank could able to mobilize of outsiders founds properly or not. The mobilization of outsiders fund is very important to earn profit for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank mobilized its deposit as efficiently as possible. As shown in above tale we can easily conclude that the bank could able to

mobilize its deposit or outsiders funds efficiently. The bank has been mobilized its deposit properly to increase profit.

4.2.4.4 Cost of Service to Total Assets Ratio

A sound management always tries to utilize its lager amount of assets with minimum cost. This ratio is useful in measuring the assets utilization with cost of service, the ratio can be expressed as below

$$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Service}}{\text{Total Assets}}$$

The following table shows the cost of bearing of services taking by Bank of Kathmandu Limited

Table 4-16

Cost of Service to Total Assets Ratio of BOKL

(Rs. In million)

Fiscal Year	Cost of Service	Total Assets	Ratio (%)
060/061	344.02	9496.34	3.62
061/062	295.46	9857.13	3.00
062/063	367.27	12278.33	2.99
063/064	408.92	14570.10	2.81
064/065	508.14	17721.92	2.87
Average			3.06

(Sources: Appendix 5- Financial Summary of Bank of Kathmandu Ltd.

From the above table 4-16 shows that the total asset of the BOKL has been increasing gradually over the study period. The cost of service included interest paid on borrowings and on deposit as well as salaries, allowances and provident fund. The cost of service of the BOKL has been decreased in fiscal year 061/062 than the previous year but increased in last

three years of the study period of study. The ratio has been decreased from F/Y 060/061 to F/Y 063/064.In fiscal year 064/065 it's slightly increased to 2.87%. The average ratio of cost of service to total assets is stands at 3.06%.

From the above analysis we can conclude that the ratio of cost of service to total assets of BOKL has been gradually decreasing. This indicates that the bank could able to decrease its cost of service. It is no doubt that bank can able to decreased total cost which resulted in maximizing the profit.

4.3 Correlation Analysis

Correlation analysis is a statistical relation two or more variables such that systematic changes in the value of one variable are accompanied by systematic changes in the other, In other words, correlation is the statistical tool that we can use to describe the degree to which on variable is linearly relation to another. The coefficient of correlation measure the degree of relationship between two sets of figure. It is denoted by small letter 'r' The result of coefficient of correlation is always between +1 and=1 when 'r' is equal to +1, it means there is perfect relationship between two variables and vice versa, When 'r' is zero. It means there is no relationship between two variables. Therefore correlation is a reciprocal relation between two or more things.

4.3.1. Coefficient of Correlation between Investment on Government Securities and Total Deposit

The Coefficient of correlation between investment on government securities and total deposit is to measure the degree of relationship between two variables. Although, bank utilizes its deposit on loan and advances but

some part of idle deposit are invested on government securities. The purpose of computing correlation coefficient is to justify whether the excess deposits are significantly used in government securities or not or whether there is any relationship between these two variables, In this analysis, government security is dependent variable (X) and total deposit is independent variable (Y) The following table shows the coefficient between deposits and government securities i.e., 'r', 'PE', '6PEr' of BOKL over the study period.

Table 4-17

Coefficient of Correlation between Investment on Government Securities and Total Deposit

Name of Bank	Correlation (r)	PEr	6PEr
BOKL	**0.23**	**0.29**	**1.74**

(Source: Appendix-1)

From the above table 4.17 we can find the coefficient of correlation between government security and total deposit of BOKL value 'r' is +0.23. It shows that the positive relationship between these two variable government security and total deposit of the bank. BY considering the probable error since the value of 'r' is less than six times of PEr then we can say that the value of 'r' is not significant and in case of BOKL the value of ;'r; is also less then the value of of PEr i.e. r < PEr so there is not significant relationship between government security and total deposit of the bank.

Hence form the above analysis, it can be concluded that there is not significant relationship between government security and total deposit of the bank over the study period.

4.3.2. Coefficient of Correlation between Loan and Advance and Total Deposit

The Coefficient of correlation between loan and advances and total deposits is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposits. In correlation analysis, deposit is independent variable (Y) and Loan and advances is dependent variable (X). The purpose of computing coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables. To find out the correlation, various calculations are done.

The following table shows the coefficient of correlation (r) between loan and advances and total deposits i.e. r, PEr, 6PEr of Bank of Kathmandu Limited.

Table 4-18

Coefficient of Correlation between Loan and Advance and Total Deposit

Name of Bank	Correlation (r)	PEr	6PEr
BOKL	**+0.99**	**0.006**	**0.036**

(Source: Appendix-2)

From the above table 4.18 depicts that the coefficient of correlation between loan and advances and total deposit value 'r' of BOKL is +0.99. It shows highly positive relationship between two variables loan and advances and total deposit of BOKL. By considering the probable error, since the value of 'r' i.e. +0.99 is more than six times of probable error i.e. 0.36, we can say that the value of 'r' is highly significant i.e. there is

significant relationship between total deposit and loan and advances. What this means essentially is that changing the scale of either the X or the y variable will not change the size of the correlation coefficient, as long as the transformation conforms to the requirements of a linear transformation.

Thus form analysis, we can conclude that the bank have utilized its total deposits on loan and advances effectively.

4.3.3. Coefficient of Correlation between cash and Bank Balance and Current Liabilities

Cash and bank balance is most liquid component of current assets. This is required to meet the unexpected short term obligation i.e. current liabilities. The coefficient of correlation between cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are done. In correlation analysis, cash and bank balance is dependent variable (X) and current liabilities are independent variable (Y). The following table shows the coefficient of correlation between cash and bank balance and current liabilities i.e. 'r', 'PEr', '6PEr' of Bank of Kathmandu Limited.

Table 4-19

Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Name of Bank	Correlation (r)	PEr	6PEr
BOKL	+0.88	0.068	0.41

(Source: Appendix-3)

As stated in above table 4.19 we can find that coefficient of correlation between cash and bank balance and current liabilities of BOKL is +0.88 which shows the positive relationship between two variables cash and bank balance and current liabilities. By considering the probable error, since the value of 'r' i.e. +0.88 is more than six times of PEr i.e. 0.41 we can say that the value of 'r' is significant.

Form the above analysis, it can be concluded that there is significant relationship between cash and bank balance and current liabilities.

4.3.4. Coefficient of Correlation between Loan and Advances and Net Profit.

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit large amount of loan and advances generate higher profit. The coefficient of correlation between loan and advances and net profit is to measure the degree of relationship between loan and advances and net profit. In correlation analysis, loan and advances is independent variable (Y) and net profit is dependent variable (C). The purpose of computing the correlation of the coefficient is to justify whether the loan and advances are significantly generate profit of not and whether there is any relationship between these two variables. The following table shows the calculated amount of 'r', 'PEr' and '6PEr' the BOKL over the study period.

Table 4-20

Coefficient of Correlation between Loan and Advance and Net Profit.

Name of Bank	Correlation (r)	PEr	6PEr
BOKL	+0.99	0.006	0.036

(Source: Appendix-4)

As stated in above table 4.20, the coefficient of correlation between loan and advances and net profit of BOKL over the study period is 0.99. It shows positive relationship between two variables loan and advances and net profit. Similarly considering the value of probable error and six times of probable error which value are 0.006 and 0.036 respectively. These values are less than coefficient of correlation.

Thus form the above analysis. It can be conclude that there is significant relationship or relationship is positive between loan and advances and net profit because change in any variable can affect the value of other variable.

4.4. Major Finding of the Study

The following are the major findings of the study.

1. The working capital of BOKL was amounted Rs. 898.17 million in F/Y 060/061 then WC has been decreasing in fiscal year 061/062 and F/Y 062/063.In F/Y 063/064 & F/Y 064/065 the Working capital of bank was able to increased. The working capital depicts the liquidity position of any organization. It means higher the working capital higher the liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs.898.17million, Rs.281.17 million, Rs.89.69 million, Rs.811.56 million and Rs.813.18 million at the end of F/Y 060/061, 061/062, 062/063, 063/064 and 064/065 respectively.
2. The current ratio of the bank was decreasing for the first three year, which stands 1.11 at F/Y 060/061, 1.03 at F/Y 061/062 1.01 at F/Y 062/063 respectively. In F/Y 063/064, the Current ratio has increased & stands 1.06 and in final year current ratio has slightly decreased & stands 1.05. The average CR of the bank stands at

1.052 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at the ratio of 1.01, which is minimum in F/Y 062/063. In this case, the bank has enough idle money which can not generate inflow to the bank. Higher current ratio shows the idle fund of the bank.

3. The quick ratio of the bank is also representing by the current ratio. The Q.R. of the bank is same as C.R. It means, quick ratio is also fluctuating and the bank has enough idle fund is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.
4. The cash and bank balance to total deposit ratio excluding fixed deposit of the bank decreasing up to fiscal year 062/063 and drastically increasing in F/Y 063/064 and then slightly decreased in 064/065. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.122% over the study period which means bank is in satisfactory level.
5. The saving deposit to total deposit ratio of the bank has been gradually increasing over the fourth year but in final year slightly decreased. It stands at average 0.414% over the study period. Thus, the ratio indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Form profitability point of view, the bank should minimize the ratio. As depicted by the study, BOKL's position seems satisfactory level over the study period.
6. The loan and advances to total deposit ratio of BOKL was quite fluctuating. The ratio stands 0.73% in fiscal year 060/061, 0.66% in fiscal year 061/062, 0.69% in fiscal year 062/063, 0.76% in fiscal year 063/064 and 0.79% in fiscal year 064/065. The ratio indicates

the capacity of the bank to mobilization its deposit. As stated by the study, the mobilization of deposit of the bank is satisfactory level over the study period.

7. The loan and advances to fixed deposit ratio of BOKL was slightly decreased in fiscal F/Y 061/062 but it increases thereafter till F/Y 064/065. It stands at 3.37 at the end of study period. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed deposit in loan and advances efficiently or not. Form the study, it is found that the bank has been mobilizing its fixed deposit quite satisfactory.
8. The loan and advances to saving deposit ratio of the bank has been decreased till F/Y 62/063.but it has been increasing till F/Y 064/065. There was not consistency in the ratio. It stands at average 1.77 over the study period. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.
9. The long-term debt to net worth ratio of the bank did not exist did not exist because the bank did not use any outsider's funds. It means the debt to net worth ratio is zero over the study period. It indicates that the bank is not risky from the view point of the investors.
10. The net fixed asset to long-term debt ratio of the bank was also same as long-term debt to net worth ratio.
11. Interest earned to total assets ratio of any organizations indicates the profitability ratio. This ratio of the bank is very fluctuating. It was 6.16 at F/Y 061/062, which is maximum and 5.62 at F/Y 063/064 which is minimum. It stands at average 5.89 over the study period. From the study, it is concluded that the interest earned to

total assets ratio of BOKL is quite satisfactory. It means, the bank could able to use its total assets properly to earned interest.

12. Net profit total assets ratio of the bank has been increasing trend. It was 1.34 in F/Y 060/061, 1.42 in F/Y 061/062, 1.65 in F/Y 062/063, 1.80 in F/Y 063/064 and 2.04 in F/Y 064/065. It stands at average 1.65 over the period of study. The study shows that the bank could able to utilize its total assets to generate profit.
13. Net profit to total deposit ratio of the bank was decreased in F/Y 061/062 thereafter it has been increasing till final year. It stands at 1.65 at F/Y 060/061, 1.56 at F/Y 061/062, 1.93 in F/Y 062/063, 2.12 in F/Y 063/064 and 2.28 in F/Y 064/065. It stands at average 1.91. This ratio is used to find out whether the bank could able to mobilize outsider's funds properly or not. The mobilization of outsider's funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposit as efficiently as possible. From the above study, we can easily found that the bank could able to mobilized its total deposit efficiently.
14. Cost of services to total assets ratio of the bank has been gradually decreasing over the year. It was 3.62% at the end of F/Y 060/061. It is limited to 2.87% at the end of F/Y 064/065. It stands at average 3.06% over the study period. Form the above study we can easily found that the bank has been given effort\ort told decreased its cost of service, there is not doubt that, the decrement of cost of service will result n maximizing profit of the bank. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.

15. The coefficient of correlation between investment and government securities and total deposit was +0.23, which is not significant over the study period.
16. The coefficient of correlation between loan and advances and total deposit stands at +0.99, which is significant. It mans there is positive relationship between loan and advances and total deposit of the bank i.e. perfectively correlated. The bank should increased total deposit to increase loan and advances and vice versa.
17. The coefficient of correlation between cash and bank balance and current liabilities was +0.88. It means high degree of correlation, which is significant.
18. The coefficient of correlation between loan and advances and net profit was +0.99. It means low degree of positive relationship between loan and advances and net profit, which is insignificant.

CHAPTER-V

Summary, Conclusion and Recommendation

5.1 Summary and Conclusion

Finance is business term which deals with the study of fund management. If finance is to be accepted as weapon which enables an

organization to pay its bills promptly it is necessarily linked with the flow of fund. The management may accept or reject a business provision on the basis of financial viabilities. It guides investment where opportunity is the greatest, producing relatively uniform yardstick for judging most of a firm's operations and projects and is continually concerned with achieving an adequate rate of return on investment as this is necessary for survival and the attracting of new capital.

The function of finance involves three major decisions which, the firm must make the investment decision, financing decision and the dividend decision. An optimum combination of the three will maximize the value of the firm. In other words entire activities relating the finance are done with the help of financial management. So in this area of management there are two main functions, firstly to assemble the funds necessary to initiate a new business economically and secondly to provide the basis of continue new operation.

It will not be an exaggeration to say that the success of any business organization depends upon its entire environment. Financial management is one of the which the organization can control to some extent. It is concerned with the decision making regarding the size and composition of assets and the level and structure, the cheaper source of fund and to invest it at the best opportunities etc. Come under the heading of financial decision making, the management of short-term assets and source of finance which entails and analysis of the effect of risk and profitability can not be overlooked.

The working capital has to be regarded as one of the conditioning factors in the long range analysis and decision making to achieve the goal

of overall business, the determinants of working capital management should be as accurate as possible. It means money invested on working capital should be neither more not less because both the position of working capital affects not only liquidity but also profitability of the organization. The investment decision should be made on any type of current assets by considering their role in corporation, and determining which one is more beneficial to the corporation and which is not.

Firm need cash to pay for all their day-to-day activities. They have to pay wages, pay for raw materials, pay bills and so on. They money available to them to do this is known as the firm's working capital/ The main sources of working capital are the current assets as these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to be taken account of when working out how much working capital a firm has a it's disposal.

According to gross concept, WC refers to the capital invested in current assets of a firm. If focuses only the optimum investment on current assets and financing of current assets. It includes cash, short-term securities, and inventory and account receivables, similarly, according to net concept, working capital refers to the difference between current assets and current liabilities. In other words, it is that part of current assets financed with long term funds. It focuses on the liquidity position of the firm and suggests extending which working capital need to be financed by permanent sources of funds.

The working capital of BOKL has been following increasing trend of two fiscal year 063/064 & F/Y 064/065. The working capital depicts the liquidity position of any organization. It means higher the working capital

higher the liquidity of the firm and vice versa. Total working capital of the bank was limited to Rs.898.17 million, Rs.281.17 million, Rs.89.69 million, Rs.811.56 million and Rs.813.18 million at the end of F/Y 060/061, 061/062, 062/063, 063/064 and 064/065 respectively.

The current ratio of the bank was quite fluctuating, which stands 1.11 at FY 060/061, 1.03 at F/Y 061/62, 1.01 at F/Y 062/063, 1.06 at F/Y 063/64 and 1.05 at F/Y 064/065 respectively. The average CR of the bank stands at 1.052 over the study period. As stated by the result, the bank has enough liquidity to remain solvent at he ratio of 1.01, which is minimum in F/Y 062/063. In this case, the bank has enough idle money which can not generate inflow to the bank. Higher current ratio shows the idle fund of the bank. The quick ratio of the bank is also representing by the current ratio. The Q.R. of the bank is same as C.R. It means, quick ratio is also fluctuating and the bank has enough idle fund is unproductive to the bank. So, bank has to reset ratio to meet its current liabilities.

The cash and bank balance to total deposit ratio excluding fixed deposit of the bank lightly decreasing up to fiscal year 062/063 and drastically increasing in F/Y 063/064 and slightly decreased in F/Y 064/065. It indicates that how much funds available with the bank to cover its current margin, call and saving deposit of the bank immediately. But the large amount of idle cash and bank balance affects profitability of the bank. This ratio stands average 0.122% over the study period which means bank is in satisfactory level.

The saving deposit to total deposit ratio of the bank has been gradually increasing till F/Y 063/064 and slightly decreased in F/Y 064/065. It stands at average 0.414% over the study period. Thus, the ratio

indicates the bank's liquidation position. Higher level of this ratio of the bank indicates to the idle fund too. Form profitability point of view, the bank should minimize the ratio. A s depicted by the study, BOKL's position seems satisfactory level over the study period. The loan and advances to total deposit ratio of BOKL was quite fluctuating. The ratio stands 0.73% in fiscal year 060/061, 0.66% in fiscal year 061/062, 0.69% in F/y 062/063, 0.76% in fiscal year 063/064 and 0.79% in fiscal year 064/065. The ratio indicates the capacity of the bank to mobilization its deposit. As stated by the study, the mobilization of deposit of the bank is satisfactory level over the study period.

The loan and advances to fixed deposit ratio of BOKL was slightly decreased in fiscal F/Y 061/062 but it increases there after till F/Y 064/065. It stands at 3.37 at the end of study period. These ratios indicate the capacity of mobilizing its fixed deposit to loan and advances. It means, these ratios implies to the utilization of fixed deposit in loan and advances efficiently or not Form the study it is found that the bank has been mobilizing its fixed deposit satisfactory.

The loan and advances to saving deposit ratio of the bank has been following fluctuating trend. There was not consistency in the ratio. It stands at average 1.77 over the study period. These ratios implies that the bank either able to mobilize its saving deposit or not. As per the study, the bank is in satisfactory position over the study period.

The long-term debt to net worth ratio of the bank did not exist because the bank did not use any outsider's funds. It means the debt to net worth ratio is zero over the study period. It indicates that the bank is not risky from the view point of the investors.

The net fixed asset to long-term debt ratio of the bank was also same as long-term debt to net worth ratio. Interest earned to total assets ratio of ay organizations indicates the profitability ratio. This ratio of the bank is very fluctuating. It was 6.16 at F/Y 061/062, which is maximums and 5.62 at F/Y 063/064, which is minimum. It stands at average 5.89 over the study period. Form the study, it is concluded that the interest earned to total assets ratio of BOKL is quite satisfactory. It means, the bank could able to use its total assets properly to interest.

Net profit to total assets ratio of the bank has been increasing trend. It was 2.04 in F/Y 064/065, which is maximum and 1.34 in F/Y 060/061, which is minimum over the study period. It stands at average 1.65 over the period of study. The study shows that the bank could not able to utilized its total assets to generate profit. Net profit to total deposit ratio of the bank was also fluctuating. It stands at 2.28 at the end of F/Y 064/065, which is maximum and 1.56 at the end of F/Y 061/062, which is minimum. It stands at average 1.91 over the study period. This ratio is used to find our whether the bank could able to mobilize outsider's funds properly or not. The mobilization of outsider's funds is very important for a commercial bank. The efficient mobilization of deposit indicates the better performance of the bank. Therefore, the bank should mobilize its deposit as efficiently as possible. But form the above study, we can easily found that the bank could able to mobilized its total deposit efficiently.

Cost of services to total assets ratio of the bank has been decreasing over the year. It was 3.62% at the end of F/Y 060/061. It is limited to 2.87% at the end of F/Y 064/065. It stands at average 3.06% over the study period. Form the above study we can easily found that the bank has been

given effort to decreased its cost of service, there is not doubt that, the decrement of cost of service will result in maximizing profit of the bank. It is quite satisfactory but the bank has to give attention towards further decline of the cost of service.

The coefficient of correlation between investment and government securities and total deposit was +0.23, which is not significant over the study period. The coefficient of correlation between loan and advances and total deposit stands at +0.99, which is significant. It means there is positive relationship between loan and advance and total deposit of the bank i.e. perfectively correlated. The bank should increased total deposit to increase loan and advances and vice versa. The coefficient of correlation between cash and bank balance and current liabilities was + 0.88. It means high degree of correlation, which is significant. The coefficient of correlation between loan and advances and net profit was +0.99. It means high degree of positive relationship between loan and advances and net profit, which is insignificant.

5. 2 Recommendation

Based on the major findings of this study, some recommendations have been made so as to overcome some shortfalls regarding the issue of working capital management of the bank.

- Working capital is essential to meet short-term obligations. But high level of working capital increased idle fund which affects the profitability of the bank. Therefore, the bank should

maintain sound working position. It means neither more nor less. The working capital of BOKL has been following increasing trend. Thus, the bank should try to maintain sound working capital.

- The current and quick ratio of the bank is more than one. It means, the bank has sufficient liquidity to remain solvent even at the ratio of 1.01:1 in fiscal year 062/063, which was minimum ratio during the study period. It is true that such higher ratio supposed by the greater ability of bank to pay its bills. But if a bank has more than sufficient current assets is indication of unfavorable of distribution of current assets then current liabilities. Therefore, there is quite higher idle fund which may result unproductive for bank. Thus, the bank should try to reduce its current assets to increase its profitability.
- The loan and advances to total deposit ratio indicates the capacity of bank to mobilize its deposit into loan and advances. It also majors the efficiency of management to utilize their available resources. As found in the above study, the bank could able to mobilize its total deposit through loan and advances. Therefore, the bank should disburse its total deposit as much as possible by means of loan and advances.
- Till now the bank is utilizing only net worth but not any debt capital. The utilization of debt capital somehow helps to increase the profitability of the bank. Therefore, the bank should try to issue long-term debt or debentures or maintain leverage capital ratio.
- Form the above study we can easily found that that bank's interest earned to total assets ratio is satisfactory. It indicates the bank could able to utilize its total assets to earned interest.

Therefore, the bank should utilize its available assets as properly as possible to earned interest. For this the bank should lent only in performing loan which makes sure the recovery of principle as well as interest.

- The net profit to total assets ratio of the bank is also satisfactory. Form the above study it is easily found that bank could able to utilized its available sources properly to earned profit. Therefore, the bank should utilize its total assets as possible as much.
- Although, the cost of service to total assets ratio has been decreasing, it is in satisfactory level. Therefore, the bank should try to decline its cost of services as possible as it can.

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Appendices

Appendix 1

Calculation of Coefficient of Correlation between Investment on Government Securities and Total Deposit.

GS (X)	TD (Y)	X = $(X - \bar{X})$	X2	Y= $(Y - \bar{Y})$	Y2	xy
1,812.39	7,741.64	(400.05)	160,040.00	(3,336.84)	11,134,501.19	1,334,902.84
2,146.19	8,942.75	(66.25)	4,389.06	(2,135.73)	4,561,342.63	141,492.11
2,658.37	10,485.36	445.93	198,853.56	(593.12)	351,791.33	(264,490.00)
2,332.04	12,388.93	119.60	14,304.16	1,310.45	1,717,279.20	156,729.82
2,113.22	15,833.74	(99.22)	9,844.61	4,755.26	22,612,497.67	(471,816.90)
∑X= 11,062.21	∑Y= 55,392.42		X^2 = 387,431.39		Y^2 = 40,377,412.02	∑XY= 8,968,817.87

$$\bar{X}\ X\frac{X}{N}$$

$$X\frac{11,062.21}{5}$$

$$= 2,212.44$$

$$\overline{Y} \text{ X } \frac{Y}{N}$$

$$\text{X}\frac{55{,}392.42}{5}$$

$$=11{,}078.48$$

$$r \text{ X}\frac{XY}{\sqrt{\text{X}^2 . \text{Y}^2}}$$

$$r \text{ X}\frac{896{,}817.82}{\sqrt{387{,}431.39 \text{ x } 40{,}377{,}412.02}}$$

$$= 0.23$$

$$\text{PEr} = 0.6745 \frac{1\text{Z}r^2}{\sqrt{N}}$$

$$\text{PEr} = 0.6745 \frac{1\text{Z}(0.23)^2}{\sqrt{5}}$$

$$= 0.29$$

$$6\text{PEr} = 6\text{X } 0.29$$

$$= 1.74$$

Appendix 2

Calculation of Coefficient of Correlation between Loan & Advances and Total Deposit.

LA (X)	TD (Y)	$x = (X - \bar{X})$	X2	$y = (Y - \bar{Y})$	Y2	xy
5,646.70	7,741.64	(2,489.37)	6,196,962.99	(3,336.84)	11,134,501.19	8,306,629.39
5,912.58	8,942.75	(2,223.49)	4,943,907.78	(2,135.73)	4,561,342.63	4,748,774.30
7,259.08	10,485.36	(876.99)	769,111.46	(593.12)	351,791.33	520,160.31
9,399.33	12,388.93	1,263.26	1,595,825.83	1,310.45	1,717,279.20	1,655,439.07
12,462.64	15,833.74	4,326.57	18719,207.96	4,755.26	22,612,497.67	20573,965.26
$\sum X =$ 40,680.33	$\sum Y =$ 55,392.42		$X^2 =$ 32225,016.02		$Y^2 =$ 40,377,412.02	$\sum XY =$ 35804,968.33

$$\bar{X} \; X \frac{X}{N}$$

$$X \frac{40,680.33}{5}$$

$$= 8,136.07$$

$$\bar{Y} \; X \; \frac{Y}{N}$$

$$X \frac{55,392.42}{5}$$

$$= 11,078.48$$

$$r\ X \frac{XY}{\sqrt{X^2 . \ Y^2}}$$

$$r\ X \frac{35{,}804{,}968.33}{\sqrt{32{,}225{,}016.02 \text{ x } 40{,}377{,}412.02}}$$

$$= 0.99$$

$$PEr = 0.6745\ \frac{1 Z r^2}{\sqrt{N}}$$

$$PEr = 0.6745\ \frac{1 Z (0.99)^2}{\sqrt{5}}$$

$$= 0.006$$

$$6PEr = 6X\ 0.006$$

$$= 0.036$$

Appendix 3

Calculation of Coefficient of Correlation between Cash and Bank Balance and Current Liabilities.

C & B(X)	CL (Y)	$X = \int X - \bar{X} \int$	X2	$Y = \int Y - \bar{Y} \int$	Y2	xy
782.88	7,912.40	(218.81)	47,877.82	(3,608.52)	13,021,416.59	789,580.26
740.52	9,125.62	(261.17)	68,209.77	(2,395.30)	5,737,462.09	625,580.50
728.70	11,274.58	(272.99)	74,523.54	(246.34)	60,683.39	67,248.36
1,315.90	13,054.71	314.21	98,727.92	1,533.79	2,352,511.76	481,932.16
1,440.47	16,237.31	438.78	192,527.89	4,716.39	22,244,334.63	2,069,457.60
$\sum X =$ 5,008.47	$\sum Y =$ 57,604.62		$X^2 =$ 481,866.94		$Y^2 =$ 43,416,408.46	$\sum XY =$ 4,033,798.88

$$\bar{X} \; X \frac{X}{N}$$

$$X \frac{5,008.47}{5}$$

$$= 1,001.69$$

$$\bar{Y} \; X \; \frac{Y}{N}$$

$$X \frac{57,604.62}{5}$$

$$= 11,520.92$$

$$r\ \mathrm{X} \frac{XY}{\sqrt{\mathrm{X}^2 . \ \mathrm{Y}^2}}$$

$$r\ \mathrm{X} \frac{4{,}033{,}798.88}{\sqrt{481{,}866.94 \text{ x } 43{,}416{,}408.46}}$$

$$= 0.88$$

$$\mathrm{PEr} = 0.6745\ \frac{1\mathrm{Z}r^2}{\sqrt{N}}$$

$$\mathrm{PEr} = 0.6745\ \frac{1\mathrm{Z}(0.88)^2}{\sqrt{5}}$$

$$= 0.068$$

$$6\mathrm{PEr} = 6\mathrm{X}\ 0.068$$

$$= 0.41$$

Appendix 4

Calculation of Coefficient of Correlation between Loan and Advances and Net Profit.

LA (X)	**NP (Y)**	**X = $\int X - \bar{X} \int$**	**X2**	**Y= $\int Y - \bar{Y} \int$**	**Y2**	**xy**
5,646.70	127.47	(2,489.37)	6,196,962.99	(91.2)	8,317.44	227,030.54
5,912.58	139.53	(2,223.49)	4,943,907.78	(79.14)	6,263.14	175,967.00
7,259.08	202.44	(876.99)	769,111.46	(16.23)	263.41	14,233.55
9,399.33	262.39	1,263.26	1,595,825.83	43.72	1,911.44	55,229.73
12,462.64	361.50	4,326.57	18719,207.96	142.83	20,400.41	617,964.00
∑X= 40,680.33	∑Y= 1,093.33		X^2 = 32225,016.02		Y^2 = 37,155.84	∑XY= 1,090,494.82

$$\bar{X} \; X \frac{X}{N}$$

$$X \frac{40,680.33}{5}$$

$$= 8,136.07$$

$$\bar{Y} \; X \; \frac{Y}{N}$$

$$X \frac{1,093.33}{5}$$

= 218.67

$$r\ \mathrm{X} \frac{XY}{\sqrt{\mathrm{X}^2 . \ \mathrm{Y}^2}}$$

$$r\ \mathrm{X} \frac{1{,}090{,}494.82}{\sqrt{32{,}225{,}016.02 \text{ x } 37{,}155.84}}$$

= 0.99

$$\mathrm{PEr} = 0.6745\ \frac{1\mathrm{Z}r^2}{\sqrt{N}}$$

$$\mathrm{PEr} = 0.6745\ \frac{1\mathrm{Z}(0.99)^2}{\sqrt{5}}$$

= 0.006

6PEr = 6X 0.006

= 0.036