CHAPTER - I
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Nepal is an underdeveloped country and a landlocked country but very beautiful. It is situated in between two countries. So, ' it is a yam between two big stones'. It is a Himalayan kingdom and having different features as buffer state in the south Asia. It is very greenery. So, it is called the Switzerland of the South Asia. On the basis of total area covered, it is 22 times smaller than India and 65 times smaller than China. It lies in the 26°22' north to 30°27'north longitudes and 80°04'east to 88°12' east latitudes. It has covered 0.03% in the world and 0.3% in Asia continent. There are low numbers of educated people and dependent upon agriculture. About 81% of total population is dependent upon agriculture. From this we conclude that only 10% people are engaged in the industrial sector. So, sufficient industries are not established in our country as being under developed.

Being poor mountainous and agricultural country, Nepal has faced a lot problem in her economic development. Not a single factor is responsible for the retardation in her path of economic development. Many tremendous causes such as lack of sources of finance, transportation, education, socio economic condition, mismanagement of government rules and regulation and geographical land by nature etc, handicap the country and lead towards the low productivity and less effective result in performance operation and rolling down towards the least developed country in the world. Prospects for overall economic development will be brighter only if the present structure of the economy with predominated dependence on traditional agricultural can be gradually transferred through the process of industrialization.

The overall development of any country depends upon sound and rapid progress of the industrial, trade and commercial sectors. For the smooth operation of the private and public organization needs good working capital management. To develop the agricultural country, the industry based upon agriculture play key role. Such industries are established mainly for earning profit through providing product and service for the sound operation of business sector.

Industry is concerned to produce goods and provide services to get maximum profit. Being an agricultural country, agricultural based industries are needed to develop the nation. The process of producing, marketing and providing service is regarded as industry. Such agricultural products are sold in the market and consumed by the customers.

Industry such as agriculture base should be established in our country for the rapid development of the country. So industrial revolution is needed to take the country into mountain of development. In early days, sufficient industries were not established in our country due to the following reasons:

- Unequal distribution of national income
- Landlocked county
- Developing country
- Lack of sufficient capital
- Political instability
- Mixed economy
- Higher population growth

- Depended on foreign aid
- Lack of infrastructure
- Lack of skilled man power

Finance holds key role in all human activities. Every financing decision is done by observing the income and expenditures of each investment decision. So it shows the way to make rational decision. It is both the science and art. It analyses the investment decision process in a systematic manner as science and apply its rules as an artists. However, finance strategy is the life blood of every enterprise such as manufacturing organization. It is one of the components of finance management. It is a nerve centre of the business concern. It is essential to accommodate the smooth running of the concern. No business can operate successfully and effective without the effective and efficient management of the working capital. Adequate working capital will be helpful to keep the solvency position, goodwill, credit worthiness as well as building capability to face to pay the finance bottleneck. It is true that well firm needed to face wages, pay for the raw materials, pay bills and so on. The money available to them to do this is known as firm's working capital. It is better to specify the working capital by different pioneers and authorities of finance as regards working capital.

'Working capital management is the management of currents assets and the current liabilities of the firm.'[1]

'Capital that is needed and used in running a business, and not invested in its building and equipment'[2]

---

1. Thapa kiran and Narayan, Niraula, Corporate Financial Management , Khanal books publishers and distributors, 3rd Edition Nepal, 2062, P101.
2. Oxford Advance Terms Dictionary of current English, 5th Edition England (2nd impression, 1997), P1377.l

'Working capital is a firm's investment in short term assets.'[3]

'The term working capital some times called gross working capital generally refers current assets.'[4]

The terms Current assets refer to those assets which can be made within a year (Fiscal year). Such as Cash, short term securities, Debtors, bills receivables, accounts receivables, Accounts receivable, inventories etc. The terms Current liabilities are those which should be paid with in a year. Such as Accounts payables, Creditors', Bills payables, Bank overdraft, out standing expenses etc. However, the effective management of current assets and liabilities may maintain liquidity in the firm not keeping high each one.

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

Our study focuses on working capital management of private firm with special reference to J. Bs. industry private limited. In this regard, J.Bs. industry is established in 2047 B.S. It is located in Itahari

3. J.F. Weston & Brigham, Managerial Finance, 11th Edition 1996, New York, P332.
4. P.K. Jain & K.Y. Khan, Financial, Management, Tate Me Grow Hill Publishing House, India 6th Edition, 1998.

municipality of Sunsari District. It manufactures fruits and vegetable products like fruit squash, jam, tomato, ketchup, fruit juice, chilli sauce, pickle etc. the brand name of the product is ‘Sagarmatha’. The founder of this industry is Mr Jeet Singh Bista. His previous days were spent on different fruit industries of India and Nepal. Later in 2047 he established it with his strong determination and skill. Being the technologist of the same field, he should not face the technical difficult on the production process.

The industry is established under domestic and small industry act. At the starting time only family members ran this organization. Gradually it could rise up. Now there are 12 staffs and 25 workers but on season 40 to 50 seasonal workers required. Mostly seasonal workers required on Mansir to Falgun for processing of raw material and Ashad to Bhadra for other raw material processing.

This organization is in single proprietorship. It has taken financial support from Nabil Bank. The head office of it is in Itahari. The market of this product is all over the country through the dealership and sub dealership. So it is assumed as a national product.

The organization has social importance also as it could give employment to orphan and poor villagers. Almost all workers were poor and helpless before entering in this firm. After getting the employment in this industry, there economic status and life style have been improved.

The industry is based in agriculture. The main raw material orange, lemon, tomato, lime, junar etc are purchased from different parts of the country. The packaging materials like cartoon box, partition, gum tape, glass bottles, cans etc are purchased from local market and which are not available in local market, are purchased from India and China.

The main objective of this organization is to manufacture quality product at low cost as far as possible i.e. optimization of production cost. The subsidiary objective is social aspect as the organization has implemented Eco-friendly processing practice such that environmental pollution load (solid, water and air) is negligible. The organization has implemented cleaner production practice with the technical help from SEAM-N Nepal, strengthening of environmental administration and management at local level (of Finland project) since last year.

After implementation of cleaner production programme, the wastage generated from processing has been reduced. The productivity has increased. House keeping practices is also improving.

The scope of this industry is bright. The products are nutritious and delicious. However they are perishable, so special attention and care should be given during manufacturing and processing time. Hygienic environment is most essential on production unit.

Recently the organization has gained national award from the ministry of agriculture and cooperative, department of agriculture, on the occasion of 26th world food festival held at 2063 Ashoj 30. From this award the intention and motivation of all staffs and management has improved and are encouraged and committed for further improvement.

To run the daily production activities of the industry, besides the manpower, machinery etc one of the major components is working capital without which other fixed things can't be used. So, this study is conducted how the working capital is being managed in J. Bs.' private limited. Is it able to maintain liquidity or not?

Effective and efficient management of finance plays a key role for the success of each and every organization. So, working capital plays a significant role in every respect and more. So, in trading concerns structure of working capital and its functions depend upon working capital.

Some industries are not maintaining good working capital in it due to the following reasons which harms the organisation and leads to the liquidation of the organisation:-

a. Inadequate supply of raw materials, power and fuel.
b. Low availability of market.
c. Lack of knowledge of managing the working capital.
d. Lack of motivation of the other workers and other staffs.
e. The method of cut-throat.

So, better availability of raw materials and availability of better market are needed to save the industries from liquidation. And the variable resources of the organisation i.e. humans should be managed effectively to manage the working capital management.

Adequate working capital brings security and confidence with various advantages such as better terms of purchase, cash, discount, bank loans and favourable rate of interest. There would be steady work which raises the moral of employers, efficiency and creation of sound industries. So, to make soundness and strength of the enterprises, the adequate working capital is needed. So the manufacturing industries should not have access working capital. It is the sign of poor management; the effective liquidity position leads the industries into profitability by avoiding risks and uncertainties. On the other hand, inadequate amount of working capital can threaten the solvency of the organisation. It fails to meet its current obligation. Therefore, the trends of current assets and current liabilities are needed to manage in respect to the changeability in the outside trend of the business environment. So, the management should be prompt enough to initiate and actions and corrections.

Business sector is very vast and competitive now. The producing, branding, marketing, packaging work play greater role for the selling of the products manufacture. So, the packaging and branding are essential to sell the produced goods in the market. So to compete in the complex business environment, the quality of the products should be the best of the best due to it is the demand of 21st century's customer's.

Proper financial management is an essential thing for every private firm from the view of achieving its objective. In this respect, management of working capital is part of decision making process of business organization. In manufacturing private firm the role of working capital is more important than service oriented business firm.

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

Recently the organization has gained National Award from Ministry of Agriculture and Cooperative, department of Agriculture, on the occasion of 26^{th} World Food Festival held at 2063 Ashoj, 30. From this award the intention and motivation of all staffs and management have improved and are encouraged and committed for further improvement.

The scope of this industry is bright. The products are Nutritious and Delicious. However they are perishable so special attention and care should be given during manufacturing and processing time. Hygienic environment is most essential on production unit.

The term net working capital can be defined in two ways: (1) the most common definition of net working capital is the difference between current assets and current liabilities, (2) The alternative definition net working capital is that portion of firm current assets, which is financed with long term fund. It is qualitative concept indicating the soundness of current financial position. It is more important to the investor and lenders.

The net working capital, being the difference between current assets and current liabilities indicates the liquidity position and suggest the extent to which working capital needs may be financed by the permanent sources of fund. Business enterprises must possess sufficient current assets to pay current liabilities and maturing obligation with in the operating cycle because cash outflows and inflows do not coincide.

In other words, it is the non-synchronous nature of cash flows that make net working capital necessary. While inadequate investment in working capital threatens solvency of firm and excessive investment affects enterprises profitability, as idle investment yield noting.

Due to the lack of basic knowledge of working capital most of the business enterprises in Nepal are unable to maintain the best level of working capital management. Deficiency of working capital management has often brought a lot of liquidity crises, which should have been avoided in the presence of knowledge among the private enterprises manager.

So, sufficient finance is needed for every industry to run smoothly. The life blood means working capital management which leads them as good security, certainty and confidence of a business. So, to see the importance of working capital, a study is conducted to know the working capital strategy and policy of J.B.S. Private limited.

Many questions are asked in relation to the working capital management such as how is it raising its fund. What are the trends of current assets? Is there effective management of working capital? Is the working capital increasing or decreasing? What is the working capital position of the company? Are the funds moving properly? How well is the company using the funds? To get the satisfactory answer to these questions, the study conducted relating to the working capital management of J. Bs. industry Pvt. Ltd. The study also clears about the relationship between current assets and current liabilities. And other factors which are related to the efficiency of working capital management of J. BS. Pvt. Ltd. by analyzing the five years data from 2059 to 2064 B.S. To find out the position of working capital, financial data are analyzed. Therefore, this study deals with efficiency of management of the company in the matter of working capital management and financial performance as well.

1.2 RESEARCHER'S INTEREST

The researcher is interested to study the working capital management condition of this industry because he believes that, this will not only provide better understanding of the concerned company. This will enable to improve working capital management in the coming days. Further more the researcher believes that there is of lack of studies on such area.

1.3 RELEVANCY OF THE STUDY

Within the time period, different fruit industry has been established in our country. It plays key role to develop the economic condition of the country. For the rapid development of such firms, the effective study of working capital management is needed. So, it is the main thing and nerve centre of the firm.

In this context, J. Bs'. Industry is chosen and analyzed to highlight the importance of the working capital. Thus, the relevancy or need of the analysis of this industry trends in various aspects and suggestions on the promotional measures of working capital management. Findings of the sound working capital position of industry will provide ideas upon optimal working capital position. So, working capital is chosen as it is the blood of each and every manufacturing organization.

1.4 STATEMENT OF THE GENERAL PROBLEMS

Every organization is established with its effort to achieve the goal of maximizing profit and others. So, no one can assume that we can get problem less organization. So, J.B.S. industries have also some problems.

With the passing of time, the products of this industry are being popular all over the Nepal. The products of this industry cover the area of Nepal because J. Bs' Pvt. Ltd. is one of the most prominent industries in the production of fruits items and vegetables items. Now days this industry has occupied an important place in the modern business of Nepal. Some of the problems seen in the field of study are illustrated as under:

- The credit sales volume has increased but has not earned satisfactory profit.
- The net profit has not increased in relation of sales.
- The inventory turnover has increased highly.
- Sundry debtor shows the loose credit collection policy.
- Increasing position on inventory investment.
- Financial performance is not satisfactory as expected.

The structure of the organisation is not scientific and the uniformity is not in the recording cost. Although the costs are categorized well, on the other side, the costs are not separated as fixed costs and variable costs and semi variable costs. So, it is hard to determine controllable and uncontrollable costs. So, systematic recording costs are not maintained.

The above observation indicates the poor working capital management in J. Bs. Pvt. Ltd. So this study attempts to have an inside view over the problems of working capital management. Therefore, it should have enough working capital to margin profit, market opportunities and to achieve targeted goals.

1.5 OBJECTIVES OF THE STUDY

The basis objectives of the study are to be measured working capital management of J.B.S. industry and to obtain the true result about the working capital position of J.B.S. industry. This study also provides the suggestions for the improvement of the working capital management of the firm. Some other objectives of the study are as under:

a. To know the management of working capital and maintain stability of the firm.
b. To know the structure of working capital and assets.
c. To show how working capital determines the strengths and weakness of the firm.
d. To know the relationship of current assets on sales and profit.
e. To know the financing of current assets.
f. To judge short term and long term liquidity position of the firm.
g. To know the cash flow statement of the firm.
h. To provide reformative suggestion for the future improvement of the industries using different methods.
i. To identify the various working capital aspects of J.B.s' industry private limited.
j. To establish the relationship between sales and different variables of working capital.

k. To examine the effect of working capital on profitability.
l. To evaluate the size, growth, structure, liquidity, adequacy, efficiency and productivity of working capital position of J.B.s' Pvt. Limited on the basis of ratio.
m. To provide better suggestion for improving working capital management in future.

1.6 ASSUMPTION OF THE STUDY

As every research has its own assumption and limitations.

The main assumption can be written as under:

a. The data provided by the firm are correct and accurate and other references have been assumed correct and true.
b. Data are collected by the concerned firm. So, secondary data are used and these data are correct and valid.
c. The total working days are to be 360 in J.B.S. industry.
d. Since the analysis of data has been taken from the company's account, the research is based mainly on the secondary data and this study is not free from the limitations.
e. Focused only the data up to five years (from 2059/60 to 2063/64).

1.7 LIMITATION OF THE STUDY

Every study is not free from biasness. So, there are some limitations for the reliable and valid analysis of J.B.S. industry Pvt. Ltd. These limitations can be written as under:

a. This study is conducted with in a short period of time.

b. Only the data analyzed from 2059 to 2064 B.S. This shows that the data are taken as sample from universe.
c. The data which are analyzed in the study are secondary because these are collected from the head office of this firm.
d. The inflationary effect is not included at the time of study.
e. This study is conducted with in a short period of time.
f. Information regarding material and verbal answer is given by the manager of the company is not sufficient from the study.
g. Although government rules and regulations, technological aspects of the industry also affect the financial position of the industry, this study is not concentrated in the government rules and regulations and technical aspects.
h. Working days of the industry is assumed 360 days per year.
i. Since the data available in annual reports are not in organised form, they have been organized according to the need of the analysis.

1.8 RESEARCH METHODOLOGY

A. Population of sample size

The sampling will be used for the study. The analysis **w**ill be based upon sampling. Different sampling techniques will be used.

B. Research Design

Research design refers to the conceptual structure in which research is conducted. The working capital management condition of the J.B.S. fruit product will be investigated by studying directly.

C. Research method

Direct supervision, questioners and others will be used for the true, exploratory and analytical study.

D. Sources of data and collection strategy

Various tools are used for the collection data J. Bs. fruit industry is the primary sources of data, other news paper, and journals etc .are used to find the solution of the above mentioned problem.

E. Methods of Data Analysis

Different methods of data analysis are used under to analysis the working capital of J. Bs. industry.

1. Financial Methods:

- ❖ Ratio analysis
- ❖ Credit management analysis
- ❖ Cash Management Analysis
- ❖ Balance Sheet

2. Statistical Analysis:

- ❖ Average (Mean)
- ❖ Graphical Study (Bar Graph)
- ❖ Correlation Analysis
- ❖ Probable Error

1.9 ORGANIZATION OF THE STUDY

In this research study, following of the chapters are included:

A. Introduction

In this chapter introduction of the study, background of the study, statement of the general problem, relevancy of the study, objectives of the study, objectives of the study, assumption & limitation of the study.

B. Review of literature

This chapter deals with the reviewing the literature works on the working capital. The study on working capital by the pioneers are presented and analyzed. The literature is totally based on the subject matter of the study.

C. Research Methodology & Design Used

In this chapter the method used in the study will be presented. Various tools, techniques are defined related to the subject matter of the study. Such as, research design, research method, sources of data and collection strategy tools to be used and methods of analysis are included.

D. Presentation and Analysis of Data

Various variables used in the study will be presented in this chapter. This is the main chapter where all the tests have been conducted to answer the proposed problem of the study.

E. Summary, Conclusion and Suggestion

This chapter presents the summary of the total study. Conclusion will be drawn to show the weakness and strength of the various tests conducted in chapter and recommendation is forwarded to the concerned industry i.e. J.B.S. industry Pvt. Ltd. The areas of weakness and ways to improve them will be presented. Suggestions and further paths of improvements will be recommended to the industry.

1.10 TERMINOLOGIES USED

a. Current Assets

Current assets include cash and those assets which can be converted into cash within year such as marketable securities, cash, prepaid expenses, bills receivable, account receivable, inventory, book debt, sundry debtors etc.

b. Current Liabilities

An obligation maturing with in a year is included in current liabilities. Thus current liabilities include sundry creditors, Provision for taxation, bank overdraft, bills payable, outstanding expenses, account payable, and unclaimed dividend, provision for bonus, housing and income tax etc.

c. Net Working Capital

The term working capital refers to the company surplus balance of current assets over current liabilities or net working capital is the difference between current assets and current liabilities.

Net Working Capital=Current assets-current liabilities

d. Quick Assets

It is a part of current assets which are considered as highly liquid. We have to reduce prepaid expenses and inventories from total current assets to find out quick assets. Prepaid expenses and inventories are not included while determining it.

e. Fixed Assets

Fixed assets are permanent assets without which no organization is existed in the world. Such as furniture, building, plant and machinery, furniture and fixture, equipment, vehicle etc for the regular operation of the firm.

f. Total Assets

It is the total sum of current and fixed assets.

g. Equity

Equity is a part of net worth. It generally implies as common stock including preference share capital.

h. Debts

Debts mean money; goods and services owing to another by virtue of on agreement expressed or imply giving right to legal duty to pay it.

i. Total fund

Total fund implies the total long term debt as well as short term debt of the firm.

j. Inventory

Inventories are the stock of goods which keeps meeting firm’s requirement of production and sales. These are raw material, working progress, finished goods and chemicals etc.

k. Receivables

It includes the sales debtors and other debtors only.

l. Cash and Bank Balance

It includes the cash in hand and cash at bank.

CHAPTER - II
REVIEW OF LITERATURE

2.1 INTRODUCATION OF CONCUPITAL REVIEW

In this chapter the literature related to financial management and working capital management are presented. So, this chapter deals the theory of working capital, needs and objectives of working capital, principles of working capital and classifications of working capital.

2.1.1 Working Capital Management

Generally, working capital management is the management of current assets and current liabilities. Working capital is the support to the present for the future success of each and every firm. So, it is regarded as the blood of the firms.

On the other hand, we divide the managerial decision on the basis of assets and liabilities. Assets indicate the investment. So, investment upon the short-term financial management is regarded as working capital management, which typically is viewed as the management of current assets and current liabilities of the firm. As we know that a firm's value can not be maximized in the long run unless it survives in the short run. Firms fail most often because they are unable to meet their working capital needs; consequently; sound working capital management is a requisite for firm survival. 'Working capital; management involves the administration, within policy, guidelines of current assets and current liabilities.'5' Working capital; A firms investment in short-term assets-cash, marketable securities, inventory and accounts receivables.[6]

'The term working capital originated with the old Yankee Peddler, who would load up his wagon with goods and then go off on his route to peddle his wares and repeat again.[7]

Therefore the major items that are included in working capital are current assets and current liabilities. Current assets are cash, marketable securities, account receivable etc. the assets that can be easily converted into cash within a year without loosing any value is termed as current assets. On the other hands, current liabilities are such which should be paid within a year.

In one word, 'Assets that will normally turned into cash within a year.' is current assets where as 'liability that will normally be repaid within in a year is current liabilities.'

Thus, working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelation that exists between them.

5.Weston, J.F. and Brigham, E.F., Essential of Managerial Finance, Dryden Press, 11th edition 1996, p332

[6] Ibid, p332

[7] Ibid, p332

There must be a cycle of the working capital management which can be illustrated as under:

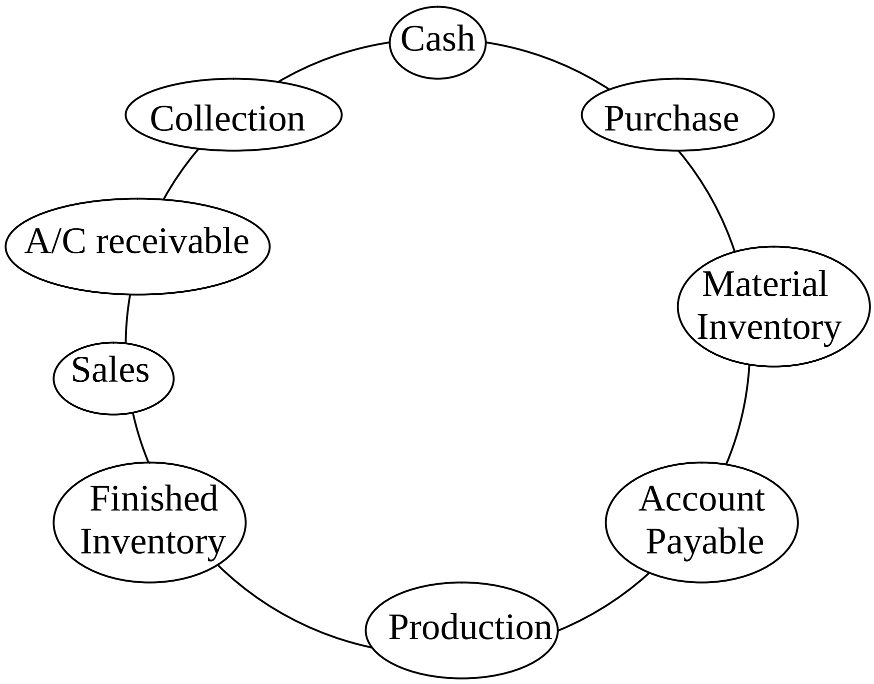


Figure-1: Cycle of the Working Capital Management

The management should try to reduce the period of operating cycle. So, this leads us to manage the key variable affecting working capital. So, as to get optimal result, the operating cycle should be managed as shorter as possible by the management for the effective management of working capital.

2.1.2 Concept of Working Capital

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

a. Gross Concept

The gross concept refers that the total of all current assets are working capital. Generally the assets which are converted into cash within a year are current assets. Gross concept in working capital means total sum of current assets only. They are:-

(i) Cash
- (a) Cash in hand
- (b) Cash at Bank

(ii) Bills receivable (Sundry debtors)

(iii) **Sundry debtors (less new bad and doubtful debts)**

(iv) **Inventories**
- (a) Raw Materials
- (b) Work in Progress
- (c) Finished goods

(v) Prepaid expenses

(vi) **Account receivables**

(vii) **Accrued incomes**

In the word of Adam Smith "The goods of the merchant yield him no revenue in profit till he sells them for money and the money yield him a little till it is again exchanged for goods. His capital is continuously going from him in one shape and returning him in another and it's only by means of such circulation's or successive exchange that can yield him any profit. Such capital therefore, may properly be called circulating capital"[8].

R.S. Pradhan and K.D. Koirala express their views about gross concept of working capital as "If all the expenses needed to run the day-to-day operation of business such as amount to be invested in the form of cash, finished goods, receivable etc., are put together it is called working capital. This working capital and total current assets are synonymous"[9].

According to R.S. Sharma and S.K. Gupta "The term working capital refers to the gross working capital and it represents the amount of funds invested in current assets. Thus, the gross working capital is the capital invested in total current assets of an enterprise"[10].

According to this concept the total of current assets is working capital. The liabilities are not taken into consideration. So, this concept does not lead us to the good conclusion and result.

b. Net concept

Net working capital means the difference between current assets and current liabilities. It may be negative or positive. If the current liabilities are greater than current assets, it is negative. If the current liabilities are lower than current assets, it is positive. The current liabilities should be paid with in a year. These are as under :

I. Bills Payables
II. Sundry Creditors

8. Adam Smith, The Wealth of Nations, Modern Lib Inc., New York 1973, p/p 262-283
9. R.S. Pradhan & K.D. Koirala, Some Reflection on Working Capital Management in Nepalese Corporation Management Dynamics, Vol. 3 No. 1
10. R.K. Sharma & S.K. Gupta, Management Accounting Principle and Practices, 7th Edition 1996, p.21

III. Account payables
IV. Short-term loans
V. Advance
VI. Bank Overdrafts
VII. Outstanding expenses
VIII. Income tax payables

Net working capital is commonly defined as difference between current assets and current liabilities.

According to Gilman " The term net working capital can be defined as in two ways: (a) The most common definition of net working capital is the difference between current assets and current liabilities and (b) Alternative definition of net working capital is that portion of firm's current assets, which is financed with long-term funds"[11]

As expressed by American Institute of Certified Public Accountants USA., "Working capital sometimes called net working capital, is represented by the excess of current assets over current liabilities and identifies the relatively liquid position of total enterprise capital which constitutes a margin of buffer for maturing obligations within the ordinary operation cycle of the business"[12]

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

11. L.G. Gilman, OP. Cit. p. 150
12.

Net working capital can be negative or positive. A positive net working capital arises when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

The gross concept is a financial or going concern concept where as net working capital concept is an accounting concept of working capital. These two concepts are not exclusive; rather both have their own merits.

The gross concept emphasizes that excessive investment in current assets affects profitability, as idle investment yields nothing. Similarly inadequate investment in current assets makes it difficult to carry out day-to-day operation of the business smoothly.

In this way, these two concepts are complementary to with each other. Choice of these two concepts by the firm or industry depends up on the purpose of the firm in industry. So, these two are not contradictory but complementary. It is true that the current assets must be higher than current liabilities. Otherwise, the firm or industry may go into insolvency and liquidation.

2.1.3 Importance of Working Capital

The need of working capital management can be proved by the following points.

a. A large proportion of the financial manager's time is allocated to working capital management.
b. More than half of the total assets are typically invested in current assets.

c. The relation between sales growth and the need to invest in current assets is close and direct.
d. Investment in fixed assets may be reduced by renting or leasing, but investment in inventories and receivables are usually unavoidable.
e. Small firms may maximize their investment on fixed assets by leasing bur they can not avoid investment in cash, receivables and inventories.
f. Management of working capital increases the sales.
g. Management of working capital increases the credit worthiness.

2.1.4 Classification of Working Capital

The working capital can be classified into two groups.

a. Permanent working capital

The capital which is not changed due to the proportional change in production and sales is known as permanent working capital. The investors invest the fixed amount in such assets such as bank and cash safety stocks. On the investment made upon these will never be zero. So, the variation into sales leads to change in permanent working capital.

b. Variable Working Capital

The capital which changes with respect to the proportional change in production and sales. Increases in sales, increases in capital and decreases in sales do not decrease this capital. For heavy sales, the stock of materials should be high as well as higher receivable, which increases the variable working capital.

One Figure is presented below to understand better variable working capital

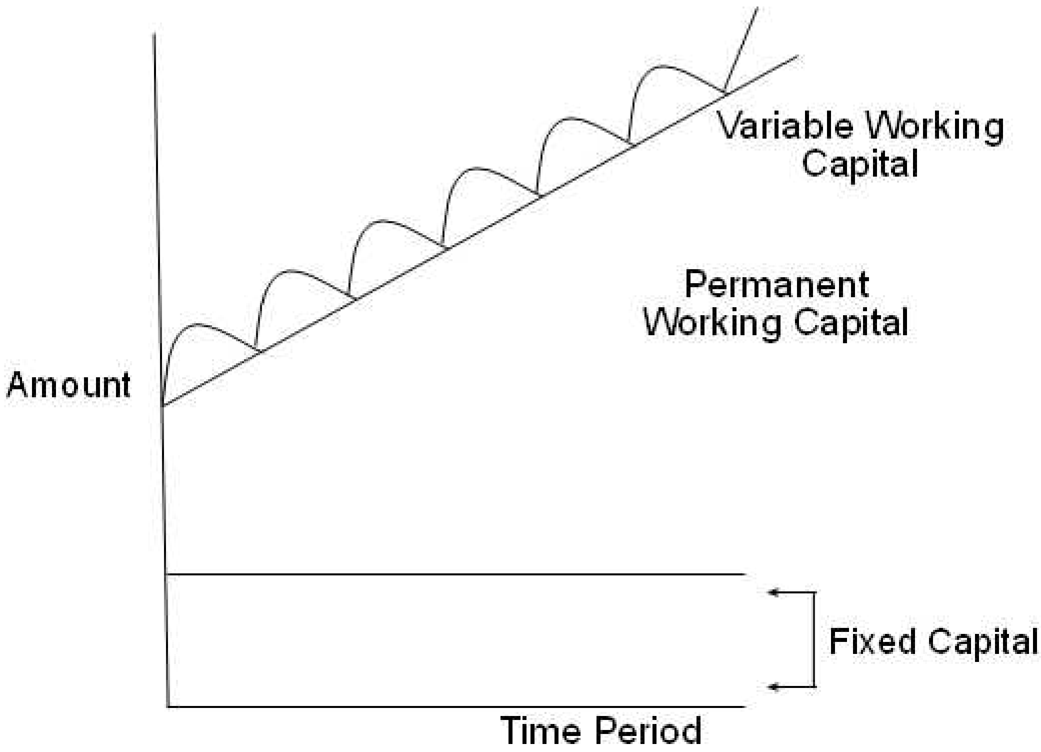


Figure 2: Types of Working Capital

From the above graph, the fixed capital is not changed due to the utilization of full capacity of firm. The permanent capital is changed due to the changed into productions. But there may not be fluctuation in short period of time. At the time of peak sales, more circulating capital is needed and during slack sales, few circulating capital is needed.

2.1.5 Working Capital Policy

Working capital policy refers to the firm's basic and strategy regarding target levels for each category of current assets and how current liabilities will be financed.

a. Conservative Policy (Relaxed Policy)

Conservative policy carries a high level of current assets (cash, marketable securities, receivables and inventories) to sales. It uses more long-term debt and less short-term debt for financing current assets. So, conservative policy lowers the risk and return.

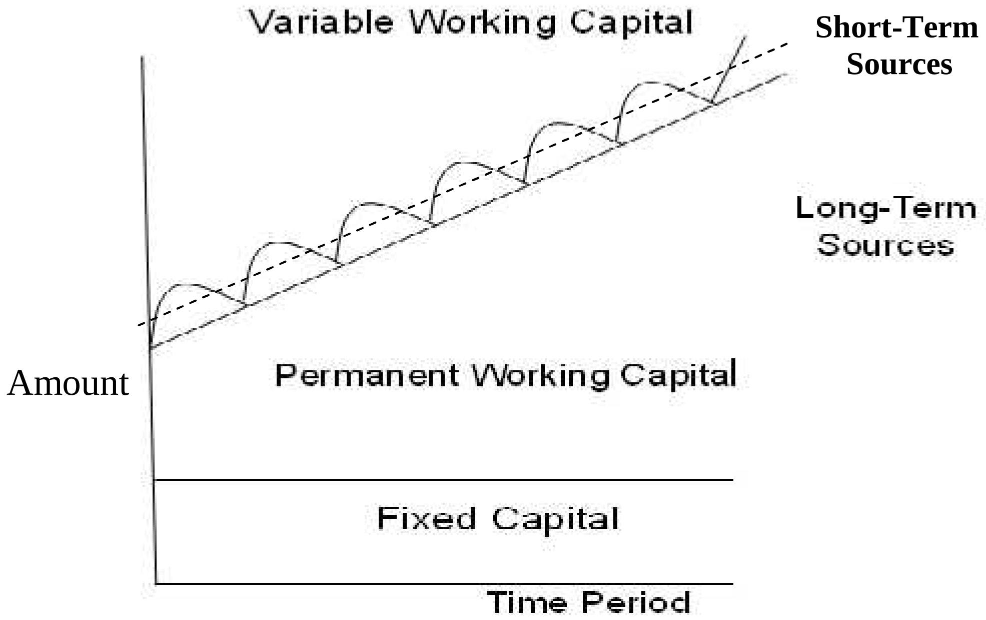


Figure-3: Variable Working Capital Under Conservative Policy

b. Aggressive Policy (Tight Policy)

It carries a low level of current assets to sales. Aggressive policy uses more short term debt and less long-term debt for financing current assets. Therefore, an aggressive policy results in a higher risk and a higher profitability.

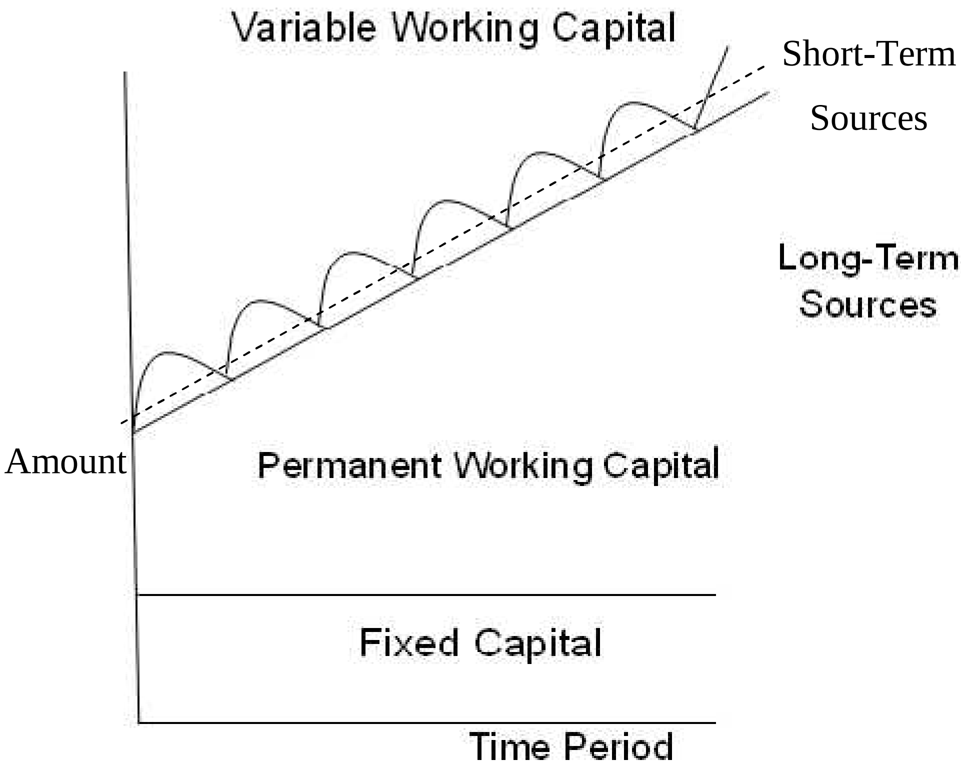


Figure-4: Variable Working Capital Under Aggressive Policy

c. Moderate Policy (Average)

It lies in between two extremes. It uses the balance amount of short term and long-term debt. So, it is risk return trade off point.

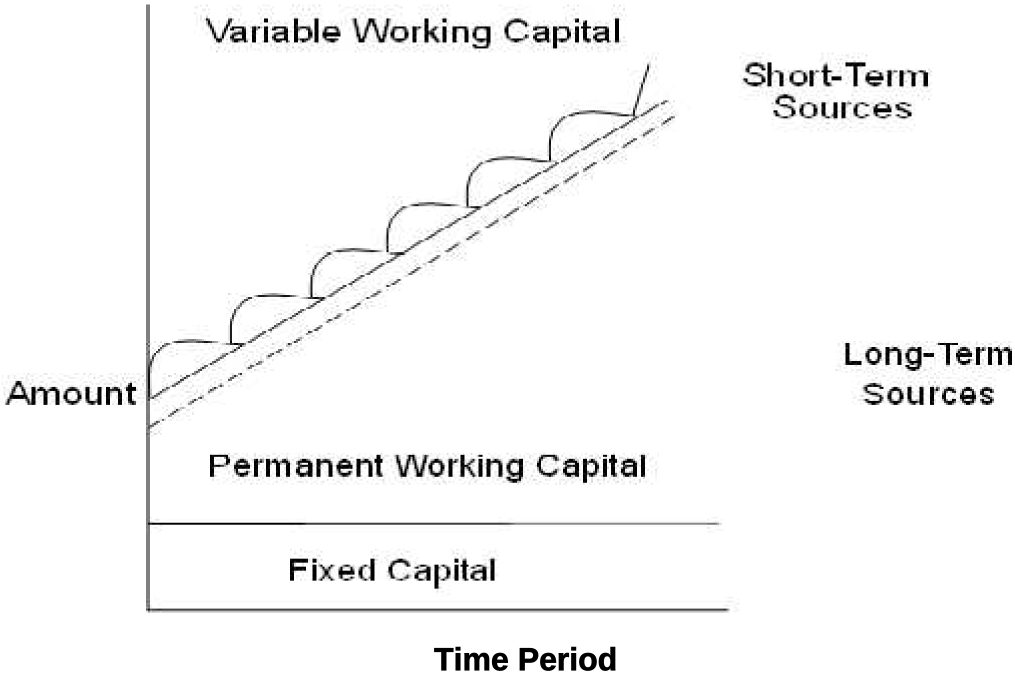


Figure 5: Variable working Capital Under Moderate Policy

Generally, the decision on current assets levels involves a risk/return trade off. The conservative policy minimizes risk, but it also has the lowest expected return coupled with the highest risk.

2.1.6 Determinants of Working Capital

Some factors are the barriers of working capital that determines the working capital are illustrated as under:

a. Nature of Business
b. Size of Business
c. Growth Rate
d. Seasonal Effect
e. Cyclical Factor
f. Changes in Technology
g. Manufacturing Process
h. Production Policy
i. Credit Policy
j. Cash Flow Cycle
k. Price Level Change
l. Demand Policy
m. Operating Cycle
n. Business Cycle
o. Terms of Purchase and Sales
p. Level of income Tax
q. Transportation and Communication Facilities
r. Credit Policy
s. Technological Development

So, the financial managers should pay full attention towards that point to manage effectively and efficiently.

2.1.7 Review of Journals/Articles

Articles, journals and bulletins are of great significances for thesis writing, so various publishers' articles by different management exports and journals/bulletins relating to working capital management have been considered.

The research work done by Dr. Manohar K. Shrestha in an article, “Working Capital Management in selected public enterprises”. In this study Dr. Shrestha found the proper management of working capital is a neglected factor in most of the enterprises. They are suffering from inefficient cash management, defective inventory policy and lack of account receivable management. Due to the improper working capital policy, the enterprises failed to determine the liquidity needs and appropriate sources of financing them. The liquidity position of selected PES differs widely in view of the difference in their nature, but the liquidity position maintained by most of the individual enterprise is less than satisfactory. Similarly, due to lack of improper plans and policies, the most of the enterprises on the one hand, are facing serious financial crisis and on the other hand, are showing poor turnover. This also demonstrates operational inefficiency of PES. It is seriously undermined and this has brought of times, unfavourable implications in the overall management of working capital. He also stated that the profitability of the most of the PES is positive, but not satisfactory. The employment of working capital in terms of returning is not sufficient to justify in current assets. Lastly, low capacity utilization is the direct result of ineffective working capital policy bringing less return on net working capital”

In the next study of Dr. Manohar K. Shrestha, in another articles, a sample of ten enterprises, has been selected to measure their working capital needs. To evaluate working capital needs of selected PES, liquidity, turnover and profitability ratios were calculated. In this analysis he found that four PES had maintained adequate liquidity position, two had excessive and remaining four had failed to maintain desirable liquidity position. On the turnover side, two PES had negative working capital turnover, four had adequate turnover, one had high turnover and the remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PES, six public enterprises were operating at losses while only four were getting some percentage of profits. With references to those findings he had brought certain policy issues such as lack of suitable financial planning, negligence of working capital management, deviation between liquidity relationship between turnover and return on net overcome from the above policy issues,. Viz. identification of needed funds, regular check of accounts, development of management information system, positive attitude-towards risk and profit and determination of right combination of short –term and long-term sources of funds to finance working capital needs.

Dr. Manohar K. Shrestha has conducted an empirical observation of twelve selected PES. In this article he has described the conceptual ingredients concerning the working capital, such as conceptual setting sources of working capital and types of working capital. From the analysis he found that the liquidity position of the selected PES differs widely in view of the differences in their nature of business. There were also above normal acid-test ratio. While analyzing the turnover of those selected PES shows wide deviation. Based on the sales value, four out of seven PES had normal inventory turnover, the other three had not been satisfactory maintained and in some of them inventory had exceeded sales. The collection period relating to the selected PES exhibited marked difference ranging from 32 days to 775 days. Profitability position was analyzed return on net working capital was positive for eight PES, negative for two PES and the rest two had not any return. Since, they were in establishment phase.

During the analysis he observed some problems like the lack of criteria to ascertain the satisfactory maintenance of acid test ratio and working capital needs, large blockage of capital in inventories and low capacity utilization. All these were due to inefficient management of working capital in that PES.

Another articles relating to working capital management is by Dr. R. S. Pradhan. He studied on the demand for working capital by Nepalese corporations. For the analysis nine manufacturing public corporations were selected with the twelve years data from 1973 to1984. From the analysis the regression equation has been adopted. From the study he concluded that:

The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economies of scales, role of capital cost and capacity utilization rates and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The polled regression results show the presence of economies of scale with respect to demand for working capital and its various components. The regression results suggest strongly that the demand for working capital and its components is a function of both sales and capital costs. The estimated results show that the inclusion of capital 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, receivables and gross working capital are doubtful.

2.1.8 Review of Related Literature

Under this topic, different pioneers conclusion of research works are presented which help the study to carry on the better and scientific result. Some of the research outcomes performed by different pioneers under the heading of working capital and others are presented below:-

Dr. Khagendra Acharya had concluded about the working capital management of public enterprises. Some major outcomes of this study are.[13]

i. Inventory constitutes the most important and largest element of working capital in NTDC. The overall adequacy of inventory in NTDC discloses that the growth of working capital and inventory in the corporation are negatively correlated.
ii. The break even analysis of NTDC reveals that due to insufficient working capital the corporation has been selling the products at a far below rate than its break even.
iii. The credit policy, which is not clear in itself has not been followed by the corporation while collecting the over due accounts.
iv. NTDC is expected to improve its present system of inventory management regarding the planning and purchasing of spare parts, manures, insecticides, fuels etc.

13. Acharya, Khagendra, Working Capital Management of manufacturing public Enterprises in Nepal with Special Reference to NTDC" unpublished Ph.D. Thesis submitted to Allhabad University, 1986, as Quoted in the thesis of Nischal Subedi

v. Receivables are growing rapidly than the corresponding growth on sales volume.
vi. Monitoring the proper functioning of working capital management has never been included in the managerial job-in all the selected PES, with no exception to NTDC during the study period.
vii. There should be a close relation between the production units of different estates and the central materials management department.

Mr. Bharat Raj Pokharel had studied about "marketing activities of Nepal Plastic Pvt. Ltd." He had given the following suggestion and recommendation.[14]

i. The company should diversify the product lines. Hardened pipes, consumer goods such as kitchen ware and other general container can give more profitability.
ii. Research and development activities should be performed to bring efficiency in production and reduction of operating cost.
iii. Lastly, the company should improve itself by the help of sales representatives and displays.

Similarly, **Mr. Keshav Prasad Gadtaula** had researched on working capital management of NTDC as partial fulfilment of Master's Degree of Management. He concluded that[15]

14. Pokharel, Bharat Raj, Marketing Activities of Nepal Plastics, term paper submitted to Tribhuvan University for the partial fulfilment of Master Degree in Business Administration.
15. Gadtaula, Keshav Prasad, Working Capital Management of NTDC, unpublished Master Degree Thesis submitted to Tribhuvan University.

i. Risk, liquidity and return policy are the factors that determine the level of current assets. Heavy amount of current assets create more liquidity. So, the firm can not maximize its profit.
ii. Growth in production and sales make growth in raw materials, inventories, which must require more working capital financing.
iii. The correlation between working capital and total assets and working capital and net sales of NTDC is perfectly co-related.

Similarly, **Mr. Roshan Kumar Dutta** had also performed a research work on working capital management of Himalaya Soap and Chemical Industry Pvt. Ltd. The conclusion of this study is written as under[16]

I. Cash and Bank balance of Himalaya Soap and Chemical is minimum in comparison with the investment made on current assets.
II. The investment on inventory is decreased which is better for the company.
III. The level of current assets depends upon its risk liquidity position and return policy because more investment in current assets indicates more liquidity position but it can minimize profitability.
IV. The current assets turnover ratio of Himalaya Soap and Chemical Pvt. Ltd. are in fluctuating trend, which indicates unfavourable condition of the company because this ratio is less than average current assets turnover ratio of Nepalese profit manufacturing concern this also shows unsound management of current assets in compared to sales.
V. The current ratio of Himalaya Soap & Chemical Pvt. Ltd. during the study period are more than 2:1 this indicates the company is

16. Dutta, Roshan Kumar, Working Capital Management of Himalaya Soap and Chemical Pvt. Ltd. unpublished thesis of partial fulfilment of Master Degree. 2005 P.107

in a position to pay of Rs. 1 current obligation out of Rs.2 investment in current assets. The overall position of the firm is some how appropriate.

VI. The quick ratio of Himalaya Soap & Chemical Pvt. Ltd. during the study period is higher than the standard 1:1. It indicates that to pay Rs. 1 current obligation from more than Rs. 1 investment in quick assets. It is better from the creditor's point of view but over investment in quick assets would not increase profitability of the firm. So, it is not better for Himalaya Soap and Chemical Pvt. Ltd.

VII. Net Profit margin ratio shows the negative during the first four year of study period but suddenly positive in final year which is better for the company go get the profit in the final year.

VIII. Return on assets shows negative trend during first four years and positive in final year.

Suggestions

I. If the company's activities show the negative impact, it should borrow cash to make the strong liquidity position.

II. The cash sales make the company strong in short-term liquidity position but the company should try to minimize the receivables without decreasing sales.

III. The profitability of the company can only be maintained by investing at least forty percent amount on current assets.

IV. The average collection period should be minimized.

V. Lastly, the company should improve its working capital position to do better progress in future.

The above review of literature from various books, journals and articles and dissertations related to the working capital management shows that one of the major problems in Nepalese corporations behind unhealthy and unsound situation is improper management of working capital. Since the success and failure of any enterprises is heavily dependent upon the efficient management of working capital and being a manufacturing company established in Nepal, the efficiency in the management of working capital should be analyzed. Till now, no any other study has been made for the analysis of working capital management in J. Bs. Pvt. Limited industry so, this study has attempted to analyze the working capital management in J. Bs. Industry by taking five years data for observation with the help of methodology as described in the following chapter.

CHAPTER - III

RESEARCH METHODOLOGY

In previous chapter, we discussed on working capital and review of related literature concerned with the working capital management. In this chapter, we will discuss and highlight population and sample size, research design, research method, sources of data and collection strategy, analysis of data and tools used and methods of data analysis.

3.1 INTRODUCTION

The main objective of this analysis is to evaluate the status of working capital management of J. Bs. Industry. So, the systematic study needs the different research methods, which lead us to the better result. For the better results, systematic methodology is needed. This study is based upon secondary data which are obtained from the head office of that factory. Different types of research methodologies are used to evaluate the little and obtain better result.

3.2 POPULATION AND SAMPLE SIZE

Population or universe refers to the entire group of people, events or things of interest that the researcher wishes to investigate. For example, if a student is interested in investigating the smoking habits of employees in a factory, then all employees in that factory will form the population.

'Population may be finite or infinite.'[17] A finite population is one containing a fixed number of elements. But infinite population is not countable.

Sample frame is the list of items in the universe. From which the sampling is drawn. Selecting a student from among students is known as sampling. So, it is a selection from population. All financial years from starting are the population of J.Bs. Industries. The data analyzed from year 2059 to 2063 B.S. are only the sample.

It is very difficult to get the actual data. But audited data which are available are analyzed in this study. It is very difficult to analyze the data from the starting year and result can not be obtained by taking consideration into the population. So, only the sample is used to analyze and give perfection to this study. 'It is not always possible to study every items or elements in a universe.'[18] So, the samples from total fiscal year's data are taken due to lack of time and money. Hints sampling becomes inevitable.

3.3 RESEARCH DESIGN

Research design means an overall frame work on plan for the activities to be undertaken during the course of a research study. It serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilised and the sampling plan to be followed. So, it is the arrangement of conditions for analysis of data in a manner that aims relevancy for the search purpose with economy in procedure.

17. Wolf, H.K. and pant, P.R., Social Science Research and Thesis Writing, Buddha, Academic Enterprises Pvt. Ltd., 4th edition, Kathmandu, 2005, p. 162

18. Ibid,p. 162

According to Karlinger (1986) describes research design as follow:

‘Research design is the plan, structure and strategy of investigation conceived to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research design is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purposes. Strategy as used here is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled.’[19]

It is taken into consideration to the efficiency and performance regarding the working capital management of J. Bs. industries. This study also tries to make comparison and to establish relationship between two or more variables. By the help of secondary data, the variables of **J. Bs industries** are analysed in this study.

3.4 RESEARCH METHODS AND DATA COLLECTION STRATEGY

Research method refers to the way of collection of the data of this Factory. To conduct the good study to get better result, questionnaire and direct supervision are taken into consideration to get the better conclusion. Sources of data are collected by the focal to this factory and secondary data are used. As far as possible, the other spot study is also

19. Wolf, H.K. and Pant, P.R., “Social Science Research and Thesis Writing”, Opcit , P.92

performed to get the better conclusion. Without the data collection procedures, the result may not be good and result oriented. So, direct supervision and questionnaire are followed to analyse the working capital position of the **J. Bs. Industry.**

3.5 NATURE OF DATA AND COLLECTION PROCEDURES

The data are divided into two groups. Primary data, which is obtained by directly interviewing of the concerned person of the company. These data are essential to obtain the better result. This study is primary based upon the secondary data of the factory which are published by the factory during the fiscal year.

For the study, only the audited balance sheet, P/L account and other related data, which are secondary in nature and collected from the head office of this firm, are used. Manager, Accountant and other personnel of this factory helped to obtain data of J. Bs. Industry.

3.6 METHOD OF DATA ANALYSIS

In this topic the statistical and financial methods of the available data to be analysed of J. Bs. Industry .are discussed below.

Financial analysis

Under this topic structure of working capital analysis, ratio analysis, cash flow analysis and trend analysis are discussed.

Ratio Analysis

Ratio analysis is the expression of one figure in terms of another. It is the expression of the relationship between the mutually independent figures. It is simple mathematical expression of the relationship of one item to another. Absolute figure alone convey no meaning unless they are compared each other. Accounting ratios shows the relationship existed among various accounting data.

Ratio refers to the numerical and quantitative relationship between two items or variables. In simple language, ratio is one number expressed in terms of another and can be worked out by dividing the number to the other. So, to speak, it is calculated by dividing one items of the relationship with others.

In financial analysis, ratio is used as an index of yardstick for evaluating the financial position and performance of the firm. It is a technique of analysis and interpretation of financial statements. It helps to make decisions as it helps to establish to relationship between various ratios and interpret there on.

According to Kohler, “a ratio is relationship of an amount to another, expressed as the ratio of or as a simple fraction, integer, decimal fraction or percentage”.

According to Wixon, Kell and Bedford, “a ratio is expression of the quantitative relationship between two numbers”.

Under this ratio analysis different ratios are classified into four groups on basis of the utility.

3.6.1 Structure of Working Capital Analysis

Under this structure of working capital analysis of current assets, analysis of current assets to fixed assets, cash and bank balance to current assets and total assets, analysis of receivable to currents and total assets, inventory to current assets, analysis of net working capital, working capital financing and cash flow analysis are presented analysed and interpreted.

A. Analysis of Current Assets to Total Assets

The ratio of current assets to total assets implies what percentage of the firms total assets are invested in the form of current assets. This ratio is calculated by:

$$\text{Current Assets to Total Assets} = \frac{\text{Current Assets}}{\text{Total Assets}} = \ldots\ldots\ldots\%$$

If this ratio increase, the risk and profitability of the firm would decrease and decreasing ratios indicate the higher risk and profitability.

B. Current Assets to fixed Assets

The ratio between current assets to fixed assets determines the relationship between current assets and fixed assets, which can be calculated by:

$$\text{Current to Fixed Assets} = \frac{\text{Current Assets}}{\text{Fixed Assets}} = \ldots\ldots\ldots\%$$

Higher of this ratio indicates the sound working capital position. We can measure the soundness and weakness of the firm by calculating current assets to fixed assets ratio.

c. Cash and Bank Balance to Current Assets

This ratio between cash and bank balance to current assets indicates the relationship between cash and bank balance to current assets. It is calculated by:

$$\text{Cash and Bank to current assets} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} = \ldots\ldots\ldots\%$$

Higher of this ratio indicates, idle cash is collected in the firm. So, higher of this ratio implies the poor cash management of the firm.

d. Cash and Bank Balance to Total Assets

This ratio represents the relationship between cash and bank balance with total assets. So, it indicates that what percentage of total assets is invested in cash and bank balance. It is calculated by:

$$\textbf{Cash and Bank Balance to Total Assets} = \frac{\textbf{Cash and Bank Balance}}{\textbf{Total Assets}} = \textbf{.........\%}$$

If the ratio increases, risk and profitability would decrease. If it is increased, the working would also increase.

e. **Debtors (Receivables) to Current Assets**

This ratio indicates the relationship between receivables to current assets. It is calculated by:

$$\text{Debtors (Receivables) to Current Assets} = \frac{\text{Debtors (Receivables)}}{\text{Current Assets}} = ...\%$$

Increases in the ratio shows the inability of the firm to collect the receivables quickly and decreasing ratio is preferable which shows the ability of firm to collect receivables quickly.

f. Debtors (Receivables) to Total Assets

Receivables to total assets indicate the relationship between receivable to total assets which is calculated as under:

$$\text{Receivables to Total Assets} = \frac{\text{Debtors (Receivables)}}{\text{Total Assets}} = ...\%$$

Increasing ratio implies the liberal credit policy and decreasing ratio implies the tight credit policy.

g. Inventory to Current Assets

Inventory is an inseparable part of working capital which represents the share of inventory on current assets. It is calculated by:-

$$\text{Inventory to Current Assets} = \frac{\text{Inventory}}{\text{Current Assets}} = \text{..........}\%$$

Higher of this ratio indicates the liberal inventory policy followed by the firm and lower ratio indicates the tight inventory policy followed by the firm.

h. Inventory to Total Assets

The ratio of inventory to total assets indicates the proportion invested in the form inventory on total assets. It is calculated by:

$$\text{Inventory to Total Assets} = \frac{\text{Inventory}}{\text{Total Assets}} = \text{..........}\%$$

If this ratio increases, the working capital is also increase and decreasing ratios indicates the decreasing working capital. Increasing ratio indicates the blockage of materials in the factory and implies that the factory (firm) uses the liberal inventory policy.

i. Networking Capital Financing

Networking capital Financing indicates the amount of networking capital, which can be invested in other aspects. Networking capital indicates total current assets less total current liabilities.

Networking Capital Financing = Total Current Assets – Total Current Liabilities

Higher the Networking capital, higher will be the possibility of idle amount for financing. Financing in a good opportunity will be profitable for the firm.

3.6.2 Liquidity Ratio

Liquidity ratio measures the short-term solvency of the firm. Under these, two ratios are computed.

a. Current Ratio

It is the test of liquidity and it shows the ability of the firm to meet its short term obligations.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \text{..........Times}$$

Its standard is 2:1

b. Liquid/Quick/Acid test Ratio

Liquid ratio measures the short-term liquidity of the firm but it emphasis by instant debts paying capacity of the firm. Liquid assets includes current assets less and prepaid expenses

$$\text{Current Ratio} = \frac{\text{Liquid/Quick Assets}}{\text{Current Liabilities}} = \text{.........Times}$$

Its standard is 1:1 for the better position.

3.6.3 Profitability Ratio

Generally profitability ratios are calculated either in relation to sales or in relation to investment. Under this the following ratio should be analysed.

a. Gross Profit Margin

Gross Profit margin ratio expresses the relationship between gross profit and sales and usually expresses in percentage.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\% = \text{...........}\%$$

High gross profit ratio to sale is a sign of good management that implies the cost of production is lower.

b. Net Profit Margin

This ratio measures the overall profitability of the firm by establishing the relationship between net profit and total sales.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}} \times 100\% = \text{...........}\%$$

A high profit margin would enable the form to withstand adverse economic condition and a low margin will have opposite implication.

c. Return on Total Assets

This ratio measures the productivity of the assets, which measures the relationship between net profit and assets.

$$\text{Return on Total Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100\% = \text{...........}\%$$

Higher ratio shows the higher returns on assets use in the business there by indicating effective use of the resources available and vice versa.

d. Return on Current Assets

Return on current assets indicates the relationship between net profit after tax and current assets. It measures the profit of the firm with respect to its total current assets. So, it measures the effectiveness of the utilization of current assets. It can be calculated by:

$$\text{Return on Current Assets} = \frac{\text{Net profit after tax}}{\text{Total Current Assets}} = \text{..............\%}$$

Increasing ratio indicates the effective utilization of working capital to earn profit.

3.6.4 Activity Ratio

Activity Ratio are including the following ratios.

a. Inventory Turnover Ratio

Inventory turnover ratio explains whether investment in inventories is within proper limits or not. It indicates marketability of inventory and reasonableness of quality on hand.

$$\text{Inventory Turnover Ratio} = \frac{\text{sales}}{\text{Inventory}} = \text{..............\%}$$

A high inventory turnover ratio indicates efficient management of inventory because more frequently the stocks are sold; the lesser amount of capital is required to finance the inventory.

b. Receivable Turnover Ratio

This ratio indicates the velocity of debt collection of a firm. In other words, it indicates the number of times average debtors are turned over during a year. It is calculated by:-

$$\text{Receivable Turnover Ratio} = \frac{\text{Debtors (Receivables)}}{\text{Total Sales}} = \text{..............\%}$$

Higher the value of debtor turnover ratio is more efficient management of debtors.

c. Average Collection Period

Average collection period is calculated to know the average number of days or months for which a firm has to wait before trade debtors are converted into cash.

$$\text{Average Collection Period} = \frac{\text{Days in a year}}{\text{Debtors Turnover Ratio}} = \text{..............Day}$$

Shorter the collection period is better for the concerned firm.

d. Fixed Assets Turnover Ratio

Fixed Assets turnover ratio indicates the extent to which the investment in fixed assets contributes towards sales.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Net Fixed Assets}} = \text{..............Times}$$

Net Fixed Assets = Total Assets – Depreciations

Higher fixed assets turnover ratio indicates better business performance and lower ratio, inefficient utilization of available fixed assets.

e. Total Assets Turnover Ratio

Total assets turnover ratio is the relationship between total sales and total net assets.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Net Assets}} = \text{..............Times}$$

Where,
Total Net Assets = Current Assets + Fixed Assets + Intangible assets (-) Less Depreciations and Write off.

Higher total assets turnover ratio indicates the proper utilization of the firm's assets.

f. Networking Capital Turnover Ratio

Networking capital turnover ratio is related to sales. It implies the velocity of the utilization of working capital. It is calculated by:

$$\text{Networking Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Net Working Capital}} = \ldots\ldots\ldots\ldots\text{Times}$$

Lower the turn over ratio in effective management of working capital and higher shows the effective management of working capital.

3.6.5 Cash Flow Analysis

Cash is the lifeblood of any business organization. Without cash no business activities can be taken place. Cash flow statement provides relevant information about cash receipts and payments of an enterprise during a period. Information about enterprises cash flow is useful in accessing its liquidity, flexibility, profitability and risk. So, cash flow statement is widely used by investors, analysts, creditors, managers and others. The direct method of cash flow is used in this study.

3.6.6 Trend Analysis

Trend Analysis is a powerful financial tool to know the financial position of the firm. In this research work, trend percentage is calculated treating from fiscal year 2059/060 as base year.

3.7 STATISTICAL METHODS

In spite of statistical analysis, the mean, correlation coefficient, Bar graph and probable error are used to analyse the J. Bs. Product(s) Pvt. Ltd.

3.7.1 Arithmetic Mean (Average)

The most popular and commonly used is average which represents the entire data by a single value. It is the value obtained adding together all items and by dividing this total by number of items observed. 'Average provides us the gist and gives a bird's eye view of the huge mass of unwieldy numerical data.'[20]

It is can be computed by using the following formula

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

Where, $\overline{X}$ = Mean (Average) of taken items.

$\sum X$ = **Sum of all the values of taken items.**

N = no of items observed.

3.7.2 Bar Graphs

Bar is a statistical tool to analyze different component in one graph. It helps to find out the investment made on different assets and liabilities. In other words, it means the presentation of data in the form of graph. It tries to judge the variability of one variable in relation to the variation of another variable. Amount investment in respect to time period is under taken in the study.

20. Bajracharya, B.C., Business Statistic and Mathematics, M.K. Publishers and Distributors, Kathmandu, 1st edition, 2053, p. 101

Figures also tell us the relationship of various attributes which helps to conclude that the factors are related with other or not.

3.7.3 Correlation Analysis

Correlation analysis is a tool to describe the relation of an item to other items. To calculate it the following formula is used:

$$r = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - \left(\sum x\right)^2} \times \sqrt{N\sum y^2 - \left(\sum y\right)^2}}$$

Where,

r = Correlation between dependent and independent variables.

N = No of observations.

$\sum xy$ = Sum of multiply of dependent and independent variable.

$\sum x^2$ = Sum of the square of independent variables.

$\sum y^2$ = Sum of the square of dependent variables.

The value of ‘r’ lies in between -1 and +1.When r =1, it implies the perfectly positive Correlations and r = -1 indicates the perfectly negative Correlation and r =0 indicates no relation between the Variations.

3.7.4 Probable Erro

Probable errors are a statistical tool to calculate the relationship between two variables. To calculate it, we use,

$$Pe = \frac{0.6745\left(1 - r^2\right)}{\sqrt{N}}$$

Pe = Probable Error

r = Correlation between two variables

N = no of observations

If correlation (r) is less than P_e, it is not at all significant and if r is more than pe than, there is correlation. If r is more than 6 times of p.e. then relation is considered as significant.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

The main objectives of this study is to know the working capital structure of J. Bs. Products(s) Pvt. Ltd. to find out the working capital structure of J. Bs. Products(s) Pvt. Ltd., the data are presented and analysed in this chapter. This chapter deals about the actual study of working capital structure of J. Bs. Products(s) Pvt. Ltd. to evaluate, analyse and interpret the working capital position through the financial audited reports from 2059 to 2064. The purpose of this study is to analyse working capital liquidity position, turnover position, and profitability position with the helps of ratio analysis, trend analysis as well as various financial tools and statistical tools.

4.1.1 Analysis of Current Assets

The main component of the business is current assets, which are needed to run day-to-day business activities. The total sum of current asserts is known as gross working capital. The current assets are differ to the amount of working capital needed and the size of the enterprises.

The sum of cash, marketable securities, Bills receivable, inventories is the requirements of each and every organization to operate the organization's day-to-day operation smoothly. Sum of these assets are regarded as current assets. In these words, the assets or the sources of capital, which are converted into cash within an accounting period, usually a year of the business? In summary, "Those assets which are expected to be realised in cash within a relatively short period of time, usually one year are termed Current Assets."[21]

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

Any business organization aims to maximize return on shareholders investment. In order to accomplish these objectives, the business organization should earn sufficient returns for its operation. Earning a steady amount of profit requires successful sales. So, the firm has to invest enough funds in current assets for the success of sales. As the sales do not convert into cash instantly the extra amount of working capital is needed.

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

The management of the company should alert and conscious to invest in current assets. Through proper analysis should be needed. So, the strike attention upon current assets should be needed. So, the overall current assets are firstly analyzed.

---

21. Lynch R.M. and William R.W, Accounting for management planning and control, 5th edition, 14th reprinted, Tala Mc Graw Hill Publishing Company Ltd., New Delhi, 1994, P.468

Table-1

J. Bs Product(s) Pvt. Ltd.

Analysis of Current Assets

Particulars	**059/60**	**060/61**	**061/62**	**062/63**	**063/64**
Inventories	52,58,362	51,24,041	70,50,497	86,21,873	99,92,633
Percentage on Current Assets	(86%)	(75.64%)	(76.19%)	(73.67%)	(83.27%)
Sundry Debtors	6,13,735	14,50,099	19,87,254	26,63,363	17,13,096
Percentage on Current Assets	(10%)	(21.4%)	(21.48%)	(22.76%)	(14.27%)
Cash in hand and Bank	1,40,970	77,902	49,523	1,53,314	69,098
Percentage on Current Assets	2.35%	(1.15%)	(0.535%)	(1.31%)	(0.575%)
Prepaid Expenses	84,500	1,22,500	1,65,505	2,64,356	2,15,374
Percentage on Current Assets	(1.45%)	(1.81%)	(1.79%)	(2.26%)	(1.79%)
Total in Amount	60,97,569	67,74,543	92,52,781	1,17,02,908	1,20,00,201
Total in Percentage	100%	100%	100%	100%	100%

Source: Appendix: A

The above table-1 shows the current assets position of J. Bs. Product(s) Pvt. Ltd. This table shows the investment pattern in current assets and inventories and Sundry debtors have been founded major in comparison with Bank and cash and prepaid expenses. Some times investment made on inventories is higher and sometimes investment made in sundry debtors is higher. Investment on cash and Bank balance is on third rank in previous 2 years. Then, investment made on prepaid expenses keeps the 3rd position.

The percentage share of inventories in total current assets indicates that this in increasing and decreasing that is fluctuation. The percentage of inventories in 063/64 seems maximum and in 060/61 seems minimum. The higher percentage indicates the low inventories turnover ratio and vice versa.

Sundry debtors occupy other major investment made on current assets. It is also in fluctuating trend in previous three year and decreasing in last 2 years. The increasing volumes indicate the large sales and low volume of debtors indicates the comparatively low sales volume. It shows inefficiency in first 3 years and in last 3 years the firm is able to collect the debtors. It is decreasing the risk of the firm in last 3 years.

Cash and Bank balances are also decreasing in trend. Low percentage of cash shows the higher stock turnover of stock realisation of more cash and sound liquidity of firm.

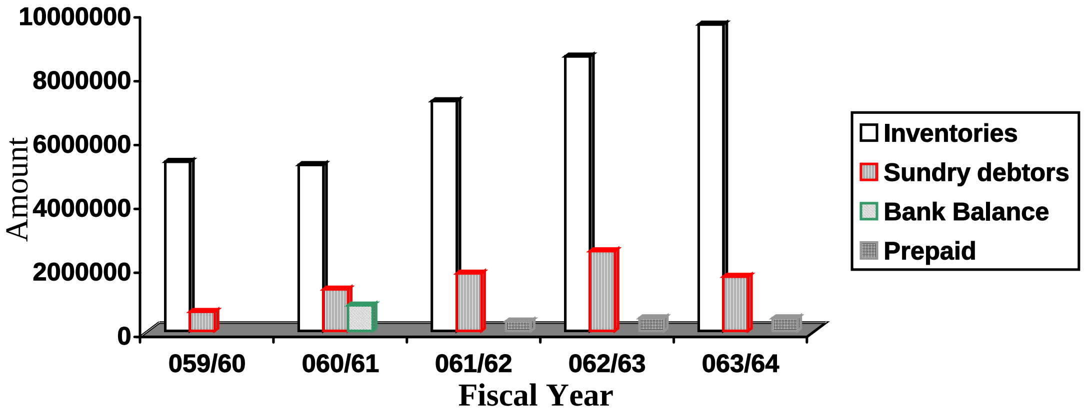
Prepaid expenses are also a major investment made on current assets. It is increasing in trend from last 3 years. The higher percentage of prepaid indicates the favourable condition to the firm.

In conclusion, current assets of J.Bs. Product(s) Pvt. Ltd. are in increasing trend.

This can be shown in the bar graph as below.

Extent of the components of Current Assets

Graph-I



From this Graph we know that the firm has invested more on inventories and Sundry debtors (receivables). In the year 059/60, sundry debtors are more than other current assets. At the last year of study period it invested more on inventories in comparison with other current assets.

4.2 Structure of Working Capital

It is analysed by the help of following ratios:

4.2.1 Current Assets to Total Assets

The ratio on total assets is calculated to know the liquidity position of the firm because higher percentage of current assets on total assets indicates higher liquidity position of the firm as well as lowers the risk of being liquidation and insolvent. So, current assets on total assets are analysed as under.

Table-2

J. Bs Product(s) Pvt. Ltd.
Percentage of Current Assets to Total Assets Ratios

Year	**Current Assets (CAs)**	**Total Assets (TAs)**	**Ratio (%)**	**Change (%)**
059/60	60,97,569	71,24,019	85.59	-
060/61	67,74,543	76,71,356	88.31	2.72
061/62	92,52,781	1,01,92,390	90.78	2.47
062/63	1,17,02,908	1,34,77,282	86.83	(3.97)
063/64	1,20,00,201	1,59,99,394	75	(11.83)
Total	4,58,28,002	5,44,64,441	426.51	-
Average	91,65,600.4	1,08,92,888.2	85.302	-

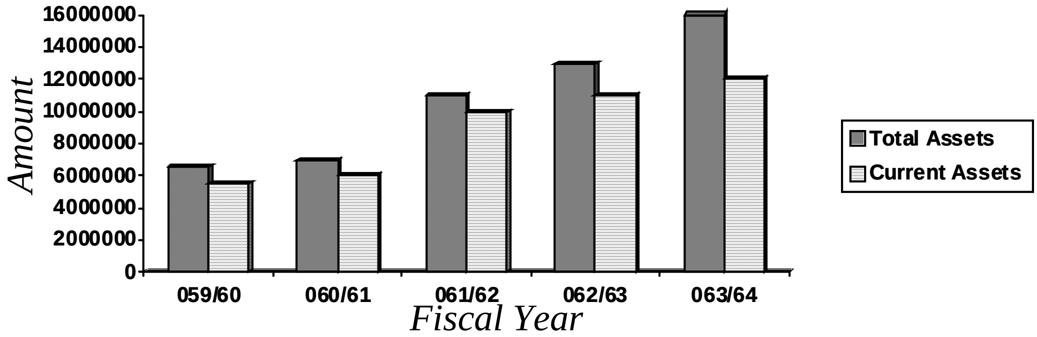
Source: Appendix: A

This ratio represents the proportion of current assets investment to total assets investment of J. Bs. Product(s) Pvt. Ltd. for selected five years study period. The above table (table-2) shows that the proportion of current assets on total assets is in fluctuating trend. Current asset is increased by 2.72% in the year 062/63. The increasing trend shows that the firm invest more on sundry debtors and inventories in the increasing year and vice versa. In average 85.302% are current assets on total assets.

In an average there are 85.302% of current assets on total assets. High level of current assets indicates good liquidity position but it adversely affects the profitability of the company because idle money can earn no thing. The trend of the relationship between current assets and total assets is generally increasing and decreasing.

This can be presented in the bar graph below.

Graph-2



Form this Graph the current assets is more than fixed assets. The firm has invested more on current assets. It indicates the liquidity position of the firm is better. From the year 059/60 to 063/64 the current asset is in increasing trend.

In order to test relationship between current assets and total assets Karl Person's correlation coefficient (r) is computed below.

Table-3

Computation of Correlation coefficient (r)
In order to test relationship between
Current assets and total assets

(Amount in Lakhs)

Year	Current Assets (X)	Total Assets (Y)	X^2	Y^2	X.Y
059/60	60.97	71.24	3717.34	5075.14	4343.50
060/61	67.75	76.71	4590	5884.42	5197.10
061/62	92.53	101.90	8561.80	10383.61	9428.81
062/63	117.02	134.77	13693.68	18162.95	15770.78
063/64	120	159.99	14400	25596.8	19198.8
$\sum X = 458.27$		$\sum Y = 544.61$	$\sum X^2 = 44962.8$	$\sum Y^2 = 65102.90$	$\sum XY = 53938.9$

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N\sum X^2 - \left(\sum X\right)^2} \times \sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 53938.99 - (458.27 \times 544.61)}{\sqrt{5 \times 44962.82 - (458.27)^2} \times \sqrt{5 \times 65102.9 - (544.61)^2}}$$

$$= \frac{20116.52}{20688.77}$$

$$= 0.9723$$

Where as,

$$Pe = \frac{0.6745\left(1 - r^2\right)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.9723)^2\right\}}{\sqrt{5}}$$

$$= \frac{0.6745(1 - 0.9454)}{\sqrt{5}}$$

$$= 0.0165$$

The correlation coefficient shows the correlation between current assets and total assets is significant and *r* is actually six times of *pe*, the relationship is to be significant.

4.2.2 Current Assets to Fixed Assets

The ratio on total current assets on fixed assets is calculated to know that percentage investment upon current assets and fixed assets.

Table-4

J. Bs Product(s) Pvt. Ltd.

Current Assets to Total Assets Ratios

(Amount in Lakhs)

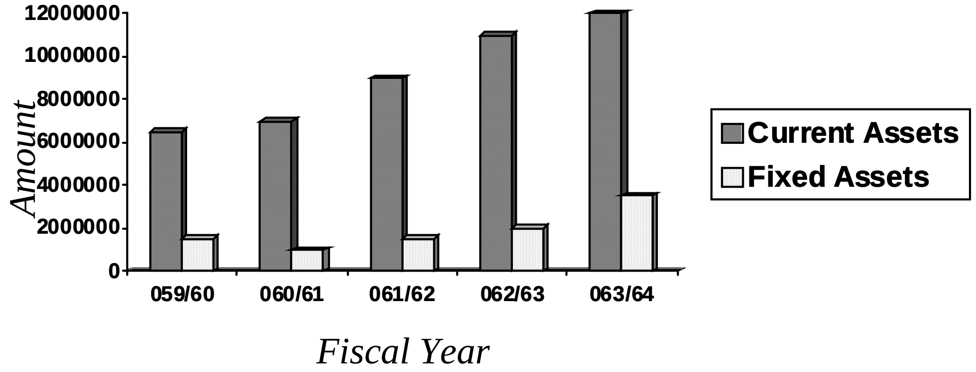
Year	Current assets	Fixed Assets	Ratio (%)	Change (%)
059/60	60.97	10.26	594.25	-
060/61	67.75	8.97	755.29	161.04
061/62	92.53	9.39	985.41	230.12
062/63	117.02	17.74	659.64	(325.77)
063/64	120	39.99	300	(359.64)
Total	458.27	86.35	3294.59	-
Average	96.654	17.27	658.92	-

Source: Appendix: A

This ratio represents the investment made on current assets and fixed assets for the selected five years. The ratio is increased for first 2 years and decrease in year 062/63. The overall ratio shows that investment in current assets in comparing with its fixed assets is in favourable in J. Bs. Product(s) Pvt. Ltd.

This can be presented in the bar graph as below.

Graph-3



The investment made on fixed assets is lower in comparison with Current assets. It is more in year 063/64 and lower in year 059/60. It is clear that the firm is investing less on fixed assets in comparing with current assets.

In order to test relationship between current asses and fixed assets the Karl Pearson's correlation coefficient is used.

Table-5

Computation of Correlation coefficient (r)
In order to test relation of
Current Assets with fixed assets.

(Amount in Lakhs)

Year	Current Assets (X)	Fixed Assets (Y)	X.Y	X^2	Y^2
059/60	60.97	10.26	625.55	3713.34	105.27
060/61	67.75	8.97	607.72	4590.06	80.46
061/62	92.53	9.39	868.86	8561.8	88.17
062/63	117.03	17.74	2076.11	13759.29	314.71
063/64	120	39.99	4798.8	14400	1599.2
	$\sum X = 458.28$	$\sum Y = 86.35$	$\sum X.Y = 8977.05$	$\sum X^2 = 4524.49$	$\sum Y^2 = 8187.8$

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$= \frac{5\times 897705 - (458.28\times 86.35)}{\sqrt{5\times 4542.49 - (458.28)^2}.\sqrt{5\times 2187.8 - (86.35)^2}}$$

$$= \frac{5312.77}{7272.423}$$

$$= 0.7305$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.7305)^2\right\}}{\sqrt{5}}$$

$$= \frac{0.6745\times 0.4664}{\sqrt{5}}$$

$$= 0.093$$

$\therefore$ Correlation shows the positive relationship between total current assets and fixed assets. *r* is six time greater than *Pe.* So, the relationship is significant.

4.2.3 Cash and Bank Balance to Current Assets

Transactional motive, precautionary and speculative motive, cash is hold by any firm. So, for the daily requirement such as payable, purchase raw materials, debts, cash balance should be maintained. Table-6 represents the proportion of cash and bank to current assets.

Table-6

J. Bs. Products Pvt. Ltd.

Cash and Bank Balance to Current Assets Ratio

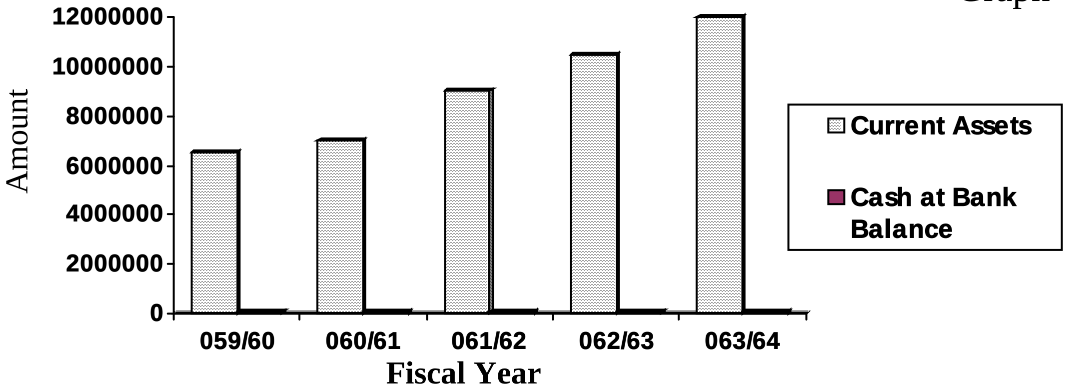
(Amount in Lakhs)

Year	Cash at Bank	Current Assets	Ratio %	Change %
059/60	1.41	60.97	2.313	-
060/61	0.779	67.75	1.45	(0.863)
061/62	0.495	92.53	0.534	(0.916)
062/63	1.533	117.02	1.31	0.776
063/64	0.790	120	0.658	(0.652)
Total	5.009	458.27	6.625	-
Mean	1.0014	91.654	1.253	-

Source: Appendix: A

The ratio is in fluctuating trend. In the year 059/60 the cash and bank balance is higher (i.e. 2.313) in comparison with other year of study period. From the year 061/62, the cash and bank balance is minimum which shows the lower liquidity position of the industry. At the last year of study period, it is only 0.65% in totals. It shows the poor cash and bank balance.

Graph-4



From this graph, the firm has invested little on cash and bank balance. It is very low in amount then it cannot be shown in the above bar graph from the year 059/60 to 063/64.

To know the relationship, Karl Pearson's correlation coefficient is computed.

Table-7

Computation of Correlation coefficient (r)
In order to test relationship between
Cash & Bank Balance to Current Assets

(Amount in Lakhs)

Year	Cash & Bank (X)	Current Assets(Y)	X.Y	X^2	Y^2
059/60	1.41	60.97	85.97	1.9881	3717.34
060/61	0.779	67.75	52.78	0.6068	4590.062
061/62	0.495	92.53	45.80	0.2450	8561.80
062/63	1.533	117.02	179.39	2.35	13693.68
063/64	0.790	120	94.80	0.6241	14400
	$\sum X = 5.007$	$\sum Y = 558.27$	$\sum X.Y = 458.74$	$\sum X^2 = 5.8139$	$\sum Y^2 = 44962.88$

Sources: Appendix A

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N\sum X^2 - \left(\sum X\right)^2} \times \sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5\times 458.74 - (5.007\times 558.27)}{\sqrt{5\times 5.8139 - (5.007)^2} \times \sqrt{5\times 44962.88 - (458.74)^2}}$$

$$= \frac{2.35}{1.9998\times 119.88}$$

$$= 0.0098$$

Where as,

$$Pe = \frac{0.6745(1-r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1-(0.0098)^2\right\}}{\sqrt{5}}$$

$$= 1.6744$$

The correlation is positive between current assets to cash and bank balance but the relation is not significant because the *r* is not six time greater then *pe.*

4.2.4 Cash and Bank Balance to Total Assets

For transactional motive, precautionary motive, and speculative motive, the cash is hold. So, the daily business requirement should be met and maintained by cash and bank balance. The table-8 presents the proportion of cash and bank balance to total assets.

Table-8

J. Bs. Pvt. Ltd.

Analysis and Cash and Bank Balance to Total Assets Ratio

(Amount in Lakhs)

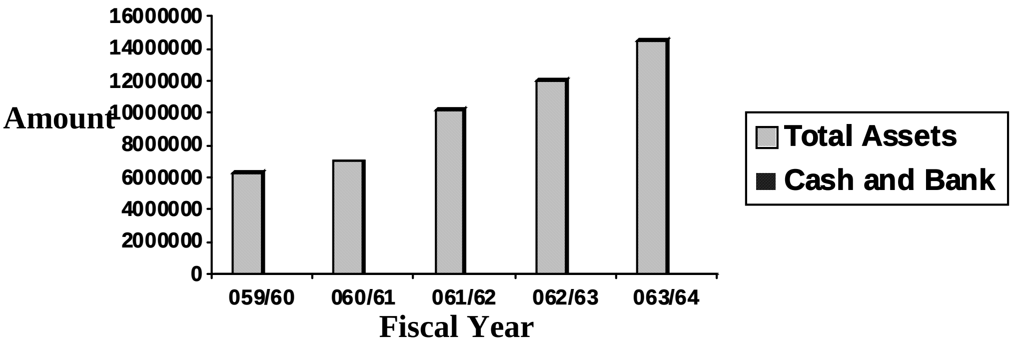
Year	Cash at Bank	Total Assets	Ratio %	Change %
059/60	1.41	71.24	1.98	-
060/61	0.779	76.71	1.015	(0.965)
061/62	0.495	101.90	0.4857	(0.5293)
062/63	1.533	134.77	1.137	0.6513
063/64	0.790	159.99	0.4937	(0.6433)
Total	5.009	544.61	5.1114	-
Mean	1.0014	108.922	1.0222	-

Source: Appendix: A

The trend is in decreasing because investment made in current assets and fixed assets are increased in 4^{th} one year where more emphasis is given in last 4^{th} year. In this way, the company bought products on cash. In the year 059/60, the ratio is 1.98%, which is highest and the ratio is in the year 061/62 is .48%, which is lowest.

This can be shown in the bar graph here under.

Graph-5



From this graph, the firm has invested little on cash and bank balance comparing with total assets. So it is very low in amount then it cannot be shown in the above bar graph.

To know the relationship between cash and bank balance to total assets can be computed by using Karl Pearson's correlation coefficient.

Table-9

Computation of Correlation Coefficient of (r)
In order to test relationship between
Cash and Bank Balance to Total Assets

(Amount in Lakhs)

Year	Cash & Bank (X)	Total Assets(Y)	X.Y	X^2	Y^2
059/60	1.41	71.24	100.45	1.9881	5075.14
060/61	0.779	76.71	59.76	0.6068	5884.42
061/62	0.495	101.90	50.44	0.2450	10383.61
062/63	1.533	134.77	206.60	2.35	18162.95
063/64	0.790	159.99	126.39	0.6241	25596.80
	$\sum X = 2.69$	$\sum Y = 544.61$	$\sum X.Y = 543.64$	$\sum X^2 = 5.814$	$\sum Y^2 = 65102.9$

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 543.64 - 2.69 \times 544.61}{\sqrt{5 \times 5.814 - (2.69)^2} \times \sqrt{5 \times 65102.9 - (544.61)^2}}$$

$$r = 1.57$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (1.57)^2\right\}}{\sqrt{5}}$$

$$= 0.96$$

The relation is insignificant because *r* is not six times greater than *pe*.

4.2.5 Receivables to Current Assets

Receivables means the amount should be received from customers who have bought goods on credit. So, it is current assets. These account receivables are also called receivables or debtor.

In this competitive world, the credit policy of a firm plays key role to develop and expansion of the market. The firm of enterprises should increase its sales volume to obtain profit and maximize the shareholder wealth. The enterprises should merge receivables property. The firm should determine the optimum receivables to manage working capital.

Higher degree of receivables results unnecessarily holding of working capital allow degree causes negative result in sales. The following table shows the proportion of debtors to the current assets.

Table-10

J. Bs. Pvt. Ltd.

Receivables to Current Ratio

(Amount in Lakhs)

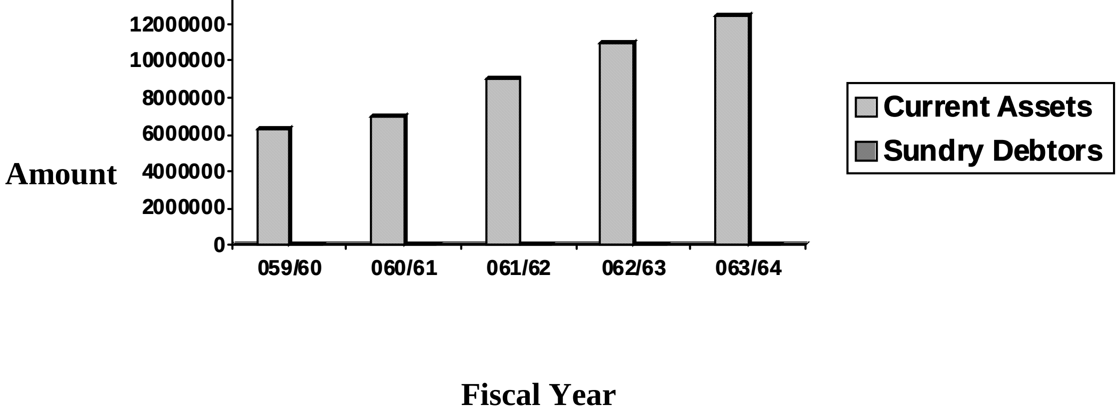
Year	Receivables	Current Assets	Ratio %	Change %
059/60	0.845	60.97	1.3859	-
060/61	1.225	67.75	1.8081	0.4222
061/62	1.655	92.53	1.7891	(0.019)
062/63	2.6435	117.02	2.2590	0.4699
063/64	2.1537	120	1.7947	(0.4643)
Total	8.5222	458.27	9.03685	-
Mean	1.7044	91.654	1.8074	-

Source: Appendix: A

From the above table, the ratio on receivables to current assets is fluctuating in trend. The highest ratio is in the year 2062/63 which is 2.26% and in year 2060/61, it is 1.81%. In the first year of the study period (i.e. 2059/60), it is decreased and becomes 1.38%. It indicates that the firm is decreasing the receivables.

This can be shown in the bar graph here under.

Graph -6



From this figure, we know the investment made on receivables by current assets. It is grater in the year 2062/63 and lowers in the year 2059/60. Sometimes it is increased as well as it is decreased other time. So, it is in fluctuating trend.

To know the relationship between current assets and receivables can be illustrated by Karl Pearson's correlation coefficient. It is presented in the table below.

Table-11

Computation of Correlation Coefficient of (r)
In order to test relationship between
Receivables to Current Assets

(Amount in Lakhs)

Year	Current Assets (X)	Receivables (Y)	X.Y	X^2	Y^2
059/60	60.97	0.845	51.52	3717.34	0.7140
060/61	67.75	1.225	82.99	4590.062	1.5006
061/62	92.53	1.655	113.35	8561.80	2.739
062/63	117.02	2.6435	309.34	13693.70	6.9880
063/64	120	2.1537	252.44	14400	4.6384
	$\sum X = 458.27$	$\sum Y = 8.5222$	$\sum X.Y$ = 815.64	$\sum X^2$ =44962.9	$\sum Y^2$ = 16.5800

Sources: Appendix A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 815.64 - 458.27 \times 8.5222}{\sqrt{5 \times 44962.9 - (458.27)^2} \times \sqrt{5 \times 16.58 - (8.522)^2}}$$

$$r = 0.420$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\{1 - (42)^2\}}{\sqrt{5}}$$

$$= 0.067$$

The relationship between Current Assets to Receivables is positive. But it is significant that *r* is six times greater than *pe*.

4.2.6 Receivables to Total Assets

Receivables are the amount due with customers. So, the receivables should be maintained effectively and efficiently. In this competitive age, company should keep some provision for credit sales. The receivables should be optimum. So, higher degree of receivables results unnecessarily holding up of working capital and lower degree of receivables may cause negative results in sales level. The following table should highlight the ratio between receivables to Total Assets of J. Bs. Pvt. Ltd.

Table-12

J. Bs. Pvt. Ltd.

Analysis of Receivables to Total Assets Ratio

(Amount in Lakhs)

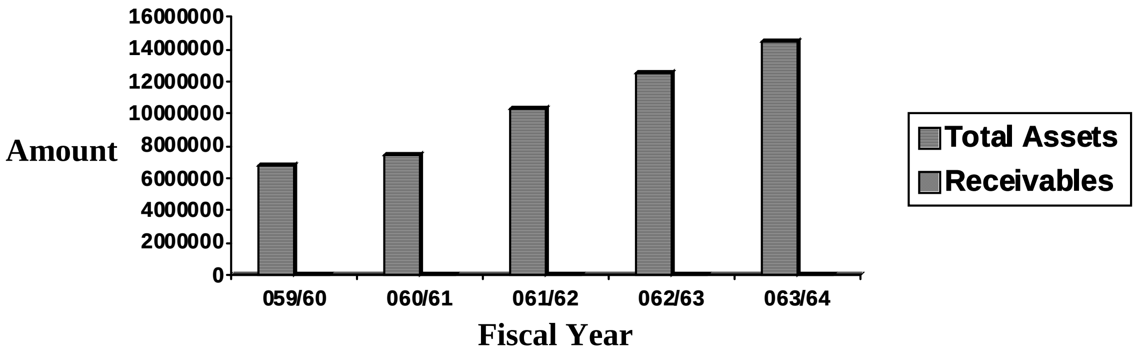
Year	Receivables	Total Assets	Ratio %	Change %
059/60	0.845	71.24	1.186	-
060/61	1.225	76.71	1.596	0.41
061/62	1.655	101.90	1.2280	(0.368)
062/63	2.6435	134.77	1.962	0.734
063/64	2.1537	159.99	1.346	(0.616)
Total	8.5222	544.61	7.3181	-
Mean	1.7044	108.92	1.4636	-

Source: Appendix: A

The receivables to total assets ratio is in fluctuating trend. As we know that the ratio is 1.96% which is highest in year 2062/63 and the first year of the study period, the ratio is only 1.18% which is lowest from the table. The receivables to total assets ratio is in fluctuating trend. So, it is concluded that the firm use the liberal and tight credit policy. It is changed due to the external environment. From the year 2059/60 to forth year of study period 2062/63, the ratio of receivables to total assets is decreasing. It focuses on cash sales which is better for the firm to fill up the daily cash requirements.

This can be shown in the bar graph here under.

Graph-7



From this figure, we know the investment made on receivables by current assets. It is greater in the year 2062/63 and lower in the year 2059/60. Sometimes it is increased as well as decreased other time. So, it is in fluctuating trend.

To know the relationship between receivables to total assets the Karl Pearson's correlation coefficient is calculated.

Table-13

Computation of Correlation Coefficient of (r)
In order to test relationship between
Receivables to Total Assets

(Amount in Lakhs)

Year	Total Assets (X)	Receivables (Y)	X.Y	X^2	Y^2
059/60	71.24	0.845	60.1978	5075.14	0.7140
060/61	76.72	1.225	93.982	5884.42	1.5006
061/62	101.90	1.655	168.65	10383.61	2.739
062/63	134.77	2.6435	356.26	18162.95	6.9880
063/64	159.99	2.1537	344.57	25596.80	4.6384
	$\sum X = 544.61$	$\sum Y = 8.5222$	$\sum X.Y$ = 969.66	$\sum X^2$ =65102.9	$\sum Y^2$ = 16.5800

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 969.66 - 544.61 \times 8.522}{\sqrt{5 \times 65102.90 - (544.61)^2} \times \sqrt{5 \times 16.579 - (8.522)^2}}$$

$$r = 0.3801$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.3821)^2\right\}}{\sqrt{5}}$$

$$= 0.2575$$

4.2.7 Inventory to Current Assets

Inventory is the major parts of current assets. It is so, much important for manufacturing industry like J. Bs. Pvt. Ltd. The inventory should not be higher because higher inventory implies the lower sales.

The inventory should be made as per the requirement. The ratio between inventories to current assets is presented below to understand clearly the investment in inventory by J. Bs. Pvt. Ltd.

Table-14

J. Bs. Pvt. Ltd.

Inventory to Current Assets Ratio

(Amount in Lakhs)

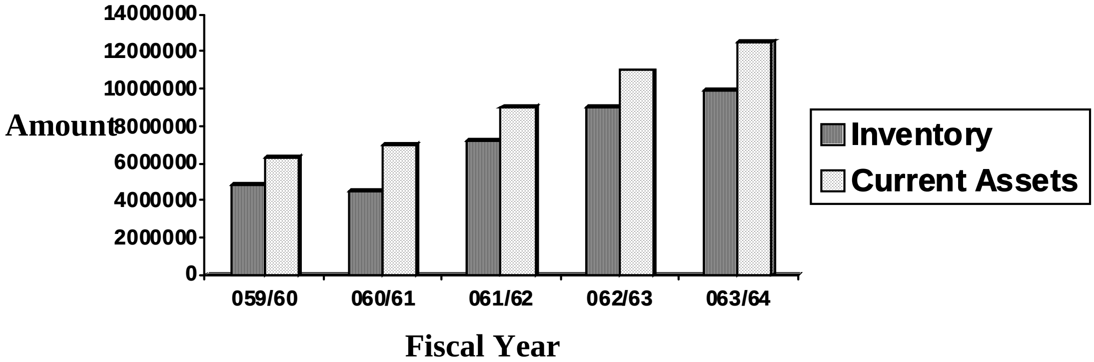
Year	Current Assets	Inventory	Ratio %	Change %
059/60	60.97	52.58	86.24	-
060/61	67.75	51.24	75.63	(10.61)
061/62	92.53	70.50	76.19	0.56
062/63	117.02	86.21	73.67	(2.56)
063/64	120	99.93	83.275	9.605
Total	458.27	360.46	395.005	-
Average	91.654	72.092	79.001	-

Source: Appendix: A

The above table shows the percentage of inventory with respect to current assets. In the fiscal year 2059/60 is 86.24% which is highest where as 73.67% in year 2062/63 is lower. The ratio is in fluctuating trend. Sometimes the firm use liberal policy. Sometimes it uses the tight inventory policy. Tight inventory can be seen in the year 2062/63 on which the ratio is only 73.67% which is low in comparison with other years of study period.

This can be shown in the bar graph here under:

Graph-8



This bar graph shows the share of investment of the firm on inventories from current assets. It shows that heavier investment on inventory in the year 2063/64 and lowest investment in the year 2060/61. It is in increasing trend. Increasing investment on inventory shows the decreasing in the total assets.

In order to test the relationship between current assets and inventory of J. Bs. Pvt. Ltd. during the study period, Karl Pearson's correlation coefficient is calculated below.

Table-15

Computation of Correlation Coefficient (r)
In order to test relationship between
Inventory to Current Assets

(Amount in Lakhs)

Year	Current Assets (X)	Inventory (Y)	X.Y	X^2	Y^2
059/60	60.97	52.58	3205.80	3717.34	2764.65
060/61	67.75	51.24	3471.51	4590.062	2625.54
061/62	92.53	70.50	6523.36	8561.80	4970.25
062/63	117.02	86.21	10088	13693.70	7432.16
063/64	120	99.93	11991.60	14400	9986
	$\sum X = 458.27$	$\sum Y = 360.46$	$\sum X.Y$ = 35280.56	$\sum X^2$ =44962.9	$\sum Y^2$ = 23305.60

Sources: Appendix A

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 35280.56 - 458.27 \times 360.46}{\sqrt{5 \times 44962.9 - (458.27)^2} \times \sqrt{5 \times 23305.60 - (360.46)^2}}$$

$$r = 0.7962$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\{1 - (0.7962)^2\}}{\sqrt{5}}$$

$$= 0.1104$$

The correlation coefficient is significant because *r* is six times greater than *pe*.

4.2.8 Inventory to Total Assets

Inventory is the major current assets of the firm. For the factory as J. Bs. Pvt. Ltd. must give importance to the inventory. The require amount of inventory should be kept which can maintain good relation to the customers. If the stock is increases, it creates problem to the factory to keep it and lower inventory cannot fulfil the demand of the customers at heavy demand. So it should be optimum for which the firm can use different models for optimum inventory management model for this purpose.

Table-16

J.Bs. Pvt. Ltd.

Inventory to Total Assets Ratio

(Amount in Lakhs)

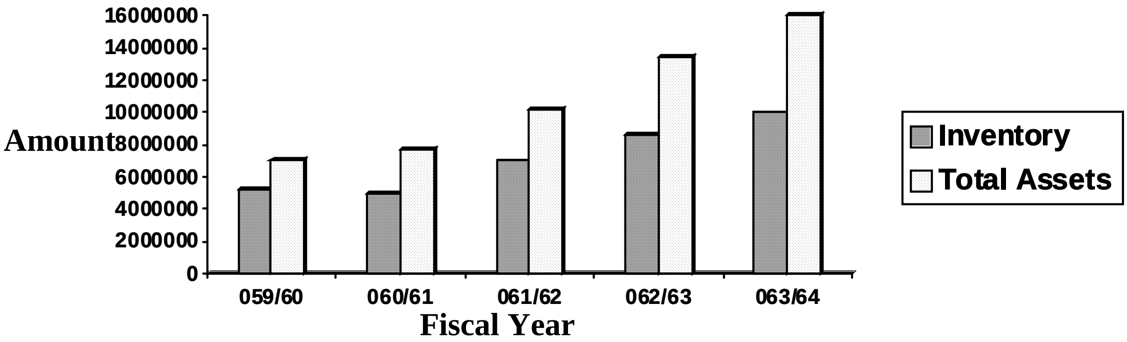
Year	Inventory	Total Assets	Ratio %	Change %
059/60	52.58	71.24	73.81	-
060/61	51.24	76.71	66.79	(7.02)
061/62	70.50	101.90	69.185	2.395
062/63	86.21	134.77	63.97	(5.215)
063/64	99.93	159.99	62.46	(1.51)
Total	360.46	544.61	336.22	-
Average	72.092	108.92	67.24	-

Source: Appendix: A

The above table shows the proportion of investment on inventory from total assets. The ratio in the year 2063/64 is highest and the year 2060/61 is lowest which is only 51.24%. In this way, the factory is investing more on inventory. So, the factory is not maintaining the efficient management of inventory. In this way the factory is not able to maintain effective management of inventory. So it should understand it and take corrective action.

This can be shown in the bar graph here under.

Graph-9



This bar graph shows the share of investment of the firm on inventories from total assets. It shows that heavier investment on inventory on the year 2063/64 and lowest investment in the year 2060/61. It is in increasing trend. Increasing investment on inventory shows the decreasing in the total sales.

To know the relationship between inventories to total assets can be calculated by using Karl Pearson's Correlation coefficient. It is presented below.

Table-17

Computation of Correlation Coefficient of (r)

Inventory to Total Assets

(Amount in Lakhs)

Year	Inventory(X)	Total Assets(Y)	X.Y	X^2	Y^2
059/60	52.58	71.24		1.9881	5075.14
060/61	51.24	76.71		0.6068	5884.42
061/62	70.50	101.90		0.2450	10383.61
062/63	86.21	134.77		2.35	18162.95
063/64	99.93	159.99		0.6241	25596.80
	$\sum X = 360.46$	$\sum Y = 544.61$	$\sum X.Y$ = 543.64	$\sum X^2$ =5.814	$\sum Y^2$ = 65102.9

Source: Appendix: A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 42466.38 - 360.46 \times 544.61}{\sqrt{5 \times 23305.6 - (360.46)^2} \times \sqrt{5 \times 65102.9 - (544.61)^2}}$$

$$r = 0.8139$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.8139)^2\right\}}{\sqrt{5}}$$

$$= 0.097$$

The relationship between inventories to total assets is significant because *r* is six times greater than *pe.*

4.2.9 Analysis of Networking Capital and Working Capital Financing

Networking capital means the different between current assets and current liabilities. To know the working capital of J. Bs. Pvt. Ltd. can presented in the table no. 18.

Table-18

J. Bs. Pvt. Ltd.
Analysis of Networking Capital or Working Capital Financing
(Amount in Lakhs)

Year	Current Assets (A)	Current Liabilities (B)	Networking Capital (A-B)
059/60	60.97	23.92	37.05
060/61	67.75	27.22	40.53
061/62	92.53	47.56	44.97
062/63	117.02	73.33	43.87
063/64	120	92.59	27.41

Source: Appendix: A

Networking capital of J. Bs. Pvt. Ltd. is in fluctuating trend. Its current liabilities are not increased as proportional change in current assets. Since this firm buy goods on cash. This shows that risk is avoided by the firm. The networking capital can be financed by the firm in a profitable investment and increase its profit ability.

4.3 LIQUIDITY POSITION

Liquidity means the ability of a firm to meet the obligation in short period. Each and every firm should maintain the liquidity in order to face the current obligations. So, it is the pre-requisite of any firm. In other words, liquidity should maintain efficient management of current assets and current liabilities. Excess of liquidity is so danger for the firm or the very high liquidity cannot mobilize the resources properly due its idle assets (liquidity) can earn nothing. It should maximum as possible to meet its current obligations. So the study focuses the liquidity positions of J. Bs. Pvt. Ltd. To know the liquidity with the help of financial and statistical tools. Some liquidity measures are presented below.

4.3.1 Current Assets

Current ratio is used to measure the liquidity of the firm. It is also defined as the ratio between current assets and current liabilities. The current ratios are of J. Bs. Pvt. Ltd. are presented below.

Table-19

J. Bs. Pvt. Ltd.
Current Assets to Current Liabilities

(Amount in Lakhs)

Year	Current Assets	Current Liabilities	Ratio
059/60	60.97	23.92	2.548
060/61	67.75	27.22	2.4889
061/62	92.53	47.56	1.9455
062/63	117.02	73.33	1.5982
063/64	120	92.59	1.2960
Total	458.27	264.62	9.8766
Average	91.654	52.924	1.9753

Source: Appendix: A

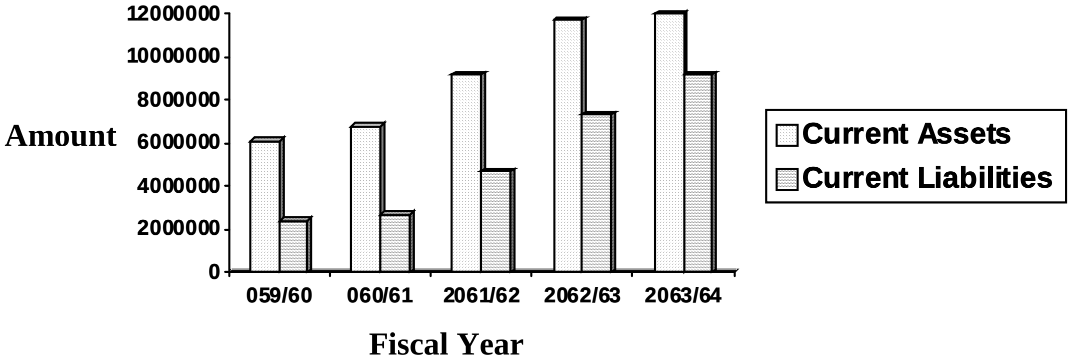
Higher current ratio indicates, the larger amount or rupees available per rupees of current liability, the more the firm's ability to meet current obligation.

Current ratio 2:1 is said to be optimal. It measures rupees to of current assets should be available for a rupee of current liability. It is also said that if the current ratio of the firm is less than 2:1, the liquidity of the firm is not efficient. If it is more than 2:1, than the firm has invested more in current assets. Idle current assets do not produce more return which blocks the profit ability of firm.

From the table 19, in the first year the firm can maintain more liquidity which is not favourable for the firm. That is why excess current assets investment was made. Large money is blocked. So it is not better for the firm. In other fiscal year the ratio is a little but higher than standard level.

This can be shown in the bar graph below:

Graph-10



Above bar graph shows that the firm has excessive current assets, it should be managed in better way in coming year.

To test the relationship current assets and current liabilities of J. Bs. Pvt. Ltd. Karl Pearson's correlation coefficient is calculated.

Table-20

Computation of Correlation Coefficient of (r)
Current Assets to Current Liabilities

(Amount in Lakhs)

Year	Current Assets (X)	Current Liabilities(Y)	X.Y	X^2	Y^2
059/60	60.97	23.92	1458.40	3717.34	572.17
060/61	67.75	27.22	1844.16	4590	740.93
061/62	92.53	47.56	4400.16	8561.80	2261.96
062/63	117.02	73.33	8581.97	13693.68	5377.29
063/64	120	92.59	11110.80	14400	8572.91
	$\sum X = 458.27$	$\sum Y = 264.62$	$\sum X.Y$ = 27395.16	$\sum X^2$ =44962.82	$\sum Y^2$ = 17525.26

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 27395.16 - 458.27 \times 264.62}{\sqrt{5 \times 44962.8 - (458.27)^2} \times \sqrt{5 \times 17525.26 - (264.62)^2}}$$

$$r = 0.973$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.973)^2\right\}}{\sqrt{5}}$$

$$= 0.015$$

This shows that correlation coefficient is positive and perfectly correlated. Where as *r* is six times greater than *pe*. So the relationship is significant.

4.3.2 Quick/Acid Test Ratio

Quick ratio is also calculated to know the liquidity of any firm. It measures the capacity of a firm to pay current liability immediately. It is also a measurement of company's ability to convert current assets quickly into cash to meet current liabilities. Quick assets include all items excluding inventory and prepaid expenses. Its standard is 1:1. It means that a rupee of quick liability should be equal a rupee of quick assets. The quick ratio of J. Bs. Pvt. Ltd. during five year period is presented in table no. 21 below.

Table-21

J. Bs. Pvt. Ltd.
Quick Assets to Current Liabilities Ratio

(Amount in Lakhs)

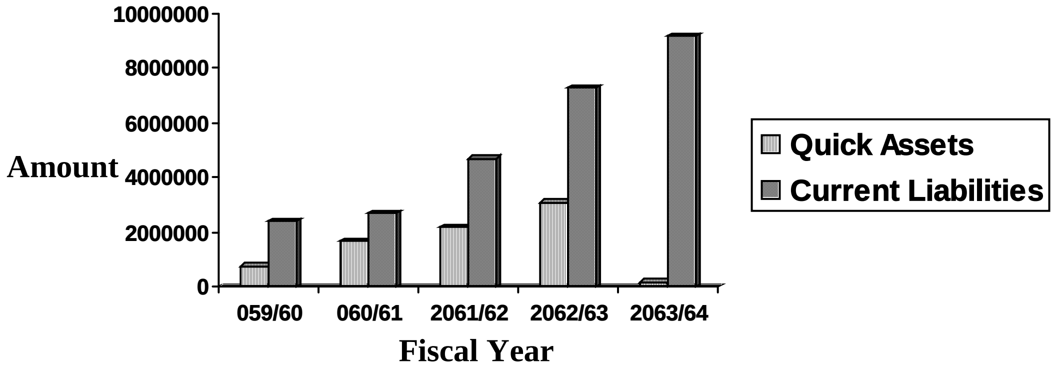
Year	Quick Assets	Current Liabilities	Ratio
059/60	8.39	23.92	0.3507
060/61	16.51	27.22	0.6065
061/62	22.03	47.56	0.46320
062/63	30.81	73.33	0.4201
063/64	20.07	92.59	0.2167
Total	97.81	264.62	2.0572
Average	19.562	52.924	0.4114

Source: Appendix: A

From above table, the quick ratio of J. Bs. Pvt. Ltd. is not satisfactory. The ratio is in fluctuating trend because of the fluctuation in quick assets. Previous four years the firm is able to meet its obligation in which the ratio is 0.2167 but its standard is 1:1. So the management should take step to reduce inventory and maintain its standard 1:1

This can be shown in the bar graph below.

Graph-11



Above bar graph shows that the investment of the firm on quick assets and current liabilities.

To know the relationship Karl Pearson's correlation coefficient should be calculated.

Table-22

Computation of Correlation Coefficient (r)
Quick Assets to Current Liabilities

(Amount in Lakhs)

Year	Quick Assets (X)	Current Liabilities(Y)	X.Y	X^2	Y^2
059/60	8.39	23.92	200.68	70.39	572.17
060/61	16.51	27.22	449.57	272.58	740.93
061/62	22.03	47.56	1047.75	485.32	2261.96
062/63	30.81	73.33	2259.29	949.26	5377.29
063/64	20.07	92.59	1857.68	402.80	8572.91
	$\sum X = 97.81$	$\sum Y = 264.62$	$\sum X.Y$ = 5814.97	$\sum X^2$ =2180.35	$\sum Y^2$ = 17525.26

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 5814.97 - 97.81 \times 264.62}{\sqrt{5 \times 2180.35 - (97.81)^2} \times \sqrt{5 \times 17525.26 - (264.62)^2}}$$

$$r = \frac{3192.37}{4847.93}$$

$$r = 0.658$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\{1 - (0.658)^2\}}{\sqrt{5}}$$

$$= 0.1710$$

The relationship between quick assets and current liabilities is greater than *pe.* So there is correlation between quick assets and current liabilities.

4.4 ACTIVITY RATIO/TURNOVER RATIO

Turnover ratio is calculated to know the inventory position, debtors turnover, average collection period, fixed assets turnover ratio and total assets turnover ratio.

4.4.1 Inventory Turnover Ratio

Every firm has to maintain a certain level of inventory to meet the requirement of the business. The stock turnover ratio indicates whether the investment in inventory is efficient or not. It measures the efficiency in inventory management. In other words, it also explains whether investment in inventories is within proper limits or not. It indicates marketability of inventory reasonableness of quantity.

It measures the velocity of conversation of stock into sales. A high ratio indicated efficient management of inventory because more frequently the stocks are called the lesser amount capital is required to finance the inventory. The lower ratio indicates the heavier amount of inventory. So the firm finance more to hold the inventory.

The stock turnover ratio of inventory to sales can be illustrated as under of J. Bs. Pvt. Ltd.

Table-23

J. Bs. Pvt. Ltd.
Inventory to Sales Ratio

(Amount in Lakhs)

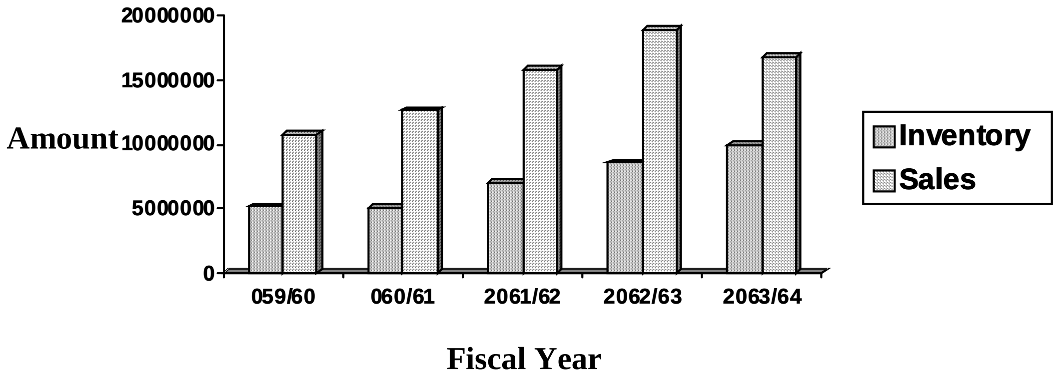
Year	Inventory	Sales	Ratio %	Change %
059/60	52.58	108.53	48.68	-
060/61	51.24	127.52	40.18	(8.5)
061/62	70.50	157.93	44.64	4.46
062/63	86.21	189.67	45.45	0.81
063/64	99.93	168.45	59.32	13.87
Total	360.46	752.10	238.27	-
Average	72.092	150.42	47.65	-

Source: Appendix: A and B

The inventory to sales ratio is in fluctuating trend in this table. The firm is able to manage efficiently its stock from the year 2061/62 because the ratio is in increasing trend. The firm invest more on stock in 2060/61, where the stock turnover ratio is low i.e. 40.18%. The firm should manage the stock turnover ratio for efficient result.

This can be shown in the bar graph below.

Graph-12



Above bar graph shows the proportion of sales to inventory. In the year 2063/64 the inventory is higher than other years. And it is lower in the year 2060/61.

To know the relationship between inventory and sales, Karl Pearson's correlation coefficient is calculated below in the table.

Table-24

Computation of Correlation Coefficient (r)

Inventory to Sales

(Amount in Lakhs)

Year	Inventory(X)	Sales (Y)	X.Y	X^2	Y^2
059/60	52.58	108.53	5706.76	2764.65	11778.76
060/61	51.24	127.52	6534.12	2625.54	16261.35
061/62	70.50	157.93	11134.06	4970.25	24941.88
062/63	86.21	189.67	16351.45	7432.16	35974.71
063/64	99.93	168.45	16833.20	9986.00	28375.40
	$\sum X = 360.46$	$\sum Y = 752.10$	$\sum X.Y = 56559.3$	$\sum X^2 = 27778.60$	$\sum Y^2 = 117332.10$

Source: Appendix: A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5\times 56559.3 - 360.46\times 752.10}{\sqrt{5\times 27778 - (360.46)^2}\times\sqrt{5\times 117332.10 - (752.10)^2}}$$

$$r = 0.85$$

Where as,

$$Pe = \frac{0.6745(1-r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\{1-(0.85)^2\}}{\sqrt{5}}$$

$$= 0.080$$

The relationship between sales and inventory is positive, where as *pe* is six time lesser than *r*. So the relationship is significant.

4.4.2 Debetors to Total Sales Ratio

In order to calculate the debt collection velocity of firm, debtors to total sales ratio should be calculated. In other words, debtors to total sales indicate the relationship between sales and debtors to evaluate the efficiency with which the debtors are managed or not.

It indicates the number of times the debtors are turn over during the year. Higher value of its turnover, the more efficient management of debtors. To know the management of debtors is J. Bs. Pvt. Ltd. the table is presented below in table- 25.

Table-25

J. Bs. Pvt. Ltd.
Debtors to Sales Ratio

(Amount in Lakhs)

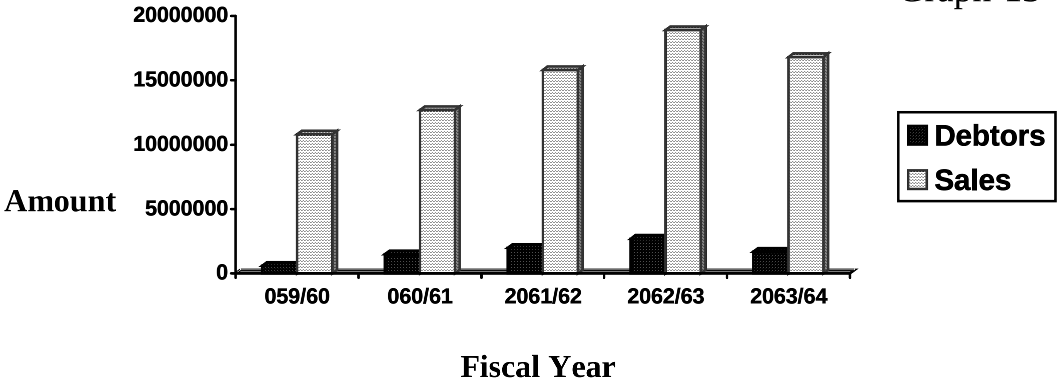
Year	Debtors	Sales	Ratio %	Change %
059/60	6.14	108.53	5.60	-
060/61	14.50	127.52	11.37	5.71
061/62	19.87	157.93	12.58	1.21
062/63	26.63	189.67	14.040	1.82
063/64	17.13	168.45	10.17	(3.87)
Total	84.27	752.10	53.82	-
Average	16.854	150.42	10.76	-

Sources: Appendix A and B

The debtor’s ratio is increasing in trend. So, the firm shows the efficient management of debtors.

This can be shown in the bar graph as below.

Graph-13



The above bar graph shows the amount of debtors and sales. From this figure, sales is increasing in all the study period but decrease in the last year 063/64, as well as the debtors is in increasing up to the year 2062/63. It is decreased in the year 063/64.

To know the relationship between debtors and sales can be shown by the Karl Pearson’s correlation coefficient below in the table-26.

Table-26

Computation of Correlation Coefficient (r)
Debtor to Sales

(Amount in Lakhs)

Year	Debtors (X)	Sales (Y)	X.Y	X^2	Y^2
059/60	6.14	108.53	666.37	37.69	11778.76
060/61	14.50	127.52	1849.04	210.25	16261.35
061/62	19.87	157.93	3138.06	394.82	24941.88
062/63	26.63	189.67	5050.91	709.16	35974.71
063/64	17.13	168.45	2885.55	293.44	28375.40
	$\sum X = 84.27$	$\sum Y = 752.10$	$\sum X.Y$ = 13589.90	$\sum X^2$ =1645.36	$\sum Y^2$ = 117332.10

Sources: Appendix A

We know,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 13589.90 - 84.27 \times 752.10}{\sqrt{5 \times 1645.36 - (84.27)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.94$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.94)^2\right\}}{\sqrt{5}}$$

$$= 0.034$$

Therefore, *Pe* is six times less than *r*. so; the relationship between debtors and sales is significant.

4.4.3 Average Collection Period

Average collection period is calculated to know the average no. of days for which a firm has to wait before trade debtors are charged into cash. The average collection period of J. Bs. Pvt. Ltd. is presented below.

Table-27

J. Bs. Pvt. Ltd.
Calculation of Average Collection Period

Year	Days in Year	DTR	Average Collection Period (in days)
059/60	360	0.0566	6353
060/61	360	0.1137	3166
061/62	360	0.1258	2862
062/63	360	0.14	2571
063/64	360	0.10	3600

Sources: Appendix A and B

The collection period of J. Bs. Pvt. Ltd. is increasing and decreasing trend. So, it shows the more risk and delay in its collection. So, the factory should manage it properly by reducing collection period. It is a bit lower in year 062/63 but it is decreasing up to the year 062/63 from the 059/60.

4.4.4 Fixed Assets Turnover Ratio

The fixed assets turnover ratio implies the extant to which the investment in fixed assets contribution towards sales. It measures the efficiency with which the firm is utilizing its investment in fixed assets. In other words, it also indicates that the adequacy of sales in relation to the investment in fixed assets. To know the fixed assets turnover ratio of J. Bs. Pvt. Ltd. is presented in table no. 28.

Table-28

J. Bs. Pvt. Ltd.

Fixed Assets to Sales Ratio

(Amount in Lakhs)

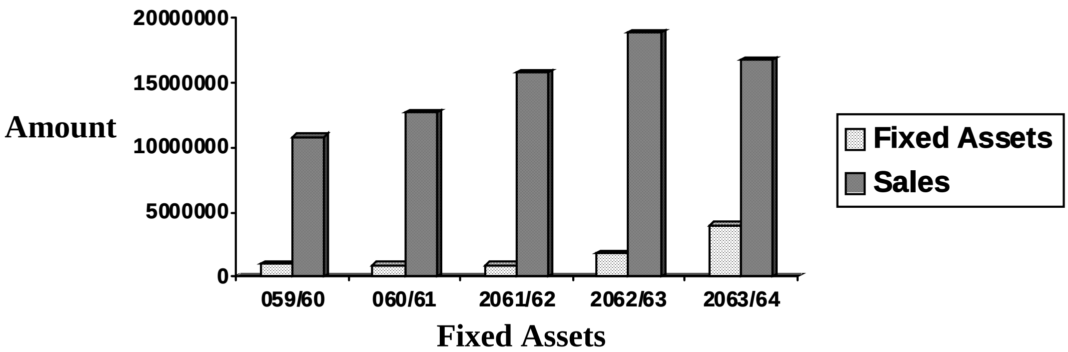
Year	Fixed Assets	Sales	Ratio
059/60	10.26	108.53	10.58
060/61	8.97	127.52	14.22
061/62	9.39	157.93	16.82
062/63	17.74	189.67	10.69
063/64	39.99	168.45	4.21
Total	86.35	752.10	56.53
Average	17.27	150.42	11.30

Sources: Appendix A and B

The fixed assets turnover ratio is increasing trend. But in year first it decreases in total, the ratio is fluctuating trend. So the firm is not efficiently utilized the available fixed assets.

This can be shown in the bar graph as below.

Graph-14



The above graph shows the fixed assets and sales. The sales are very high in comparing with fixed assets. The investment in fixed assets is in increasing trend. It shows the firm is investing more on current assets. The sales are in increasing trend but decreased in last year of the study period.

To know the relationship between fixed assets and sales, Karl Pearson’s correlation coefficient is calculated in table 29 below.

Table-29

Computation of (r)
Fixed Assets to Sales

(Amount in Lakhs)

Year	Fixed Assets (X)	Sales (Y)	X.Y	X^2	Y^2
059/60	10.26	108.53	1113.52	105.27	11778.76
060/61	8.97	127.52	1143.94	80.46	16261.35
061/62	9.39	157.93	1482.96	88.17	24941.88
062/63	17.74	189.67	3364.75	314.71	35974.71
063/64	39.99	168.45	6736.32	1599.20	28375.40
	$\sum X = 86.35$	$\sum Y = 752.10$	$\sum X.Y$ 13841.48	$\sum X^2$ =2187.8	$\sum Y^2$ = 117332.10

Sources: Appendix A

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 13841.48 - 86.35 \times 752.10}{\sqrt{5 \times 2187.8 - (86.35)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.51$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.51)^2\right\}}{\sqrt{5}}$$

$= 0.21$ Therefore the *pe* is less than *r*. So, the relation is existed as between fixed assets to sales. As positive between fixed assets to sales.

4.4.5 Networking Capital Turnover Ratio

Networking capital means the total current assets minus current liabilities. It measures the velocity of the utilization of working capital.

This also indicates the number of times the working capital is turnover in course of times of the study period. To know the efficiency of working capital of J. Bs. Pvt. Ltd. is analysed by the following table during the study period.

Table-30

J. Bs. Pvt. Ltd.

Networking Capital to Sales Ratio

(Amount in Lakhs)

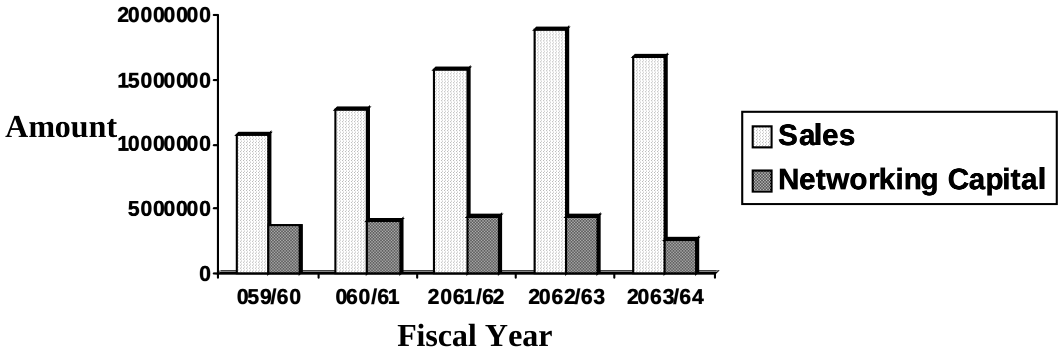
Year	Sales	Networking Capital	Ratio
059/60	108.53	37.05	2.93
060/61	127.52	40.53	3.15
061/62	157.93	44.97	3.51
062/63	189.67	43.87	4.32
063/64	168.45	27.41	6.15
Total	752.10	193.83	20.06
Average	150.42	38.766	4.011

Sources: Appendix A and B

The above table shows the networking capital turnover in the fiscal year 2059/60 is 2.93 and increased to the year 2063/64.

This can be shown in the bar graph below.

Graph-15



The above graph shows the networking capital comparing with sales. The networking capital is increasing up to year 2061/62 and decreased the value in the last two year. The sales and networking capital both are in fluctuating trend.

To test the relationship between sales and networking capital, Karl Pearson's correlation coefficient is computed in table no. 31.

Table-31

Computation of Correlation Coefficient (r)
Networking Capital to Sales

(Amount in Lakhs)

Year	Net working Capital	Sales (Y)	X.Y	X^2	Y^2
059/60	37.05	108.53	4021.1	1372.70	11778.76
060/61	40.53	127.52	5168.38	1642.68	16261.35
061/62	44.47	157.93	7102.1	2022.30	24941.88
062/63	43.87	189.67	8320.82	1924.57	35974.71
063/64	27.41	168.45	4617.21	751.31	28375.40
	$\sum X = 193.83$	$\sum Y = 752.10$	$\sum X.Y$ 29229.62	$\sum X^2$ =7713.56	$\sum Y^2$ = 117332.10

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 29229.62 - 193.83 \times 752.10}{\sqrt{5 \times 7713.56 - (193.83)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.08$$

Where as,

$$Pe = \frac{0.6745(1-r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1-(0.08)^2\right\}}{\sqrt{5}}$$

$$= 0.01$$

The relationship between networking capital and sales is positive in significant where as *Pe* is six times lower than *r*.

4.4.6 Total Assets Turnover Ratio

Total assets turnover ratio indicates the relation between total assets to sales. The total assets include current assets, fixed assets and intangible assets less depreciation and written off expenses. Higher ratio indicates the proper utilization of available assets. It also helps to show firms ability of generating sales from the total financial resources available to the firm. Idle assets leads to lower assets turnover.

The ratio of total assets to sales of J. Bs. industry Pvt. Ltd. is presented below in table 32.

Table-32

J. Bs. Pvt. Ltd.

Total Assets to Sales Ratio

(Amount in Lakhs)

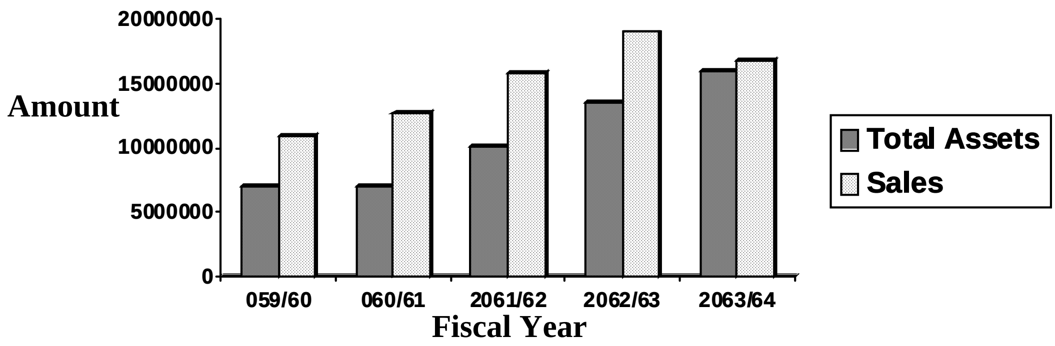
Year	Total Assets	Sales	Ratio
059/60	71.24	108.53	1.52
060/61	70.71	127.52	1.80
061/62	101.90	157.93	1.55
062/63	134.77	189.67	1.41
063/64	159.99	168.45	1.05
Total	544.61	752.10	7.33
Average	108.92	150.42	1.47

Sources: Appendix A and B

From above calculation the firm is able to maintain its assets turnover ratio in first two year. Then after the firm fails to manage efficiently its assets that are it fails to use assets properly.

This can be shown in the bar graph as below.

Graph-16



The graph is shown to know the proportion of total assets and sales. The total assets are an increasing in trend from the year 2059/60 to 2063/64 but sales are increasing up to first four year and decreases in last year of the study period. In the year 2062/63 the total proportion of sales is very high in comparing with other year of study period.

To know the relationship between total assets and sales, the Karl Pearson's correlation coefficient should be computed. It is computed in table-33 below.

Table-33

Computation of Correlation Coefficient (r)
In order to test relationship between
Total Assets and Sales

(Amount in Lakhs)

Year	Total Assets (X)	Sales (Y)	X.Y	X^2	Y^2
059/60	71.24	108.53	7731.67	5075.14	11778.76
060/61	70.71	127.52	9016.94	5884.42	16261.35
061/62	101.90	157.93	16093.06	10383.61	24941.88
062/63	134.77	189.67	25561.8	18162.95	35974.71
063/64	159.99	168.45	26950.31	25596.80	28375.40
	$\sum X = 544.61$	$\sum Y = 752.10$	$\sum X.Y$ 85353.78	$\sum X^2$ =65102.90	$\sum Y^2$ = 117332.10

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 85353.78 - 544.61 \times 752.10}{\sqrt{5 \times 65102.90 - (544.61)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.44$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.44)^2\right\}}{\sqrt{5}}$$

$$= 0.23$$

The relationship is positive and the value of *r* is greater than *pe*. There is relationship but it is not greater than six times of *pe*. So, the relationship is not significant.

4.4.7 Current Assets Turnover/Gross Working Capital Turnover

For the manufacturing industry like, J. Bs. Industry Pvt. Ltd., sales plays key role. It makes enterprise a strong and fit. So, for the survival and growth of the firm depends upon sales policy. So, the sales policy should be based upon the resources available in market demand of the produced product.

Sales policy affects the production policy where as the production policy affects the financial policy. So, there should be might coordination between the total assets, net working capital and sales. Increasing trend of sales causes the increasing trend of production and needed more inputs. For the stock of materials there should be adequate working capital. So, working capital is also affected by sales.

The following table is presented to know the ratio of J. Bs. Industry Pvt. Ltd. in current assets to sales or gross working capital turnover ratio.

Table-34

J. Bs. Pvt. Ltd.
Current Assets to Sales

(Amount in Lakhs)

Year	Sales	Current Assets	Ratio
059/60	108.53	60.97	1.78
060/61	127.52	67.75	1.88
061/62	157.93	92.53	1.71
062/63	189.67	117.02	1.62
063/64	168.45	120	1.40
Total	752.10	458.27	8.39
Average	150.42	91.654	1.68

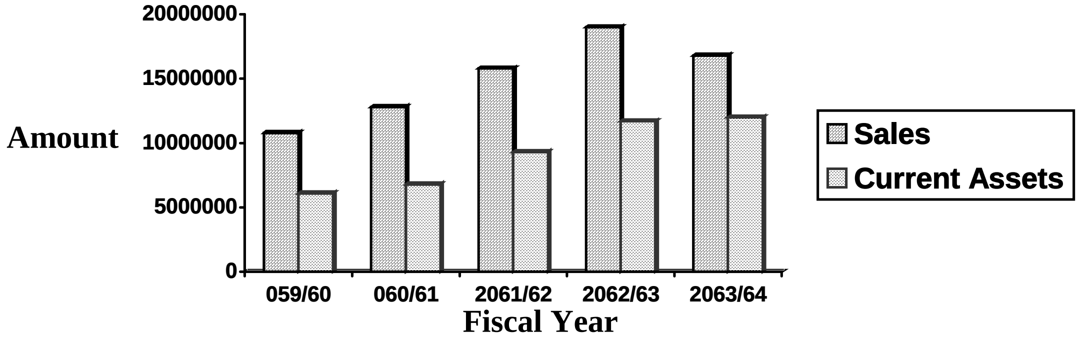
Sources: Appendix A and B

According to this ratio, sales are increasing in trend but decrease in last year of study period, sales is 189.67(in lakh). In year 2062/63 which is the highest study period.

The average sales are 150.42 lakhs and average current assets Rs.91.654 lakhs. Hence the ratio is 1.88 which is highest in the year 2060/61 and low in the year 2063/64 which is 1.40 only.

This can be shown in the bar graph as below.

Graph-17



The above figure shows the proportion of current assets and sales. All current assets and sales of the study period are increasing trend but sales are decreased in last year. In the year 2059/60 the current assets and sales are lower and in the year 2062/63 sales is higher and in the year 2063/64 current assets are higher.

In order to test the relation between current assets and sales Karl Pearson’s correlation coefficient is computed below.

Table-35

Computation of Correlation Coefficient of (r)
In order to test relationship between
Current Assets to Sales

(Amount in Lakhs)

Year	Current Assets (X)	Sales (Y)	X.Y	X^2	Y^2
059/60	60.97	108.53	6617.04	3717.34	11778.76
060/61	67.75	127.52	8639.48	4590	16261.35
061/62	92.53	157.93	14613.26	8561.80	24941.88
062/63	117.02	189.67	22195.18	13693.68	35974.71
063/64	120	168.45	20214	14400	28375.40
	$\sum X = 458.27$	$\sum Y = 752.10$	$\sum X.Y$ 72278.96	$\sum X^2$ =44962.82	$\sum Y^2$ = 117332.10

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 72278.96 - 458.27 \times 752.10}{\sqrt{5 \times 44962.82 - (458.27)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.95$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.95)^2\right\}}{\sqrt{5}}$$

$$= 0.029$$

The relationship between sales and current assets as well as total assets is positive and significant where *r* is greater than six times with *pe.*

4.5 PROFITABILITY POSITION

Each and every company/firm/enterprises should be success to generate profit by handling day to day operations for the long lasting survival. Every firm is established by taking the objectives of maximizing profit by the maximum utilization of available resources. Profitability of the firm measures the efficiency and ability of each firm to ensure the adequate return to its shareholders, ultimately depends up on the profit earned by it. To analyze the profitability of J. Bs. industry Pvt. Ltd., gross profit ratio, net profit margin ratio on return on total assets ratio, return on current assets are analyzed during the selected five year study period.

4.5.1 Gross Profit Margin Ratio

Gross profit margin is the profit after deduction cost of goods sold from net sells. It is calculated in percentage. In other words, it is common ratio in operational analysis is the calculation of gross profit as a percentage of net sales. So, a firm has sufficient return to the owners. Higher the percentage indicates the better position. Table-36 is presented below to show the gross profit margin ratio of J. Bs. Industry Pvt. Ltd.

This ratio is calculated by dividing the gross profit by sales. Gross profit is calculated by subtracting costs of goods sold from the sales figure.

Table-36

J. Bs. Pvt. Ltd.

Computation of Gross Profit Margin Ratio

(Amount in Lakhs)

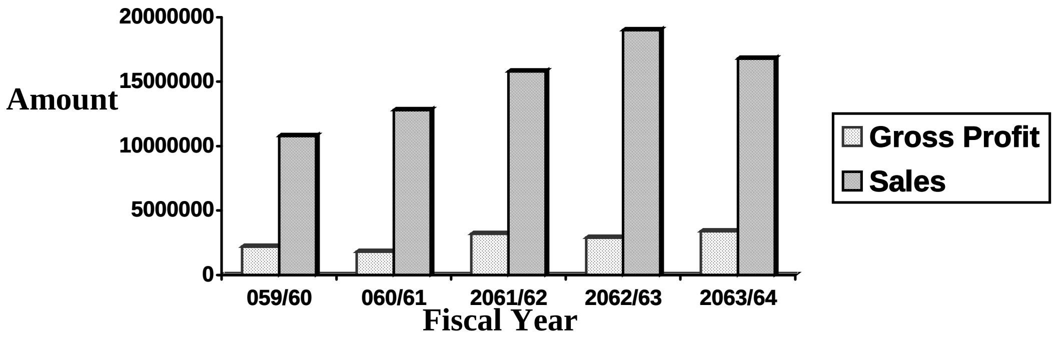
Year	Gross Profit	Sales	Gross Profit Margin Ratio
059/60	22.05	108.53	20.32
060/61	18.70	127.52	14.67
061/62	31.83	157.93	20.15
062/63	29.32	189.67	15.5
063/64	33.68	168.45	20.00
Total	135.58	752.10	90.64
Average	27.116	150.42	18.33

Sources: Appendix B

The gross profit margin ratio of J. Bs. Industry Pvt. Ltd. is in fluctuating trend. As we know from above table the highest percentage is 20.32% in the year 2059/60. The ratio is only 14.67% in the year 2060/61 which is decrease as compared with previous year. Likewise the ratio is only 20% in the last year of study period, sometimes it is increase and other time, it is decrease.

This can be shown in the bar graph below.

Graph-18



The above bar graph shows the proportion of gross profit with respect to sales. When sales are increasing the gross profit is also increasing. The gross profit margin ratio is not all satisfactory. It has fluctuating trend. But in general, it was in decreasing trend. It may be due to high cost of production, under utilization, over staffing and lack of efficient management of other resources.

In order to test relationship between gross profit and sales of J. Bs. Industry Pvt. Ltd., during the study period of observation, Karl Pearson's correlation coefficient is calculated in table no.-37.

Table-37

Computation of Correlation Coefficient of (r)
In order to test relationship between
Gross Profit to Sales

(Amount in Lakhs)

Year	Gross Profit (X)	Sales (Y)	X.Y	X^2	Y^2
059/60	22.05	108.53	2393.08	486.20	11778.76
060/61	18.70	127.52	2384.62	349.69	16261.35
061/62	31.83	157.93	5013.86	1013.15	24941.88
062/63	29.12	189.67	5523.19	847.97	35974.71
063/64	33.68	168.45	5673.39	1134.34	28375.40
	$\sum X = 135.58$	$\sum Y = 752.10$	$\sum X.Y$ 20988.15	$\sum X^2$ =3831.35	$\sum Y^2$ = 117332.10

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 20988.15 - 135.58 \times 752.10}{\sqrt{5 \times 3831.35 - (135.88)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.78$$

Where as,

$$Pe = \frac{0.6745(1-r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\{1-(0.78)^2\}}{\sqrt{5}}$$

$$= 0.11$$

There ratio relationship between net profits is regarded as significant because *r* is greater than *pe* by six times.

4.5.2 Net Profit Margin Ratio

Net profit is the profit after deducting operating expenses and income tax from gross profit. This ratio indicates the relationship between net profit after tax and sales. It indicates the management's ability to operate the business with sufficient success not only to recover costs of borrowed fund but also leave a margin of reasonable compensation to the owners for providing their capital at risk. A high net profit margin would enable the firm to wish stand and diverse economic conditions and a low margin will have opposite implications.

This ratio is calculated by dividing net profit after tax by sales. This ratio is of primary importance as profit accrues only from sales. This ratio is overall measure of the industries ability to turn is rupees of sales into net profit is obtained when operating expenses, non-operating expenses and income tax are subtracted from gross profit. The ratio of net profit to sales essentially expresses the cost price efficiency of the operation.

Table-38

J. Bs. Pvt. Ltd.

Computation of Net Profit Margin Ratio

(Amount in Lakhs)

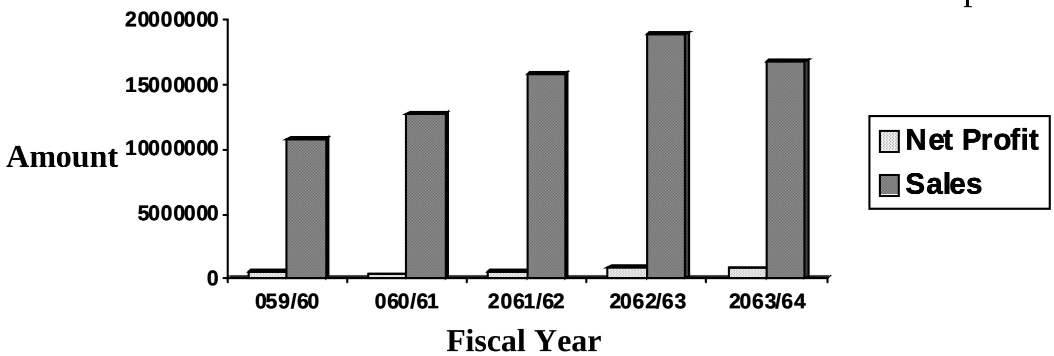
Year	Net Profit	Sales	Net Profit Margin Ratio
059/60	4.33	108.53	4
060/61	3.14	127.52	2.46
061/62	6.43	157.93	4.07
062/63	8.59	189.67	4.53
063/64	7.97	168.45	4.73
Total	30.46	752.10	19.79
Average	6.092	150.42	3.96

Sources: Appendix B

The net profit margin of the factory is fluctuating trend. In general, it has been increasing during the study period. But not satisfactory, it may be due to lack of efficient management of, over staffing and under utilization of available resources. But there are possibilities to improve in the years to come.

This can be shown in bar graph as below.

Graph-19



The above bar graph shows the proportion of net profit after tax and sales. The earning after tax is higher in the year 2063/64 and in the year 2060/61, it is lower. But the sales is in increasing in trend and decrease in last year of study period.

Table-39

Computation of Correlation Coefficient of (r)
In order to test relationship between
Net Profit to Sales

(Amount in Lakhs)

Year	Net Profit (X)	Sales (Y)	X^2	Y^2	X.Y
059/60	4.33	108.53	18.75	11778.76	469.94
060/61	3.14	127.52	9.86	16261.35	400.41
061/62	6.43	157.93	41.34	24941.88	1015.49
062/63	8.59	189.67	73.79	35974.71	1629.26
063/64	7.97	168.45	63.52	28375.40	1342.55
	$\sum X = 30.46$	$\sum Y = 752.10$	$\sum X^2$ =207.26	$\sum Y^2$ = 117332.10	$\sum Y^2$ = 4857.64

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 4857.64 - 30.46 \times 752.10}{\sqrt{5 \times 207.26 - (30.46)^2} \times \sqrt{5 \times 117332.10 - (752.10)^2}}$$

$$r = 0.91$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.913)^2\right\}}{\sqrt{5}}$$

$$= 0.048$$

The relationship between net profit and sales is regarded as significant because *r* is greater than *pe* by six times.

4.5.3 Return on Total Assets

It measures the overall profitability of the enterprises upon its total assets. Return on total assets indicates relationship between earning before interest and tax and total assets. It is a useful measure of the profitability of all financial resources investment in the industries assets. The term investment may refer to total assets or net assets. The fund employed in the net assets is known as capital employed.

Table-40

J. Bs. Pvt. Ltd.

Computation of Return on Total Assets

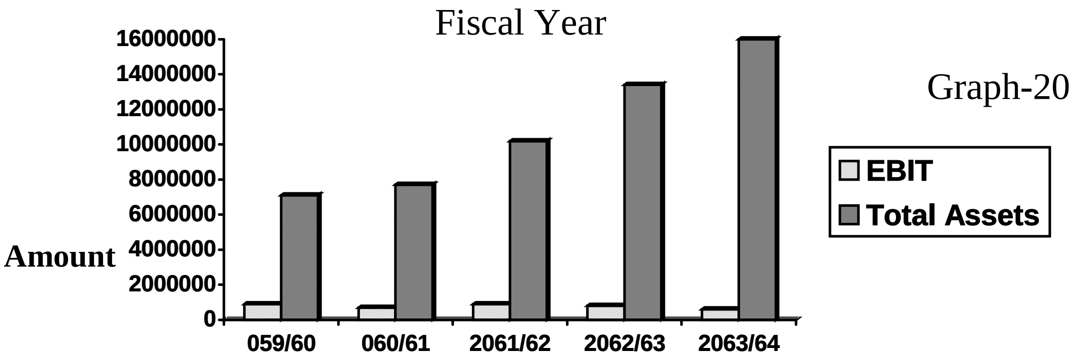
(Amount in Lakhs)

Year	EBIT	Total Assets	Ratio (%)
059/60	8.65	71.24	12.15
060/61	6.71	76.71	8.75
061/62	8.74	101.92	8.58
062/63	8.06	134.77	5.98
063/64	5.90	159.99	3.69
Total	38.07	544.63	39.15
Average	7.68	108.93	7.83

Sources: Appendix A and B

The return on total assets is 12.15% which is highest ratio in the year 2059/60. This shows the effective return on assets. But it is only 3.69% in the year 2063/64, which is lowest from above calculation, it is fluctuating in trend. This can be shown in the bar graph as below.

Graph-20



The industry has not satisfactory earning capacity. It has decreasing trend during the study period. The assets available in the Industry are not satisfactory utilized to maximize the earning of the Industry.

Table-41

Computation of Correlation Coefficient of (r)
In order to test relationship between
EBIT to Total Assets

(Amount in Lakhs)

Year	EBIT (X)	Total Assets (Y)	X^2	Y^2	X.Y
059/60	8.65	71.24	74.83	5075.14	616.23
060/61	6.71	76.71	45.02	5884.42	514.72
061/62	8.74	101.92	76.39	10383.61	890.78
062/63	8.06	134.77	64.96	18162.95	1086.25
063/64	5.91	159.99	34.93	25598.80	945.54
	$\sum X = 38.07$	$\sum Y = 544.63$	$\sum X^2$ =296.13	$\sum Y^2$ = 65102.90	$\sum X.Y$ = 4053.52

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 4053.52 - 38.07 \times 544.63}{\sqrt{5 \times 296.13 - (38.07)^2} \times \sqrt{5 \times 65102.90 - (544.63)^2}}$$

$$r = 0.49$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.49)^2\right\}}{\sqrt{5}}$$

$= 0.21$

The relationship between profit and total assets is not regarded as significant due to *r* is not regarded than *Pe* by 6 times. but the relation is positive.

4.5.4 Return on Current Assets

Current assets are such assets, which are converted into cash within an economic year without losing any value. So, it includes cash and net cash's item. It keeps the relationship with the day to day operation of the firm. So, this is the rate of return on current assets. It measures the profit with respect to its current assets. So, it plays important role in profit earning. The return on current assets of J. Bs. Industry Pvt. Ltd. as under in table.

Table-42

J. Bs. Industry Pvt. Ltd.
EBIT to Current Assets Ratio

(Amount in Lakhs)

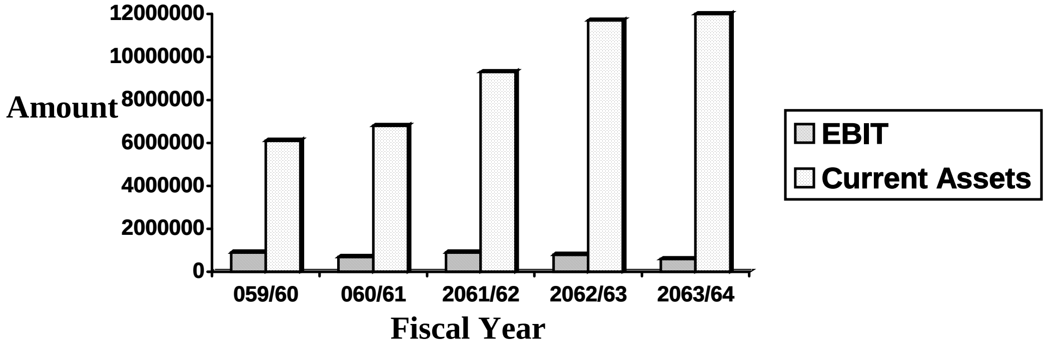
Year	EBIT	Current Assets	Ratio
059/60	8.65	60.97	7.10
060/61	6.71	67.75	4.63
061/62	8.74	92.53	6.95
062/63	8.06	117.02	7.34
063/64	5.91	120	6.65
Total	38.07	458.27	32.67
Average	6.092	91.654	6.534

Sources: Appendix A and B

The above ratio indicates the return of J. Bs. Industry Pvt. Ltd. limited from year 2059/60 up to 2063/64. in the year 061/62 the ratio is highest which indicates the maximum return on current assets. But it is a little slow in the year 060/61 and 063/64. but it is very low which is only

4.63% in the year 060/61.The management should manage it effectively and efficiently.

Graph-21



The above bar graph shows the proportion of earning before interest and tax with respect to current assets. The current assets are heavier comparing with the earning before interest and tax from the year 2059/60 to 2063/64.

Table-43

Computation of Correlation Coefficient of (r)
In order to test relationship between
Current Assets to Sales

(Amount in Lakhs)

Year	EBIT (X)	Current Assets (Y)	X^2	Y^2	X.Y
059/60	8.65	60.97	74.83	3717.34	527.39
060/61	6.71	67.75	45.02	4590	454.60
061/62	8.74	92.53	76.39	8561.80	808.71
062/63	8.06	117.02	64.96	13693.68	943.18
063/64	5.91	120	34.93	14400	709.20
	$\sum X = 38.07$	$\sum X = 458.27$	$\sum X^2$ =966.13	$\sum X^2$ =44962.82	$\sum X.Y$ =3443.08

Sources: Appendix A and B

We know that,

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

$$r = \frac{5 \times 3443.08 - 38.07 \times 458.27}{\sqrt{5 \times 296.13 - (38.07)^2} \times \sqrt{5 \times 44962.90 - (458.27)^2}}$$

$$r = 0.34$$

Where as,

$$Pe = \frac{0.6745(1 - r^2)}{\sqrt{N}}$$

$$= \frac{0.6745\left\{1 - (0.34)^2\right\}}{\sqrt{5}}$$

$$= 0.25$$

The relationship between profit before tax and interest and current assets is positive but not significant because *r* is not six times greater than *Pe*.

4.6 CASH FLOW ANALYSIS

Cash flow statement is an important tool which provides the information to its users about the ability of the enterprise to generate cash and its utilization. The main objectives of cash flow statement are to help to know the cash position of the organization. So that, firm can make plan and policies regarding decision making activities for short term and long term financing.

Cash is lifeblood of a business organization. It is the fund that keeps a business alive without cash no activities can be taken place. So, a business must have an adequate amount of cash to operate. cash flow statement helps the management to assesses the liquidity of business, determine the dividends policy to evaluating the policies regarding the investment and financing etc. similarly, this statement is useful for investors and creditors in assessing the companies ability to manage the cash flows, to generate the positive features cash flows to dividend and interest etc. so the overall cash flow statement of J. Bs. Industry is analyzed from year 2059/60 to 2063/64 by using indirect method.

Table-44

Cash Flow Statement of
J. Bs. Industry Pvt. Ltd.
In the year 2059/60

Particular	Amount
Cash available from Operating Activities	
Net Profit	433435.20
Add:-**Non Cash Expenses-**	
Deprecation	156658.88
Cash available from operating activities before change in working capital (Expected Cash)	590094.08
Increase in Current Assets	(967234.88)
Increase in Current Liabilities	520097.91
Tax Paid	(101478.62)
Cash available from Operating Activities (A)	41478.49
Cash available from Investing Activities	
Purchase of Fixed Assets	(137541)
Sales of Fixed Assets	0.0
Cash used in Investing Activities (B)	(137541)
Cash available from Financing Activities (C)	0.0
Cash available from Operating Activities (A)	41478.49
Cash used in Investing Activities (B)	(137541)
Cash available from Financing Activities (C)	0.0
Net Cash Change (A+B+C)	(96062.51)
Add:- Opening Cash Balance	237033.46
Closing Cash Balance	140970.95

Dr.	Fixed Assets Account		Cr.
Particular	Amount	Particular	Amount
To, Balance b/d To, Bank A/c (Purchase)	1045568.44 137541	By, Depreciation By, Balance c/d	156658.88 1026450.56
	1183109.44		1183109.44

The above cash flow statement table of J. Bs. Industry Pvt. Ltd. in the year 2059/60 is calculated by considering the year 2058/59 as bare year. The firm has given more emphasis for operating activities and little importance for investing activities. The above cash flow statement table shows that Rs. 41478.49 (i.e. in flow) in operating activities. It has not given importance for financing activities or there is no necessary to raise the fund by issuing the share and Rs. (13751), (i.e. outflow) is used in investing activities.

Table-45

Cash Flow Statement of
J. Bs. Industry Pvt. Ltd.
In the year 2060/61

Particular	Amount
Cash available from Operating Activities	
Net Profit	313504.27
Add:-**Non Cash Expenses-**	
Deprecation	145636.68
Cash available from operating activities before change in working capital (Expected Cash)	459140.95
Increase in Current Assets	(740042.57)
Increase in Current Liabilities	330896.46
Tax Paid	(97063.05)
Cash available from Operating Activities (A)	(47068.21)
Cash available from Investing Activities	
Purchase of Fixed Assets	(16000.00)
Sales of Fixed Assets	0.0

Cash used in Investing Activities (B)	(16000.00)
Cash available from Financing Activities (C)	0.0
Cash available from Operating Activities (A) **Cash used in Investing Activities (B)** **Cash available from Financing Activities (C)**	(47068.21) (16000.00) 0.0
Net Cash Change (A+B+C) Add:- Opening Cash Balance	(63068.21) 140970.95
Closing Cash Balance	77902.74

Dr. Fixed Assets Account Cr.

Particular	Amount	Particular	Amount
To, Balance b/d To, Bank A/c (Purchase)	1026450.56 16000.00	By, Depreciation By, Balance c/d	145636.68 896813.88
	1042450.56		1042450.56

The above cash flow statement table of J.Bs Industy Pvt. Ltd. in the year 2060/61. It shows that Rs. (47068.21) in operating activities and investing activities shows in data Rs. (16000). It has not given importance for financial activities or there is no necessary to raise the fund by issuing the share.

Table-46

Cash Flow Statement of
J. Bs. Industry Pvt. Ltd.
In the year 2061/62

Particular	Amount
<u>Cash available from Operating Activities</u>	
Net Profit	642961.79
Add:-**Non Cash Expenses-**	
Deprecation	122532.71
Cash available from operating activities before change in working capital (Expected Cash)	765494.5
Increase in Current Assets	(2506616.93)
Increase in Current Liabilities	2033291
Tax Paid	(155219.28)
Cash available from Operating Activities (A)	136949.61
<u>Cash available from Investing Activities</u>	
Purchase of Fixed Assets	(165328.64)
Sales of Fixed Assets	0.0
Cash used in Investing Activities (B)	(165328.64)
<u>Cash available from Financing Activities (C)</u>	0.0
Cash available from Operating Activities (A)	136949.61
Cash used in Investing Activities (B)	(165328.64)
Cash available from Financing Activities (C)	0.0
Net Cash Change (A+B+C)	(28379.03)
Add:- Opening Cash Balance	77902.74
Closing Cash Balance	<u>49523.71</u>

Dr. Fixed Assets Account Cr.

Particular	Amount	Particular	Amount
To, Balance b/d	896813.88	By, Depreciation	122532.71
To, Bank A/c (Purchase)	165328.64	By, Balance c/d	939609.81
	<u>1062142.52</u>		<u>1062142.52</u>

From the above table of cash flow statement in the year 2060/61, it has decreased a bit expenses up on operating expenses which is only Rs.

136949.61. In this year it has purchased fixed assets of Rs. 165328.64. But the financial activities are nil in this year. So, it has given more emphasis up on operating and investing activities rather than financing activities. It has given emphasis to broad the area and machinery etc.

Table-47

Cash Flow Statement of
J. Bs. Industry Pvt. Ltd.
In the year 2062/63

Particular	Amount
Cash available from Operating Activities	
Net Profit	858834
Add:-**Non Cash Expenses-**	
Deprecation	129145.89
Cash available from operating activities before change in working capital (Expected Cash)	987979.89
Increase in Current Assets	(2346335.77)
Increase in Current Liabilities	2576759.12
Tax Paid	(150701.97)
Cash available from Operating Activities (A)	1067701.27
Cash available from Investing Activities	
Purchased of Fixed Assets	(963910.34)
Sales of Fixed Assets	0.0
Cash used in Investing Activities (B)	(963910.34)
Cash available from Financing Activities (C)	0.0
Cash available from Operating Activities (A)	1067701.27
Cash used in Investing Activities (B)	(963910.34)
Cash available from Financing Activities (C)	0.0
Net Cash Change (A+B+C)	(103790.93)
Add:- Opening Cash Balance	49523.71
Closing Cash Balance	153314.64

Dr. Fixed Assets Account Cr.

Particular	Amount	Particular	Amount
To, Balance b/d	939609.81	By, Depreciation	129145.89
To, Bank A/c (Purchase)	963910.34	By, Balance c/d	1774374.26
	1903520.15		1903520.15

From the above table of cash flow statement of J. Bs. Industry Pvt. Ltd. shows that the operating expenses increase to Rs. 1067701.27. In this year the industry bought the fixed assets for Rs. 963910.34 and also there is nil financial activities. So, it is given more emphasis on operating and investing activities.

Table-48

Cash Flow Statement of
J. Bs. Industry Pvt. Ltd.
In the year 2063/64

Particular	Amount
Cash available from Operating Activities	
Net Profit	797192
Add:-**Non Cash Expenses-**	
Deprecation	557194
Cash available from operating activities before change in working capital (Expected Cash)	1354386
Increase in Current Assets	(371509.42)
Increase in Current Liabilities	1926801.93
Tax Paid	(201882)
Cash available from Operating Activities (A)	2707796.52
Cash available from Investing Activities	
Purchase of Fixed Assets	(2782012.74)
Sales of Fixed Assets	0.0
Cash used in Investing Activities (B)	(2782012.74)
Cash available from Financing Activities (C)	0.0
Cash available from Operating Activities (A)	2707796.52
Cash used in Investing Activities (B)	(2782012.74)
Cash available from Financing Activities (C)	0.0
Net Cash Change (A+B+C)	(74216.23)
Add:- Opening Cash Balance	153314.64
Closing Cash Balance	79098.41

Fixed Assets Account

Dr. Cr.

Particular	Amount	Particular	Amount
To, Balance b/d To, Bank A/c (Purchase)	1774374.26 2782012.74	By, Depreciation By, Balance c/d	557194 3999193
	4556387		4556387

From the above table of cash flow statement of J. Bs. Industry Pvt. Ltd. shows that the operating expenses to increase to Rs. 2707796.51. In this year the industry bought the fixed assets for Rs. 2782012.74 and also there is nil in financing activities. So, it is given more emphasis on operating and investing activities rather than financing activities.

At last, it can be concluded that the firm has not equally invested its cash for operating, financing, and investing activities. It has started to purchase plant and machinery and has started to issue long-term debt. As a whole, the cash flow statement is on fluctuating in trend.

4.7 TREND ANALYSIS

Trend is an important financial tool to know the financial position of every organization. For the trend analysis a base year is selected and the amount of item related to base year are taken equally to 100 and index number are calculated (computed) for the further year of study period. For the proper trend analysis five year studied data should be presented which gives the direction of changes and future trend can be made.

The following table shows the trend percentage of J. Bs. Industry Pvt. Ltd. Over a different five year period (i.e. from 2059/60 to 2063/64) the fiscal year 2059/60 is taken as base year.

Table -49

J.Bs. Industry Private Limited

Comparative trend analysis

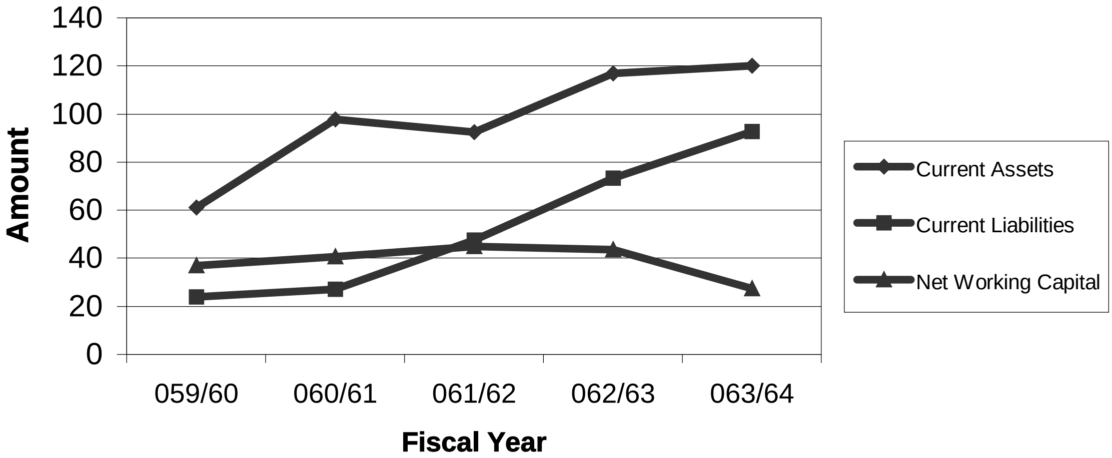
(Amount in Lakhs)

Year	Current Assets	Trend	Current Liabilities	Trend	Net Working Capital	Trend
059/59	60.97	100	23.92	100	37.05	100
060/61	97.75	113	27.22	114	40.53	109
061/62	92.53	137	47.56	175	44.97	111
062/63	117.02	126	73.33	154	43.69	97
063/63	120	103	92.59	126	27.41	63
Total	458.27	579	264.62	669	193.65	480
Average	91.65	115.8	52.92	133.80	38.73	96

Sources-Appendix - A

4.7.1 Trend Graph

Graph - 22



The trend of current assets is in volatile trend. The trend of base year (i.e. 2059/60) is assumed as 100% in the year of study period. It is increased of 113 in years 2061/62 and also increased and became 137 which indicates the good position in current assets or proper utilization of current assets in the firm. But in year 2062/63 the trend of current assets is decreased and became 126 as well as 103 in year 2063/64 which shows that the firm is unable to use the current assets properly. This situation is not favorable to the firm. So, the firm should extremely consider it.

The trend of current liabilities is not in good condition or it is in worse condition. The is continuously is in increase in way up to the year 062/63. This trend shows that the firm has more and more current liabilities in this period. It also indicates that the management is not able to manage the current liabilities. But I the year of 063/64 the trend is decreased and became 126 which mean the firm is trying to maintain its liabilities. But it is not sufficient and the firms need an effective management of current liabilities.

The trend of net working capital is also in fluctuating trend. It is increased and became 109, 111 are the year of 060/061 and 061/62 respectively even the current liabilities are in increasing trend. Higher net capital can be invested by the firm in any profitable investment opportunity. In year 062/63 and 063/64 The trend of net working capital is in decreasing trend due to the decreasing in current assets. It is decreased and became 97 in 062/63. Further more, the trend of net working capital is vastly decreased and became 63 in year 063/64. This situation shows the firm will be in crisis of net working capital. So the firm should go in corrective way rapidly.

CHAPTER-V

SUMMARY, CONCLUSIONS AND SUGGESTIONS

5.1 SUMMARY

Nepal is an under-developed, landlocked and agricultural country, where about more than 80% of the total economically active populations are engaged on agricultural for their livelihood. Industrialization is the yardsticks of economic development of any country. It is a measure instruments of progress, modernizations and social change. Therefore, it is the measure tools with the aid of which vicious circle of backwardness and poverty can be maintain. Economic development of a country can be accelerated only with the growth of rapid industrialization. In the country like Nepal, where the economy is basically agricultural based, the industrial development can play a vital role in replanting, employment and substitution of imports through increased domestic production. In this context, J. Bs. Industry Pvt. Ltd., is acting as a key elements to fulfilled the demand of such type of products.

This is the age of 21^{st} century, so industrialization is necessary to develop the country rapidly. So, industrialization is the fundamental requirement to develop economic sector of any country. In other words, industrialization helps to bring advanced technologies and equipments. From this, people get employment opportunity as well as get the chance to develop their skills. So, for the development of the industries depends up on its efficient and effective management.

The must important component of financial management is working capital. So, it is compared as life blood and nerve sector of any business organization of firms. The study has conducted up on working capital management of J. Bs. Industry Pvt. Ltd. For five years, from 2059/60 to 2063/64 to judge the management of working capital management. The main objectives of this study is to have inside overall expect of working capital management of J. Bs. Industry Pvt. Ltd. So necessary that have been collected, tabulated, interpreted depending up on the data available from concern fruit industry.

The entire study has been divided into five major chapters, i.e. introduction, review of literature, research methodology, presentation of data and summary, conclusion and suggestions. The first chapter gives a general introduction of the subject matter. In second chapter, review of related literature concerned with working capital management is presented nature, concept determinations and need of working capital, importance of working capital is discussed. In third chapter, research methodology is presented in which, research design, nature sources of data, population and sample data processing including use of analysis financial and statistical tools are discussed. In chapter four, financial data of J. Bs. Industry Pvt. Ltd. Have been presented, analysed interpreted with financial as well as statistical tools and techniques. The fifth and last chapter gives summary, conclusions and suggestions for ameliorating the working capital position.

The data used for this research project was secondary in nature, which is provided by the company. The relevant information is also collected through personal effort by approaching the staff in official hours.

The data obtained from the audited financial statement of J. Bs. Industry are prepared and presented in tabular forms, graphics forms and they are analyzed by using various tools and techniques of financial and statistical analysis.

5.2 CONCLUSIONS

From the study of working capital management of J.Bs. industry private limited, the main conclusion of the study are enumerated as here under.

I. The investment on cast and bank balance of J. Bs. Industry in minimum comparing with other current assets which is better for the industry in relation to maximum utilization of sources.

II. Sundry debtors (receivables) is the measure component of current assets, it is volatile.

III. Investment made on inventory is the second largest element of the current assets. It is increasing trend which is not better because the sales volume is decreased and large amount will be stay idle.

IV. Investment made on fixed assets has in fluctuating trend and is less than current assets. So, its profitability position is not satisfactory.

V. The current liabilities of J. Bs. Industry Pvt. Ltd. are in increasing trend which is better for the industry since it can utilized the amount without interest.

VI. The current assets to total assets ratio is fluctuating trend. It is in increasing trend in the year 2059/60 to 2062/63, shows that risks and profitability of the industry are in increasing and in year 2062/63 to 2063/64 is decreased, shows the profitability in decreased. In the last year of the study period the ratio is decreasing and it indicates that the decreasing in profitability.

VII. The current assets to fixed assets ratio is increasing trend for the first three year. This results show that the combination of current and fixed assets has been found sound. The company has maintained its satisfactory. In the last two year, the current assets and fixed assets ratio is decreasing trend due to fluctuating fixed assets but not by current assets.

VIII. The receivables to current assets ratio is fluctuating trend. It is not better for the industry like wise the same condition in ratio of receivables up on total assets. It shows the negative result in sales. The ratio of inventory on current and total assets is also decrease in trend which implies the lower level of sales which is not better for the industry became lower would decline the profitability of the industry.

IX. The net working capital of the industry is increasing trend in the first three year of study period which can be invested in profitability opportunity as knows working capital financing, which is better for the company. and decreasing in last two year of study period, which indicates that cant create any opportunity to the company.

X. In previous year of study from 2060/2061 to 2061/62 the industry have the higher ratio which is better for the industry and last year of study period the ratio more than 2:1. it shows that the industry is able to maintain its current obligations which is better for the company.

XI. The quick ratio of firm from the starting two year is satisfactory due to its increasing trend upto first two year. But , in last three years of study period it has lower quick ratio which is less than standard 1:1, which is not better for the industry.

XII. Inventories turn over ratio is also fluctuating trend which shows the inefficient management during the study period the management of the company has not given due importance for the efficient management of the inventory, which as results inventory turnover ratio is not satisfactory.

XIII. The debtors turn over ratio has fluctuating trend which is not better for it and implies the inefficient utilizations of debtors. The efficient management of debtors is crucial for the firm to maintain the sound cash position. Fluctuating trend is not satisfactory at all.

XIV. The collection period of J. Bs. Industry private Limited is decreasing trend. It shows the fast collection period of debtors which is better for the firm. So, collection period policy must be maintained.

XV. The fixed assets turn over ratio is in fluctuating trend. The firm must try to maintain the uniform trend for efficient management of fixed assets of the firm. Fixed assets are the long-term life of the any business firm.

XVI. Total assets turnover is also fluctuating trend. The overall assets positions of the firm is not satisfactory due to its inefficient utilizations of the total assets of the firm. From this, the position of the assets is not satisfactory.

XVII. Current assets turnover is fluctuating the fluctuating in assets turnover does not show the efficient management of the current assets. Current assets of the firm are indirect operation of the firm. Therefore, the firm must concentrate for the sound management of the current assets.

XVIII. Gross profit margin ratio is also fluctuating trend which shows the unsound and inefficient management. So, it is not better for the industry.

XIX. Net profit margin ratio is also in fluctuating trend. In last three year of study period, it is better due to positive return. But, it is decrease immediately and become low in first year. So, it shows the inefficient management of the overall of the firm.

XX. Return on total assets and current assets are positive during the study period which shows the good profitability positions of all financial resources invested in different years.

5.3 SUGGESTIONS

In the regards of analysis and conclusions of the study following suggestions have made:

1. The low bank and cash balance of the firm shows unfavourable conditions. When the firms activities would increase it should borrow cash to make the strong liquidity of the firm.
2. The firm should try to minimize the increasing debtors(receivables) without decreasing sales for making it strong in short term solvency.
3. J. Bs. Industry Private Limited, should make its selling effort effective so that heavy stock of finished goods would be

minimum. For this purpose, management should make its selling unit more efficient.

4. company should utilize advertisement media for further strengthening and extending its market share and absorbing more opportunity.
5. For controlling the bulk of receivables, the management of J. Bs. Industry private limited needs a proper and fixed policy to collect the due amounts and to control the delay on its receivables collection.
6. J. Bs. Industry private limited should make proper balance of cash, in other words, it is necessary to determine the limit of holding cash as per the requirement of its operation.
7. The firm should increase cash sales for quick collection of credit. It helps the firm for the liquidity.
8. The firm should make more cash sales by decreasing the amount of inventories.
9. The firm should decrease the average collection period in further years so that firm can utilize its long term operation.
10. The fluctuating trend of current assets turnover ratio should maintained for the efficient management.
11. J. Bs. Industry private limited should determine certain rate on its investment and sales target should set to overcome the problem of lower profit.
12. J. Bs. Industry private limited should afford cost control program to reduce the amount of cost.
13. for the better management, the management information system should be established which supports the management of company providing an opportunity business information.

14. Further more, the firm should make financial analysis of the prepared financial statements and other supporting schedules. This would leak out many facts about the firm's operation and efficiency.
15. Cash flow statement shows the fluctuating trend in cash balance. So, the firm should increase it for liquidity.

As the study has been taken with some specific objectives, it does not claim to have looked into all the problems. Lastly, the firm should constitute research and development unit for conduction research and development activities, which can bring efficiency in production process and may be helpful in reducing cost, exploring new facts and tackling with business threats

BIBLIOGRAPHY

Acharya, Khagendra, *Working Capital Management of Manufacturing Public Enterprises in Nepal with Special Reference to NTDC,* Unpublished Ph.D. Thesis Submitted to Allhabad University, 1986, as Quoted in the thesis of Nischal Subedi.

Agrawal, N.P., *Analysis of Financial Statement*, National Publishing House, New Delhi, 1981

Anthony, Rober N., *Management Accounting, Text & Cases, Richard D.Irwin, Inc,* Home Wood, Illionls, 1964

Bajracharya, B.C., *Business Statistics and Mathematics*, M.K. Publisher and Distributors, Kathmandu, 1st Edition, 2053, P. 101.

Brealay, R.s. and Mayers, S.C., *Principles of Corporate Finance*, Tata MC Graw Hill Publishing Company Ltd. New Delhi, 4th Edition 1996.

Dutta, Roshan Kumar, *Working Capital Management of Himalaya Soap and Chemical Pvt. Ltd.*, Unpublished Thesis of partial fulfillment of Master Degree. 2005.

Gadtaula, Keshav Prasad, *Working Capital Management of NTDC*. Unpublished Master Degree Thesis Submitted to Tribhuvan University .

Jain, P.K. and Khan, K.Y., *Financial Management*, Tata MC Grow Hill Published Ltd.

Joshi, Padam Raj, *Fundamental of Financial Management*. Asmita Books and Stationary, Kathmandu, 1st Edition, 2004.

Lynch, R.M. and William, R.W., *According for Management Planning and Control*, 5th reprinted, Tata MC Grow Hill Publishing Company Ltd., New Delhi, 1994.

Munakarmi, Siva Prasad, *Accountancy and Auditing*. Educational Enterprises Pvt. Ltd., 2nd

Oxford Advanced Terms, 5th Edition (2nd Impression, 1997), Dictionary of Current English.

Pandey, I.M., *Financial Management*, Vikash Publishing House Pvt. Ltd., New Delhi, 1989

Pokharel, Bharat Raj, *Marketing Activities of Nepal Plastic*, Term paper submitted to Tribhuvan University for the Partial fulfillment of Master Degree in Business Administration.

Pradhan, Surendra, *Basic of Financial Management*, Educational Enterprises Pvt. Ltd., Kathmandu, Reprint, 1996.

Shah, Prithivi Narayan, Divya Upedesh.

Thapa, Krian and Niraula, Narayan, *Corporate Financial Management*, Khanal Books Publishers and Distributors, 3rd Edition, 2062.

Weston, J.F. and Brigham, E.F., *Essential of Managerial Finance*, Dryden Press, 11th Edition 1996.

Wolf, H.K. and Panta, P.R., *Social Science Research and Thesis Writing*, Buddha Academic Enterprises Pvt. Ltd., 4th Edition, Kathmandu, 2005.

Appendix - A

Balance Sheet of

J.Bs. Industry Pvt. Ltd. Itahari-5, Sunsari

Particulars	2059/60	2060/61	2061/62	2062/63	2063/64
Liabilities:-					
Capital	38,41,500	9,81,500	98,500	9,81,500	9,81,500
Reserve and long term loan	8,90,443.48	11,06,884.7	15,94,627.38	23,02,759.41	28,98,069
Working Capital	00	2860,000	2860000	2860000	28,60,000
CURRENT LIABILITIES:-					
Short term borrowing	1,41,600	2,35,870.31	30,56,978.97	29,23,481.96	34,50,000
Provisions	59,862.66	88,399.32	19,382.59	17,798.52	90,569
Accounts payable	00	2,78,555	16,79,902.39	43,91,732.59	57,19,256
Repayment of loan premium	21,90,613.68	00	00	00	00
Total capital and liabilities	71,24,019.82	76,71,357.50	1,01,92,391.33	1,34,77,282.4	1,59,99,394
Fixed Assets (net)	10,26,450.56	8,96,813.88	9,39,609.81	17,74,374.26	39,99,193
Current Assets:-					
Ending Inventory (closing	52,58,362.44	51,24,041.70	70,50,497.60	86,21,873.22	99,92,633
Account Receivable	6,13,735.87	14,50,099.18	19,87,254.74	26,63,363.86	17,13,096
Cash Balance	1,40,970.95	77,902.74	49,523.71	1,53,314	79,098
Prepaid Expenses (deposits)	84,500	1,22,500	1,65,505.47	2,64,356.50	2,15,374
Total Assets	71,24,019.82	76,71,357.50	1,01,92,391.33	13477282.4	1,59,99,394

Source: Audited Balance sheet of J.Bs. Industry Pvt. Ltd. Itahari-5, Sunsari.

Appendix - B

Profit and Loss Account

J.Bs. Industry Pvt. Ltd. Itahari-5, Sunsari

Particulars	2059/60	2060/61	2061/62	2062/63	2063/64
To Distribution expenses	2,31,433	12,557	5,33,806.99	2,255	2,520
To administration expenses	11,07,950.32	11,86,543.04	17,74,828.35	21,22,757.89	2,77,56,981
To Interest	2,75,447.37	2,11,927.20	1,08,723.85	88,994.81	75,143
To depreciation	1,56,658.88	1,45,636.68	1,22,532.71	12,91,45.89	5,57,194
To Net Profit	4,33,435.20	3,13,504.27	6,42,961.79	8,58834	7,97,192
	22,04,924.77	18,70,168/.19	31,82,853.39	32,01,987.59	42,08,030
By Gross Profit	22,04,924.77	18,70,168.19	31,82,853.39	32,01,987.59	42,08,030
By Income from other business	00	00	00	2,70649	8,39,426
	22,04,924.77	18,70,168.19	31,82,853.39	32,01,987.59	

Source: Audited Profit and Loss Account of J.Bs. Industry Pvt. Ltd. Itahari-5, Sunsari.