CHAPTER - ONE
INTRODUCTION

1.1 General background

Nepalese economy seems tiny and underdeveloped compared to the giant and rapidly progressing economies of two neighbors. Northern neighbor has exhibited the highest one digit growth throughout the past decade and aspires for a double digit in the near future. Similarly the neighbor in the southern with open in three sides and bearing close cultural and social ties since ages has gained an attractive growth path nearly equivalent to the northern neighbor.

The reason behind Nepal's underdeveloped economy is not only due to the lack of resources but it is due to lack of proper utilization of the available resources. For the productive and effective utilization of resources, there must be proper plan, strategy and control system. Management is concerned with the efficient use of important resources for the productive result. It is process of planning, controlling and feedback. These various components are interrelated with each other. Cash is an important asset for every organization. Managing cash is challenging task which is deal with planning and controlling of cash, maintaining liquidity, proper financing and investment of cash etc. Budgeting is used as an important tool for the same purpose which helps to achieve desired goals and objective according to its plan and control standard.

Cash budgeting is a major component of comprehensive budgeting. It is interrelated and interdependent with other component of comprehensive budgeting. Cash is the liquid asset. Cash management is one major responsibility of management so as to plan, control and safeguard of cash in enterprise. Planning and controlling cash focuses on cash inflows, cash outflows and financing. Cash budgeting is an attractive way to plan and control the cash flow, assess cash need and effective uses of excess cash. Cash management considers right cost of capital for effective planning and controlling of cash.

1.2 Introduction of the organization

Rastriya Banijya Bank is one of the key players in the Nepalese financial sectors. It has been serving its valued customers since Magh 10, 2022 (24 January1966). RBB is the largest and wholly government owned commercial Bank of Nepal. Initially established with the objective of facilitating government transactions and Nepalese currency circulation along with the general banking services to the country people, RBB now provides various sophisticated modern banking services to a wide range of customers including banks, insurance companies, industrial trading houses, airlines, hotels and many other sectors. RBB, now ranks no. 1 in terms of deposits (Approx. Rs. 47 billion) and loan portfolio (Approx. Rs. 27 billion) serving approximately 1.2 million deposit customers and about 300,000 borrowers. With the corporate office located at Singhadurbar Plaza, Kathmandu the bank has extensively scattered its network at 114 points all over the country with 3,140 employees.

Initially, the bank started its service with around 115 workforces from 7 different selected locations; the bank has witnessed several challenging turnarounds in the course of making a journey towards being a premier bank both in terms of highest deposit base and largest lending portfolio. Through these many years, the bank has been successfully in gathering the trust of niche market and emerged as the exemplary player in the competitive economy.

This bank was established with the objective to provide financial services to all Nepalese; to promote small and medium enterprises by the easy excess of loan facilities, to finance the needs in rural areas with low income people, to capture small saving and recycle deposit to enhance productive growth of the economy and to provide banking service to people all over the country.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finances, bank oriented personal fund transfer via swift. As well as, RBB works with western Union and International Money Express. RBB actively delivers various government programs to people living in remote parts of the country, these program are intended to raise living standards of the poor and marginal people of the country.

The bank was established 40 years ago to boost up the Nepalese economy and to enhance the banking habit of the people. RBB has participated in many of the industrial and commercial enterprises through its lending or investment. So that the bank is considered as the catalyst to accelerate the economic prosperity. The bank is committed to uplift the living standard including rural areas through small and micro financing. On the other hand the bank's participation in major projects has enabled to develop necessary infrastructure.

Since last three years the bank has entered into the new dimension. After management take over by foreign management team, various areas have been addressed like, system designing , formulation and implementation of HRD plan with VRS scheme, loan recovery manual with strong recovery strategy, credit manual, accounting manual, auditing manual, budget manual, new product design with effective marketing strategy, Mechanization of transaction like implementation of IBIS, growth in profitability and maintaining harmonious corporate culture and commercialization of banking business. The bank has introduced different products to meet the growing demand of society. The bank has chosen "customer first" or "customer's satisfaction approach, which ensures the success of the bank has become the bank's motto. Now the bank is capable to satisfy its valued customer's through mechanized service, reduction in service cost in order to compete with other banks, develop new products, like consumer lending i.e. home, education, car, personal loan etc.

1.3 Statement of the problem

Rastiya Banijya Bank is one of the largest commercial bank in the country with highest deposit (47 billion) and lending (27 billion). It has been totally financed by Nepal government. Although it was enjoying almost full monopoly in the banking sector in the past decade, but, now it is facing market competition with other commercial bank. So, now it must prepare and strengthen existing competency to achieve productive output in by optimum utilization of resources. The management must focus in implementation of effective and appropriate action plan, strategies, and control mechanism.

Cash management is the crucial part of the overall planning and control system of management. Although cash management in Rastiya Banijya Bank is primarily based on traditional approach, it has applied several tools and established mechanism for proper planning and control of cash. The study attempts to have an insight over the problem of cash management of Rastiya Banijya Bank so that strength has been gathered to identify question as major problem:

1. What kind of planning and controlling devices of the cash is existed in the bank?
2. What are the internal control policy regarding cash control practices in RBB?
3. What is the liquidity and cash position of the RBB?
4. Is there any cash shortage or excess in the bank? What are the sources of financing or sector of investment?

1.4 Objective of the study

The major objective of the study is to examine the management of cash in Rastiya Banijya Bank. The basic objectives are as follows:

1. To observe devices of planning and control of cash in RBB
2. To examine the existing internal control policy in RBB regarding cash control practices.
3. To identify the shortage or excess of cash in the bank and the procedures of financing for the shortage and investment of excess cash.
4. To study the liquidity position of the company.

1.5 Significance of the study

In every organization, the availability of the resources is scarce and out of this resources, the objective of the organization are to be accomplished. The financial performance of the organization depends prominently on the use of its resources. The organization always strives to uses its resources optimally. So that the study of cash management tells us how to generate, utilize and manage cash properly.

Globally, the concept of zero working capital has got more emphasis. The expert, researcher and practitioner are involved in great effort in the management of working capital management through efficient cash management. The most important objective cash management is optimizing the use and collection of cash.

The study of cash management of RBB provides crucial information about the existing cash management system. It helps to determine strength and weakness of the particular part of the cash management on which the objective of the study is based. The management and other stockholder's of the bank will be benefited by the assessment of the cash and liquidity position of the bank. The study helps other managerial person to have reference about the better cash management potential and practices. Academician and researcher can highlight the issue of this study in their future research work.

1.6 Limitations of the study

The area of the study is very limited in terms of investigation. It is a part and partial analysis of cash management of Rastiya Banijya Bank. Overall study of cash management is not possible in this thesis due to its deadline of completion and availability of data and information. The study is not bounded by the fixed standard of measurement and relationship between two or more variable with cash. The limitation of the study is as follows:

1. The study covers the analysis of recent five years only.
2. The study is totally based on secondary data collected from Rastiya Banijya Bank.
3. The accuracy of this study is based on the data available from management of Rastiya Banijya Bank and various published documents of the Bank.

4. The study is based on historical data and it is a case study of specific portion of cash management of the Bank. So the outcome of the study may applicable to the bank only.
5. Only financial and managerial tools are used for analysis of data.

CHAPTER - TWO

REVIEW OF LITERATURE

2.1 Conceptual Frame Work

2.1.1 Meaning of Cash Management:

The meaning cash may vary according to the purpose for which it is used and person with different level of knowledge. Cash is an asset constituting the most liquid item among all the assets. But to obtain cash, it involves cost because bank has to raise through issue of share or by borrowing with interest or by means of deposit.

So, a corporation must utilize cash efficiently to meet obligation of interest payment, if cash is obtained from borrowing or deposit. And if it is received through issue of share, the corporation has responsibility to owners in assuring them to pay favorable rate of return as form of dividend or bonus share etc. Since cash is not easy to obtain, the available cash must be prudently spent without incurring loss (*Shrestha, Manohar Krishna*, (1980), *Financial Management*).

Cash management involves the following aspects:

- Cash Planning
- Controlling Cash Inflows
- Controlling Cash Outflows

- Determining Optimum Liquid Balance
- Investing Surplus Cash
- Reduce cost of fund.

All the above aspects have been explained here under, in detail.

2.1.1.1 Cash Planning.

Cash policies and procedures are to be formulated with a view to satisfy different motives for holding cash, Normal cash requirements as well as requirements of cash for abnormal or irregular reasons are to be provided for . The nature of the business, credit position, the amount of sales, time required in conversion of accounts receivable etc.-all these determine the normal cash requirement of a firm. On the basis of past experience, Perform balance sheet etc, cash balance required for the future may be projected. Cash forecasts may be prepared for a short-term as well as a long-term period to estimate the requirements of cash. Cash budget is a summary statement of the firm's expected cash inflows and outflows over a projected time period. The projected time period may be a year, a quarter, a month, a week, or even a day-it depends upon the nature of the business and the status of the firm's cash position. Cash budget throws light not only on the amounts of inflows and outflows expected during a budget period, but also helps managements in determining the future cash needs, in planning financing of these needs and in exercising control over cash and liquidity of the firm. If cash shortage is indicated by the budget, the same may be managed by arranging short-terms loans and if cash surplus is pointed out, it may be managed be investing the amount in readily marketable securities.

For the above purpose, cash flow statement can also be prepared. It records and reflects the quantum and the nature of inflow and outflow of liquid funds. A cash flow statement is actually the summarized form of cash book in which the actual receipts and payments are sectionalized. It can be prepared in the following two ways:

i) Showing in detail each item of inflows or outflows of cash irrespective of whether it is capital or revenue in nature; or
ii) Showing the net inflows /outflows from revenue operations as one consolidated figure and inflows/outflows of capital nature separately.

2.1.1.2 Controlling Cash Inflows

Efficient cash management is possible only when the collections of cash are accelerated. The delay between the time customers pay their interest due and the time the cash is collected in the sense of becoming useable by the firm should be attempted to be reduced to the extent possible. Collection process may be speeded up in any of the following manners:

(i) The time of payment from customers to the bank may be reduced.
(ii) The time during which payments received by the bank remain uncollected may be minimized, it includes the time a bank takes in processing the cheques internally and the time consumed in the clearance of the cheques through the banking system.
(iii) Encourage to customer to pay interest in time.
(iv) Regular contact with customer for the recovery process.

(v) Flow up the bad debts according to recovery manual.

Following techniques are considered to be useful to accelerate the collection:

- **Concentration banking**

  To speed up collections, collections should be decentralized as far as possible. If, instead of one collection centre, there are a number of collection centers for the purpose, collections would certainly be speeded up. This procedure is named as concentration banking. Through this procedure, the mailing time of the customers is reduced. Customers of a particular region may be directed to deposit/remit their payments to a collection centre will deposit the payments received in the local bank regularly (may be daily), which is generally at the bank's head office. This concentration bank or central bank can get the payments by telegraphic transfer or telex, as per the instructions given by the bank. The collection centers may themselves collect the cheques or the cash payment from the customers, instead of customers remitting the payments to the collection centre. It furthers accelerates the process of collection because of the reduction in the mailing time. The advantage of system of decentralized collection in two-fold:

- The mailing time is reduced, because the bills are prepared by the local collection centers and sent by them to the customers. Further, if the collection centers collect the payments by themselves, the time requires for mailing is reduced on this account also.

- Collection time is reduced, since the payments collected are deposited in the local bank accounts. The funds become useable by the firm immediately on hearing from the collection centre about the amount being deposited in the local bank account.

- **Lock box system**

The system is a further improvement over the concentration banking system in the matter of accelerating the cash inflows. Under this system, the time required in collecting the payments, processing them and finally depositing them in the local bank accounts is further reduced. Before determining the collection centers a feasibility study is made of the possibility of cheques that would be deposited under alternative plans. In this regard operations research techniques have proved useful in the location of lock box sites. A post office box is hired by the firm at each collection centre and the customers are instructed to mail through remittance of the box. The remittance is picked up by the local bank directly from the post office box (i.e. lock box) as per the instructions given by the firm. The bank can pick up the mail several times a day and deposit the cheques in the amount of the firm. A record is kept by the bank regarding the cheques deposited and is sent to the firm as and when required. The advantages of such a system are as under:

- The cheques are deposited sooner than if they were processed by the firm prior to deposit thus the time lag between the receipt of cheques by the firm and the actual deposit there of at the bank is eliminated.

- The firm is free from the responsibility of handling and depositing the cheques. The main disadvantages of such a system is the cost involved of making such arrangements hiring post office box and loading the bank with additional burden of work entail costs and sometimes it may be uneconomical for the firm to adopt such a system. Thus, the appropriate rule for deciding whether to use lock-box system or not is to compare the added cost of the most efficient system with the marginal income that can be generated form the released funds. If costs are less than income, the system is profitable, if not, the system is not a profitable one.

- **Collections through messengers**

Certain firms like to send messengers at the places of customers to collect the payments. It certainly reduces the mailing time but increases the costs of collection in terms of the traveling costs of messengers.

To conclude, whatever system of speeding up collections is adopted, the costs are to be compared with the benefits derived from it. In case the benefits of a particular system exceed the costs on a comparative basis, the same may be recommended by the finance manager for adoption by the firm.

2.1.1.3 Controlling Cash Outflows

Just as the golden rule for controlling cash inflows is 'accelerate the collections', similarly, the golden rule for controlling cash outflows is 'slow down the disbursements.' Decentralized collection system is the best way to accelerate collections and centralized payment system is the best way to slow down the disbursements. Delaying the accounts payable to the extent possible can help the firm only if the firm's credit standing does not suffer. If an effective control over disbursements is exercised, without losing goodwill, cash availability is certainly enhanced. The following techniques can be fruitfully employed to slow down the disbursements as far as possible.

- **Centralized payments:**

Centralized payment system is the most advantageous methods of slowing disbursements. The payment should be through a single account maintained at the bank head office.

- **Paying the float:**

'Float’ is the lag between the time the time the cheque is written and the time the firm's bank receives it. A firm may have less balance in its bank account but the firm may issue a cheque to its supplier because the supplier would present the cheque to his bank for payment only when be receives it after a few days . Moreover, after presentation to the bank, the bank would send the cheque for collection, which would also consume some time. The time by which firm's bank receives the cheque for payment can be used by the firm for utilizing fund for business purposes and exactly on the time when the payment has to be made by the bank the amount may be deposited in the bank by the firm. In case the period of time gap can be accurately estimated by the financial manager, the firm can certainly earn during the float period. However, the game is a risky one and should be played with caution.

- **Payment on due dates only:**

Payment should be made on the due dates, not before. For maximum use of cash, If cash discount is more lucrative, payments may be made early also depending upon the availability of funds. Delaying payments beyond the due date cannot be favored at all since the credit rating of the firm is endangered.

2.1.1.4 Determining Optimum Liquid Balance

Liquid balance (balance of cash and bank) must be maintained at the optimum level. It is the level which gives the minimum cost of holding the liquid balance. Determination of such a level is very important for an efficient cash management. If the liquid balance, it remains idle and, therefore, it involves opportunity costs in the sense that the amount could have been put to the other hand, if liquid balance is short of the requirements, the firm may have to incur shortage cost. The firm may be required to forego cash discounts and pay higher rates of interest on borrowings. It may have to forego cash discounts and pay higher rates of interest borrowings. There is a danger of losing goodwill and there is a risk of insolvency even. Thus, costs go down, and vice versa. The combination of opportunity cost and shortage costs gives the total cost of maintaining liquid balances at various levels. The point which gives the minimum total cost is the point of optimum liquidity balance-representing a trade-off of shortage costs against opportunity cost. The following graph shows the position clearly:

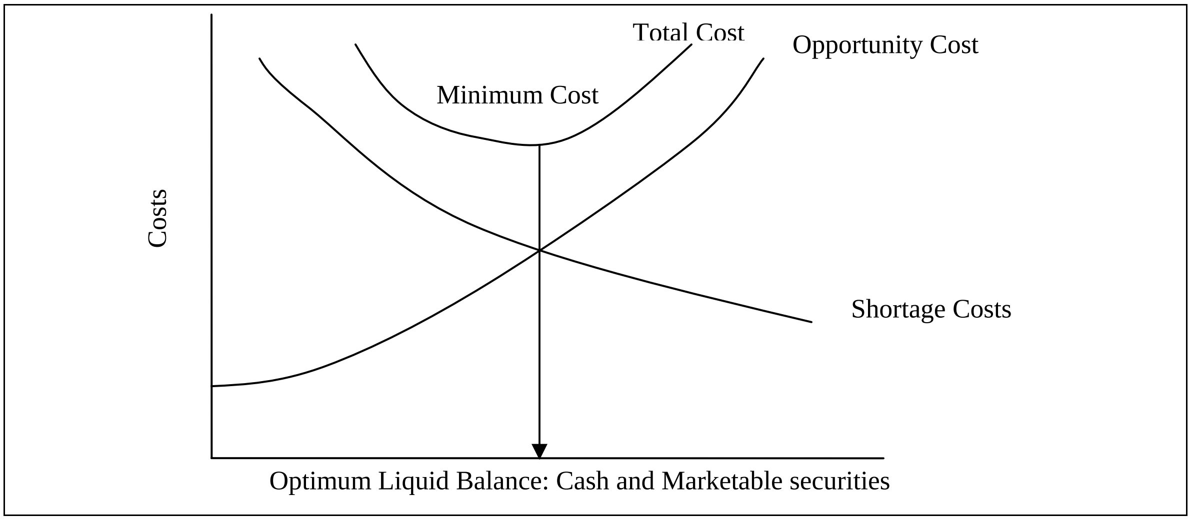


Figure No.2.1

Chart: Optimum Liquid Balance of Cash

Source: *Dr. Maheshwari, S .N and Dr Mittal S.N*

Cost Accounting and Financial Management

2.1.1.5 Investing Surplus Cash

Cash not required of short durations can be invested in near-cash assets, i.e.; marketable securities and inter bank lending which are readily convertible in to cash, Even though cash is temporarily ideal; it should not be kept so because if the firm has an opportunity to earn interest through investing it in marketable securities, why should it not avail of the same. The criterion for selecting securities may be the followings.

1. **Marketability:** The firm must be able to sell its holdings and realize cash as and when required. The securities must be readily marketable.

2. **Maturity:** The maturity period of the securities and inter bank lending should be short; otherwise, the bank might suffer losses on account of getting the funds pre-maturely released. The period should be selected according to the time for which the cash would remain surplus otherwise.

3. **Risk of default:** The investment should not be risky in the sense that if it depreciates in safety value, the firm will be financially embarrassed.

4. **Yield:** Investment should be in such securities which yield the highest return. However, safety should not be sacrificed at the expense of yield.

How much amount should be invested in marketable securities and when should a security transaction take place is a crucial problem before the treasure manager. If the amount and the timing of transactions can be determined, the firm can minimize the costs of maintaining liquid balance. (*Dr. Maheshwari, S .N and Dr Mittal S.N (2003), Cost Accounting and Financial Management).*

2.1.2 Principal of Cash Management

The size of cash balance in the hand and in the account to be maintained depends on the behavior of the operating cash flows of the firms. Each business operation is unique in the matter of cash collection and disbursement, as such, a firm needs to follow cash management strategies based on its own financial strength and objective in the matter of cash management, treasure manager are mainly concerned with the (a) management or cash receipt, (b) management of disbursement, (c) minimization of cash balance, (d) use of most inexpensive source of financing for cash balance, (e) investment of excess balance of cash.

The standard principles of cash management are follows:

(i) To collect account receivable as soon as possible with out annoying and loosing potential customers by establishing a system of lock boxes, electronic fund transfer, preauthorized checks, and deposit concentration.

(ii) To delay payment as long as permitted without damaging the firm's credit rating by establishing controlled disbursement system.

(iii) To minimize cash balance without adversely affecting the business operation by following the techniques of cash balance management such as *Boumol & Miller Orr-models.*

(iv) To manage most inexpensive source of financing for meeting short term cash deficiency by optimally balancing between cost and risk.

(v) To invest short term excess cashes in most efficient market portfolios of securities such money market instruments. (*Pradhan, Surendra (1992), Basic Financial Management*)

2.1.3 Motives for holding Cash:

The term with reference to cash management is used in two senses. In a narrow sense, it is used broadly to cover currency and generally accepted equivalent of cash, cheques, draft and demand deposit in bank. The broad view of cash is also includes near cash assets, such as marketable securities and inter bank lending. The main characteristics of these are that they can be really sold and converted into cash. They served as reserve pool of liquidity that provides cash quickly when needed. They also provide a short term investment outlet for excess cash are also useful for meeting planned out flow of fund. Irrespective of firm in which it hold a distinguished feature of cash as an asset, is that it has no earning power. Cash does not earn any return, why it is hold? There are four primary motives of cash balance, these are:

2.1.3.1 Transaction motive:

This refers to holding of cash to meet routine cash requirement to finance the transaction which a firm carries in the ordinary course of business. A firm enters in to a variety of transaction to accomplish its objectives which have to pay for in the form of cash. The requirement of cash balance to meet routine cash needs is known as transaction motive and such motive refers to the holding of cash to meet anticipated obligation whose timing is not perfectly synchronized with cash receipt.

2.1.3.2 Precautionary Motive

The cash balance hold in reserves for random and unforeseen fluctuation in cash flows are called as precautionary balances. In-other word precautionary motives of holding cash implies the need to hold cash to meet unpredictable obligation. Thus, precautionary cash balance serves to provide a caution to meet unexpected contingences. The more unpredictable are the cash flows. The larger is the need for such balance. Another factor which has a bearing as the level of such cash balances is the availability of short term credit. If a firm borrows at short notice to pay for unforeseen obligation, it will need to maintain a relatively small balance and vice versa.

2.1.3.3 Speculative Motive

It refers to the desire of a bank to take advantage of opportunities which presents themselves at unexpected moments and which is typically outside the normal course of business. While the precautionary motive is defensive in nature in that bank must make provision to tide over unexpected contingencies, the speculative motive represents a positive and aggressive approach. The bank's aim to exploit profitable opportunities and keep cash in reserve does so. The speculative motive helps to take advantage of change to speculate on interest rate movement by buying securities when interest rates are expected to decline.

2.1.3.4 Compensating Motive

It is to compensate banks for providing certain services and loans. Usually, clients are requested to maintain a minimum balance of cash the bank. Since this balance can not be utilized by the firm for transaction purpose, the banks themselves can use the amount to earn a return. Such balances are compensating balance. Compensating balance is also required by some loan arrangement between a bank and its customer. During periods when the supply of credit is restricted and interest is rising, banks require a borrower to maintain a minimum balance in his account as a condition precedent to the grant of loan. This is presumably to compensate for a rise in the interest rate during the period when the loan will be pending.

Out of four primary motives of holding cash balances the two most important are transaction motive and the compensation motive. Business firm do not speculate and need not have speculate balances. The requirement of precautionary balances can be met out of short term borrowing. (*Khan, M.Y and Jain, P.K (2003), Financial Management*)

2.1.4 Objective of Cash Management

The main objectives of cash management are to determine the optimal cash balance which is neither excessive nor inadequate, and to ensure that the optimal cash balance is maintained all through; Cash should not remain idle unnecessarily, and simultaneously, it should not fall short of the requirements also. For this, the collections and the disbursements of cash are to be managed properly. In case the flow of cash in not even, the cash is to be arranged by rising short-term loans for meeting the payment bills; and in cash the collections have been made but there is no immediate outlet for payment, the idle funds are invested in temporary securities so as to yield some return. Thus, the problem is to manage the cash affairs in such a manner that gives the least possible cost of maintaining cash. The main objective of financial management-maximizing profitability without sacrificing liquidity-should be borne in mind while attempting to manage cash and bank balances. Optimal cash balance does not mean minimum cash balance since minimum cash may lead to shortage of cash and the day-to-day operations of the business may suffer. The level of cash which meets the requirements appropriately and which gives the minimum cost is known as the optimum level of cash.

Cash management covers the management of not only cash but near-cash assets also, e.g., marketable securities because these are readily convertible into cash, As a matter of fact, 'near-cash assets' are to be included under' cash' for the purpose of cash management since surplus cash is required to be invested in near-cash assets for the time being.

The following are the important motives for holding cash:

1. Transaction motive: To conduct the ordinary business. i.e.; making borrow and lend and meeting day-to-day expenses cash is always required by a firm. There is never a perfect synchronization in the inflows of cash and outflows of cash, hence the need for maintaining cash balance.

2. Speculative motive: To avail of the profit –making opportunities that may raise in future, certain firms may like to hold cash in advance. Though a normal business concern should not indulge in speculation, yet, sometimes it becomes necessary for the firm to keep cash available with this objective in view. For example, if three is a liked hood that material prices will fall down in near future, cash may be withheld for a certain period.

To avail of the profit –making opportunities that may arise in future, certain firms may like to hold cash in advance, though, a normal business concern should not indulge in speculation, sometimes, it becomes necessary for the firm to keep cash available with this objective in view. For example, if there is a likelihood that material prices will fall down in near future, cash may be withheld for a certain period.

Examples of certain specific advantage of holding cash are as under:

- Certain companies maintain cash balance to take advantage of the trade discounts and cash discounts, which may be available to them on the basis of the terms of sale.

- Credit standing can be maintained if the firm has sufficient cash. To meet the standards of the line of business in which firm is engaged, the firm may like to have sufficient cash balances.

- The bank may like to take advantage of the available business opportunities.

- Emergencies, e.g.; strikes, floods, fires etc. can be met out successfully only when the firm has sufficient liquidity.

2.1.5 Factors Determining Cash Needs

The factors which determine cash needs are described in the following points.

2.1.5.1 Synchronization of cash Flow

With a perfect synchronization of cash inflows and out flows and a higher degree of predictability, cash balance could be held to low levels. An example of synchronization demonstrates low cash flows can be improved through more frequent requisitioning of fund to divisional offices from the firm's central office. If funds are requisitioned once a month, we may now explore the possibility of requisitioning of funds on fortnightly, or weekly of daily basis, Moreover, effective forecasting can be achieved, it will enable the firm to economic on the amount of money it must borrow and thereby keeping interest expenses to a minimum. It is necessary to understand now that there are different types of float. We have seen that the float is the different between book cash and bank cash, representing the net effect of changes in process of clarity. The first types of float are disbursement float. As we write check, it declares book balance but does not immediately change available balance. Similarly, the collection float refers to the represent of cheque received, which increases book balance but not immediately change available balance. The net float is the overall different between the firm's available and its book balance. (*Pradhan, Radheshyam (2004), Financial Management)*

2.1.5.2 Short Cost

Another general factor to be considered in determining cash need is the cost associated with a short fall in the cash needs. The cash forecast presented in the cash budget would revel period of cash shortages. In addition, there may be some unexpected short fall. Every shortage of cash, whether expected or unexpected involved a cost depending upon the severity, duration and frequency of the shortfall and how the shortage is covered. Expenses incurred as a reset of shortfall are called short costs. Included in the short cost are the following.

- Transaction cost associated with raising cash to tide over the shortage, this is usually the brokerage incurred in relation to the sale of some short term near cash assets such as marketable securities.

- Borrowing cost associated with borrowing to cover the shortage these include items such as interest on loan, commitment charge and other expenses relating to the loan.
- Loss of cash discount, that is, a substantial loss because of temporary shortage of cash.

- Cost associated with deterioration of the credit rating which is reflected a higher bank charges on loans, stoppages of supplies, demand for cash payments, refusal to sale, loss of image and the attendant decline in sales and profits.

- Penalty rates by bank to shortfall in compensating balances.(*Khan, M.Y and Jain*, P.K *(2003), Financial Management*)

2.1.5.3 Excess Cash Balance Cost

The cost of having excessively large cash balance is known as the excessive cash balance cost. If large funds are idle, the implication is that the firm has missed opportunities to invest those funds and has thereby lost inters which it would otherwise have earned, this lost of interesting primarily the excess cost. (*Khan, M.Y and Jain, P.K (2003*), *Financial Management*).

2.1.5.4 Procurement and management

There are the cost associated with the establishing and operating cash management staff and activities. They are generally fixed and are mainly accounted for by salary, shortage, handling of securities and so on. (*Khan, M.Y and Jain, P.K (2003), Financial Management*)

2.1.5.5 Uncertainty and Cash Management

Finally, the impact of uncertainty of cash management strategy is also relevant on cash flows can not be predicted with complete accuracy. The first requirement is a precautionary caution to cope with irregularities in cash flows. Unexpected delays in collections and disbursements, default and unexpected cash needs.

The impact of uncertainty on cash management can, however, be mitigate through (1) improved forecasting of tax payments, capital expenditure dividend, and do on: and (2) increased ability to borrow though over draft facility. (*Khan, M.Y and Jain, P.K (2003), Financial Management)*

2.1.6 Techniques for effective Cash Management

There various tools and technique are applied for effective and efficient management of cash. Various techniques for cash management are discussed as follows:

2.1.6.1 Cash Planning

Cash planning is a technique to plan and control the use of cash; it protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plans are very curtail in developing the overall operating plans of the firm. (*Pandey, I.M. (1997), Financial Management*)

2.1.6.2 Cash forecasting and budgeting

Cash budget is the most significant device to palm for and control cash receipt and payment, a cash budget is a summary statement of the firm's expected cash inflows and outflows over a projected time period.

Cash forecast are needed to prepare cash budget. Generally forecasts covering period of one year of less are considered as short term forecast. The important functions of carefully developed short term forecast are to, (a) determine operating cash requirement (b) anticipate short term financing, and (c) manage investment surplus cash. Methods of short term forecasts are:

- **Receipt and Disbursement Method**

  The prime aim of receipt and disbursement forecast is to summarize these flows during a predetermined period. In cases of these companies where each items of income and expenses involve.Flows of cash, this method is favored to keep a close control over cash.

- **Adjusted Net income Method**

  This method of cash forecasting involves the tracing of working capital flows. It is same time called the sources and uses approach. There are two objectives of the adjuster net income method, They are to project company's need for cash at a future date and to show whether the company can generate the required fund internally, and id not how much will have to be borrowed or raised in the capital mordent. It is a projected cash flow statement based on perform financial statement, one popularly used method of projecting working capital is to use ratios relating account receivable and inventory to sales.

- **Sensitivity Analysis**

One useful method of getting insights about the variability of cash flow is sensitivity analysis. Cash budget can be prepared under three sales condition, they are optimistic, most probable and pessimistic. Knowledge of the outcome of extreme expectation will help the firm to be prepared with contingency plans. A cash budget prepared under woes condition will prove to be useful t management to face these circumstances.

- **Long Term Cash Forecasting**

Forecasts, these extending beyond one year are considered long term. Once a company has developed long term cash forecast, it can be used to evaluate the impact of say, new product development or plan acquisition on the firm's financial condition three, five or more years in the future. The major uses of long term forecasts are:

- To indicate as company's future financial needs especially for its working capital requirement.

- To evaluate proposed capital projects. It pin pints the cash required to finance these project as well as the cash to be generated by the company to support them.

- To improve corporate planning. Long –term cash forecast compel each division to plan for future and no formulate project carefully. (Pandey, I.M. (1997), *Financial Management*)

2.1.6.3 Managing the Cash flows

The flow of cash should be properly managed. The cash inflows should be accelerated while, as far as possible, the cash out flow should be declared.

2.1.6.4 Optimum Cash Level

The firm should decide about the appropriate level of cash balances. The cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.

2.1.6.5 Investing surplus cash

The surplus cash balance should be properly invested to earn profits. The firm should decide about the decision of such cash between alternative short-term investment opportunities such as bank deposits, marketable securities, or incorporate lending. *(Pandey, I.M. (1997), Financial Management*)

2.2 Review of Books

Various scholars as well as authors have given different views about cash management some of them have to be taken as review of books for cash management, According to *Betty, J (1972), Management Accountancy*, cash is only one constituent of what is essentially a combination of business resources. It is the part of working capital and as such provides the means of earning a profit investment for business. The objective should aim to obtain an optimum level for each component of current assets figure and a smooth and rapid conversion of these assets to cash both of these lead to improve earning power. He again suggested that if cave is taken for crash programmed for improving cash may have unexpected consequences. In the short term it will be possible to cut back expenditure on marketing and other function but future sales will probably suffer and, consequently, there will be further deterioration in cash flow. Further, he defined cash management as the process involved in the effective planning and control of cash requirements of a business.

Similarly, *Pandey, I.M. (1997), Financial Management*, suggested that the firm should keep sufficient cash neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simple remain idle without contributing anything toward the firm's profitability. According to him, the major function of financial manager is to maintain sound cash position. Some theoretical insights about cash Management has presented by him. He said that cash management is concerned with the managing of :

(i) Cash flows into and out of the firm,

(ii) Cash flows within the firms, and

(iii) Cash balance hold by the firm at point of time by financing deficit or investing surplus cash.

It can be represented by a cash management cycle. Sales generate cash which has to be disbursed out. The surplus cash has to be invested while deficit has to be borrowed cash management seeks to accomplish this cycle at minimum cost. At the sometime, it also seeks to achieve liquidity and control. Cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm holds. It is significant because it is used to pay the firm's obligation. However, cash is unproductive. Unlike, fixed assets or inventories, it does not produce goods for sale. Therefore, the aim of cash management is to maintain adequate control over cash in some profitable way, the cash management cycle is shown in the following page:

\

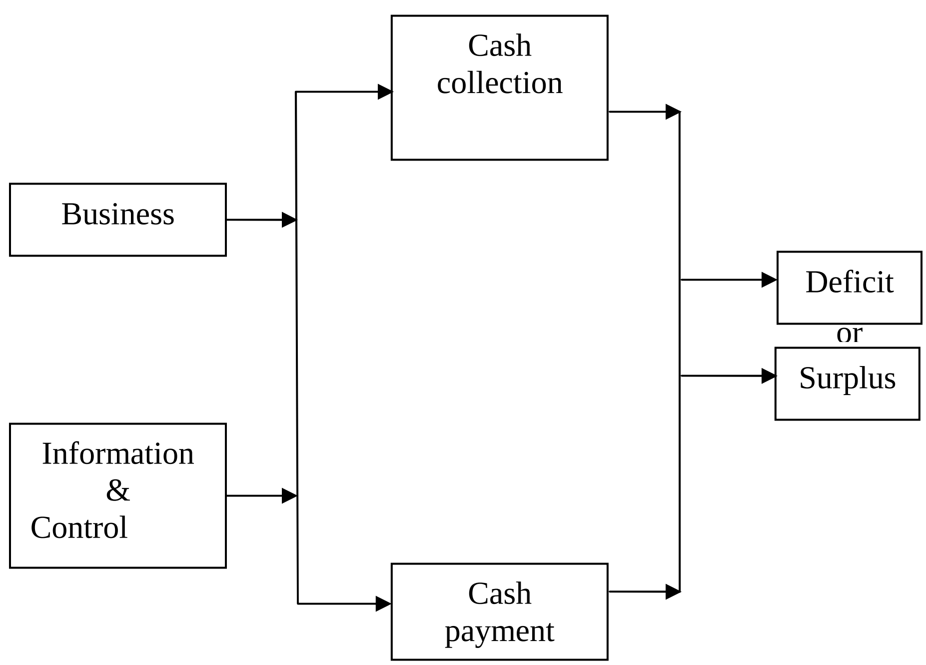


Figure No.2.2

Chart*: Cash management cycle*

Source*: IM Pandey, Financial Management*

The management of cash is also important because it is difficult to predict cash flows accurately, particularly the inflows. and there is no perfect coincidence between inflows and out flows of cash, During some period cash outflows will exceed cash inflows because payment of taxes, dividend or seasonal inventory build up. At other times, cash inflows with be more than cash payment because there may be large cash sales and debtors may be realized in large sums promptly. Cash management is also important because cash constituted the smallest portion of the total current assets. Yet management's considerable time is devoted in managing it. In recent past, as number of innovations have been done in cash management techniques. An obvious aim of the firm now-a-days is to manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash in profitable investment opportunities.

Jain, S.P. and & Narang, K.L (1993), Financial Management Accountancy, have described about cash management. He said that cash is curtailing component of working capital of a concern. Cash like blood stream of human body, gives strength to human body gives strength to business unit. He explained that cash is ultimate resource for a business; unit management should endeavor to secure larger cash at the end of each working capital cycle than what in had at the beginning of working capital cycle. Further, the important objective I managing cash should be trade off liquidity and profitability in order to maximize profits. By keeping larger amount of cash, the firm is able to meet its obligation when they fall due and the risk of technical insolvency is reduced. However, cash is non earning assets, so unnecessary cash should not be kept as hand then the optimum required continuing the operation of the business efficiency. Liquidity and profitability must be balanced in such a way that the organization retains its liquidity and at the same time maximizes its profitability. They also stressed that business transaction, without involvement of cash is mythical in this monitory world. Today importance of cash management is recognized by all segments of organization activities. If some of departments are handled independently without considering their implications of cash management the conflicting interest of these departments are bound to create serious problem. The study of cash management is therefore considered as integrated approach to management science.

Simon Harry and Kerrenbrock, Wilbert E. (1964), Intermediate Accountancy, expressed that cash is more often than other assets, is the item involved in business transaction. This is due to nature of business transactions, which include a price and condition calling for settlement in terms of medium of exchange. In striking contrast to activity of cash it is unproductive in nature. Since cash is measure of value, it is not expand to grow unless it is converted in to other properties. Excessive balance of cash on hand is often referred to as “idle cash ". To be most useful to a business enterprise, cash must be kept moving.

Hampton, John J. (1989), Financial Decision Making, has given more suggestion for effective management of cash. He explained that net working capital is the measure of liquidity, which is defined as an adequacy of near term cash to meet the firm's obligation. The highly liquid firm has sufficient cash to pay its bill at all time .An illiquid firm is unable to pay its bills when due. The investment of excess cash, minimizing of inventory, speedy collection of receivables and elimination of unnecessary and costly short term financing all contribute to maximizing the value of firm. In a period of high interest rate, customer may be slow in paying their bills and that will be cause an increase in receivable. If the level of cash is linked to the level of sales variable working capital may be changed.

Khan, M.Y and Jain, P.K (2003), Financial Management, explained that cash management linkage with working capital management. He expressed that cash management is one part of the key areas of working capital management. A part from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, that is, receivables and inventories get eventually converted into cash, This underlined the significance of management, He presented a detail account of the problem involved in managing cash i.e., motive for holding cash objective of cash management, factors determining cash needs, cash management models, cash budgets basic strategies for efficient management of cash, and specific technique to manage cash subsequently.

Shrestha, Manohar Krishna (1980), Financial Management, has described some conceptual ingredients about cash management which is based on his various research studies. We can learn lessen from it and also helpful for this study indeed. He adjusted the relation of cash with efficient and inefficient corporations. He suggested that if cash holding is bad for inefficient corporation, cash shortage is dangerous for efficient corporations. As for inefficient corporations, it does not matter whether cash inverses or devisees if they are not in a position to utilize them. But efficient corporation due to undertaking of more operations need more cash bedsides having profit.

Weston J. Fred and Brigham Eugene F. (1978), Managerial Finance, have poured some views about cash Management after their various studies on it. The bond conceptual finding of their studies provides sound knowledge and guide lines for the future studies in the field of cash Management. They explained in the beginning the motives for holding cash, specific advantage of adequate cash, synchronization of cash flows, expanded collection and cheque clearing, using float, cost of cash management, determining minimum cash balance, compensating balance, marketable securities. Substitutes for cash are criteria for setting securities investment alternatives.

Van Horne, James C. (2002), Financial Management and Policy, has prescribed the knowledge about cash management. He said that cash management involves managing the monies of the firm to maximize the cash availability and interest income to any idle funds. At one end the function starts when a customer writes a check to pay the firm on its account receivable. The function ends when a supplier, an employee or government realizes collected fund from the firm as an amount payable or accruals. All activities between these two points fall within the realm of cash management. The firm's decision about when to pay its bills involves account payable and accrual management. He again described an idea of effective collection and disbursement so that maximum cash is available. Collection can be accelerated by means of concentration banking, lock-box system and certain other procedures. Disbursement should be handled to give maximum transfer flexibility and the optimum timing of payment, being mind-full, however, of supplier relations. Methods of controlling disbursement i.e. electronic fund transfer is becoming increasingly important, and most corporation use such transfer in use way or another.

Brigham, Eugene F., Gapenski, louis C. and Ehrhardt, Michael C. (2001), Financial Management, have described some conceptual insights which are based on various research studies. They believed that cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash it self earns no interest. Thus the goals of the cash manager is to minimize the amount of cash the firm must hold for use in conducting its normal business activities, Yet, the same time, to have sufficient cash (i) to take trade discount, (ii) to maintain its credit rating, and (iii) to meet unexpected cash needs.

Pradhan, Radheshyam (2004), Financial Management, explained about cash and it management. He told that cash includes coins, currencies, cheque hold by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "hear cash items" are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. The financial manager will purchase low risk, high liquidity money market instruments that can be converted back to cash without delay if the need arises. The securities provide a small profit on cash that may not be needed immediately for the firm's operation. These securities are widely used as short term investment by the firm in developed countries. Each securities offers different characteristics that make it suitable for different firms .He said cash management is also called management of money position because cash includes not only the cash or currency in hand but also the readily convertible securities or other near cash items, e.g. Time and demand deposits, readily available credit and so on. According to him concerning area of cash management is,

- Management of cash flows into and out of the firms.
- Management of cash flow within the firm.
- Management of cash balance held by the firm at a point of time.

2.3 Review of Related Study

In this section an attempt has been made to review some thesis/dissertation and other related publications related to cash management. Only four dissertations have been found which are written on cash management in different categories in Nepal. No on dissertation has shown the significant result. In other word, cash management was found on very weak position in Nepalese companies.

Bajracharya, Subarna Lal (1990), A Study of Cash Management in Nepalese public Enterprise, has studied the cash management practices in Nepalese public enterprises. He has taken 18 enterprises as a sample. According to his study, he concluded that,

- Cash management in public enterprises of is primarily based on the traditional practices. Lacking in a scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis.

- Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangement in connection with collection of receivables has been virtually ignored in many enterprises.

- Majority of the enterprises didn't face any serious liquidity problem. However, this was not because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay in payment to creditors.

- By and large most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. However, on of the enterprises considered the implication of holding idle cash balance and few took on to account the potential benefit of investing surplus in marketable securities. These which failed to consider the cost of administering such investments.

- There had been wide variations overt-time in the state of financial health of enterprises in terms of the composition of current assets to current liabilities as revealed by the relevant financial ratios.

- Neither interest rate nor the rate of inflation had any effect on the cash balance. Further there was very little evidence of effect on the cash balance holding in most case.

Further he recommended for developing appropriate strategies for cash management. He stressed on cash planning and budgeting to cash project cash surplus and cash deficit. Firm can accelerate the inflows as far as possible to decelerate to decelerate outflow. He also stressed to maintain optimal level of cash and at last, it can be better to invest idle fund in marketable securities.

Similarly, *Pradhan, Bijaya (1997), A Case Study of Cash Management in Salt Trading Corporation Limited*, had found that,

- STCL could not make the best are of available cash balance prudently.

- The cash collection efficiency in this corporation is very low.

- The collection of trade credit in the corporation is low during three years of study period.

- Management has taken liberal credit policy to sales of goods. Hence the cash and bank balance of study period is minimum Account Receviable (A/R).
- No, optimum cash balance is maintained. The cash and bank balance with respect to current assets has been fluctuating trend. Similar in the case with respect to the total assets.

To improve such problem i.e. major critical findings, he had recommended the STCL, to

- Efficient management of cash.
- Prepare monthly trial balance cash, fund statement and financial report.
- Design the effective A/R management Adopt efficient credit policy.
- Invest surplus cash in profitable opportunities.
- Prepare cash budget.
- Maintain optimum cash balance.
- Investment in marketable securities.

Another research by *Sainju, Sabin Prakash (2003),* cash *management in public manufacturing enterprises of Nepal: a case study of Royal Drugs,* has made conclusion indicating the poor cash management practices of Royal Drugs Limited (RDL). He concluded that

- Overall cash management practices have been found disappointing.

- Overall liquidity position of the firm has been found moderately dissatisfactory.
- Overall, yearly cash inflow and out flow in RDL is not properly managed. Surplus cash hasn't been properly employed to earn return by investing in short term investment opportunities.
- Profitability has been found in very weak position.
- Overall cash budgeting practice of RDL is very poor.

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

Rastiya Banijya Bank is non manufacturing company and most of its transaction is done in cash basis. It is one of the major contributors to the revenue of the government. Besides this, stake holders have various level of interest on the bank. Cash management of Rastiya Banijya Bank; a service oriented company has great importance in overall planning and control of the Bank. So this is legitimate reasons for studies in some aspects of cash management practices of RBB and the researcher has chosen this topic of interest. The researcher mainly focuses his studies on the analysis of cash budget, cash position, surplus/deficit, liquidity position and internal control policy regarding cash management practices of the Bank .

CHAPTER-THREE

RESEARCH METHODOLOGY

Research methodology is the way to solve systematically about the research problem. Methodology states the method with which data have been extracted and discuss the tool of that have been used in interpretation of such data to fulfill the stipulated objectives.

2.1 Research design

The research study attempts to analyze the cash management system adopted by RBB. Hence, descriptive as well as analytical research designs have been employed.

Descriptive research is essentially a fact finding approach relative largely to present and abstracting generalization by the cross- sectional study of the current situation.

Analytical approach is followed to parametric and non-parametric test of data. It is the process of micro-analysis and appraisal of the data.

2.2 Nature and sources of data

The data used in this study are secondary as they have been collected from concerned authorities. For any research work, information is considered the life blood. Thus it is the major task to gather the information and data collection. To fulfill the objectives of the study secondary data have been used. Secondary data have been taken mainly from the following sources:

1. Published and unpublished document and annual reports of the Bank.
2. Journals, government and non-government publication. Other supportive Books and websites of related topic.

2.3 Method of data analysis

Different financial and managerial tools will be used for the analysis of data. Some inferences and generalizations might also be made in the course of preparation of reports as demanded by the situation.

2.3.1 Financial tools:

Financial tools are those instrument and technique which helps in analysis of financial position of the enterprises. Various financial tools have been used in the study which helps to indicate the position of the Bank as targeted in the objective of the study.

2.3.1.1Ratio analysis

The most important tool of analysis of financial statements is the ratio analysis. It is an expression of the quantitative relationship between two numbers. It helps to diagnose financial health of the enterprises. is widely used tool of financial analysis. The ratio reveals the relationship in more meaningful way so as to enable one to draw conclusion from it. As the case study of cash management involves ratio analysis for judging operational efficiency, the rate of return on total assets and capital employed and activity, efficiency ratio would be particularly meaningful for management and investing. Although, there is no hard and fast rule Ratio analysis is used for measuring performance of a firm. A large nomber of ratios can be derived from the components of Balance sheet and Profit /Loss account. There are sound reasons for selecting different kinds of ratios for different types of situation.

1. Cash position analysis

Business needs cash for meeting its operating its daily operating expenses and other cash obligations. Therefore cash position should be looked into separately to highlight this crucial business aspect. Cash means actual cash and bank balance extracted from annual report balance sheet.

Current liabilities consist of account payable, current portion of long term loan, other provision, pension fund etc.

Total assets include net fixed assets, investments, Non banking assets and current assets except deferred charges.

Total ratios which determine the cash position are:

I. Absolute cash ratio = $\dfrac{\text{Cash and bank}}{\text{Current liabilities}}$

II. Cash to current assets ratio = $\dfrac{\text{Cash and bank}}{\text{Current assets}}$

III. Cash to total assets ratio = $\dfrac{\text{Cash and bank}}{\text{Total assets}}$

IV. Cash to total deposit ratio = $\dfrac{\text{Cash and bank}}{\text{Total deposit}}$

Absolute cash ratio indicates the position of cash for meeting current liabilities cash to total assets ratio indicates cash contents in the total investment. A higher ratio indicates better position.

2. Cash turnover ratio:

The ratio of cash in hand and at the bank to net sales is termed as cash turnover ratio or cash velocity. The ratio indicates the efficient use of cash to generate sales. Cash balance should be kept within reasonable limits just as debtor and stock. In theory the ideal ratio is said to be around 20.

(Dr. Maheshwari, S .N and Dr Mittal S.N (2003), Cost Accounting and Financial Management)

In the case of RBB sales indicate revenue generate from interest income and other fee base income during the fiscal year.

A high ratio means relatively small amount of cash which is good because cash involves holding cost. But if overdraft is there, it may not be advisable since interest burden may wipe off the resources in due course of time. A lower ratio indicates greater availability of cash which may not be advisable since it may be remaining idle in the business. However, too high a ratio is also dangerous, as it may be an index of overtrading i.e., doing business with too little cash.

3. Liquidity ratio

The ratio to test the short term or current solvency or financial position of a bank is mainly following:

- Current ratio = $\dfrac{\text{current assets}}{\text{Current liabilities}}$

- Liquid ratio = $\dfrac{\text{liquid assets}}{\text{Current liabilities}}$

The ratio of current assets to current liabilities is known as current ratio. Current assets include cash and bank (Nepal Rasta Bank & other Banks and Financial institutions) balance, money at call and short notice, loan and advances, investment in government securities, other short term investment and other miscellaneous current assets. While current liabilities include deposit, short-term borrowings, bills payable, proposed &payable dividend, income tax liabilities and other current liabilities

The ratio derived by relating liquid or quick assets to current liabilities is known as quick ratios. 'Liquid asset' means those assets which are immediately convertible into cash without much loss. All current assets except prepaid expenses or advance and inventories are categorized as liquid assets.

Liquid assets consist of cash and bank, account receivable, investment in government securities and others.

4 Actual cash flow analysis

Cash flow statement signifies the movement of cash in hand and out of a business concerned. Inflow of cash is known as sources of the cash and outflow of cash is called use of cash. This statement also depicts the factors for such inflow and outflow of cash. It analyses the reason for changes in balance of cash in hand and at bank as on date to a next date after a gap, usually the accounting period. The main source of cash receipts and channels of payment are found out and recorded in the statement. The main purpose of preparing a statement is to have an at a glance idea about the main causes of movement of cash during a particular span of time. A projected statement will help management to chalk out detail plans regarding its working and operation in future.

2.3.1.2 Managerial tools

Internal control policy analysis

Internal control policy of the company is analyzed in the study particularly regarding cash control practices. The policy analysis will be of descriptive nature.

3. Interpretation of Data

Various data are presented in tabular and graphical form for analyze and interpretation which are execrate from Financial Statement of Rastiya Banijya Bank.

4. Covered period

The study examines the available data covered between fiscal year 2060/2061 to 2064/2065 of Rastriya Banijya bank.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

The presentation and analysis of data section is the main text of the study of cash management practices in the Rastriya Banijya Bank. It provides insight into the predetermined objectives of the study. For the purpose of presentation of data, the most recent published financial statements and annual budget reports are used. The collected and tabulated data have been analyzed using different accounting and financial tools. The chapter includes presentation, analysis and interpretation of collected data with organizing sequentially as per the objectives of the study. The policy regarding internal control of cash management is collected and analyzed in this topic.

4.1 Analysis Cash Balance

Finance department, Budget unit of Rastriya Banijya Bank demands various proposals of budget along with detail of plan programs from different regional directorates. High level management committee, respective representative, experts discuss on the budget proposals. The budget should be consistent with long term plan (five years plan) of the country on banking sector. After discussion of the proposed budget, the committee approved the proposed budget after certain amendments and correction. Again in the mid of budgeted period, the committee revised the budget.

4.2 Shortage or Excess Position of Cash

4.2.1 Analysis of shortage or excess of cash without opening cash balance

Table Showing Actual Cash Surplus/Deficit without Previous Cash

Table No. – 4.1

Rs. In Million

Year	Annual Cash Sources	Annual Cash Application	Deviation	Surplus/Deficit
2060/061	3,945	3,957	(12)	deficit
2061/062	13,356	12,741	615	Surplus
2062/063	10,757	11,177	(420)	deficit
2063/064	5,016	4,707	309	Surplus
2064/065	4,541	3,465	1,076	Surplus

Figure exhibiting Actual Cash Position without Opening Cash Balance

Figure No.4.1

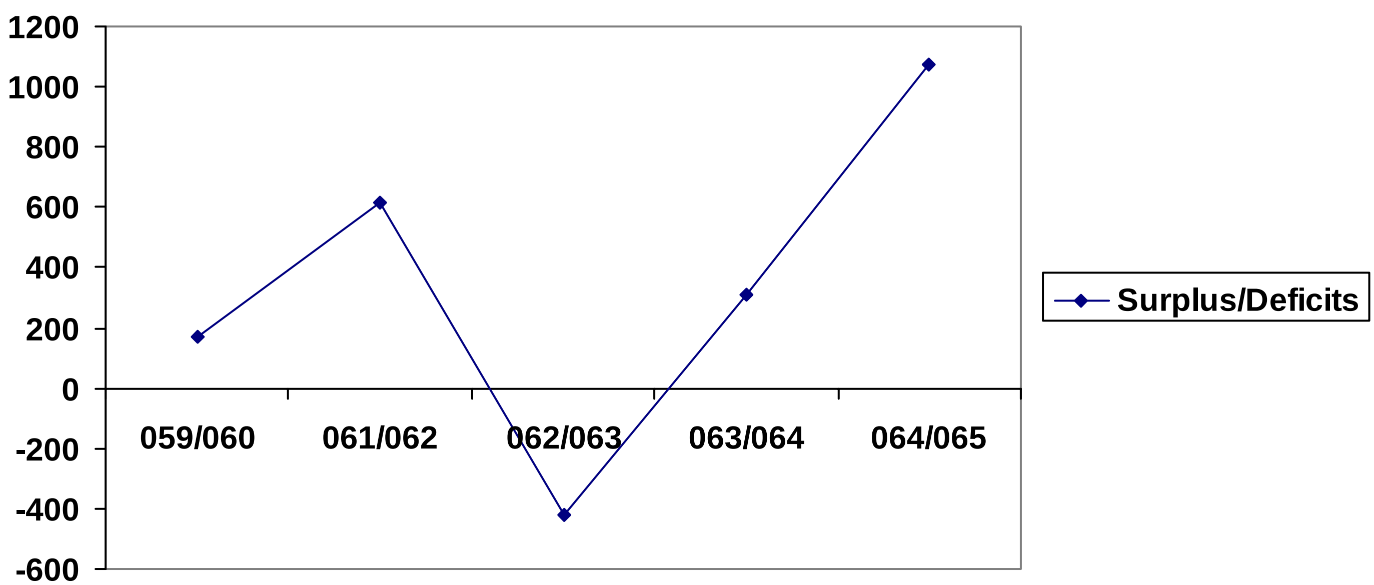


Table No. 4.1 and figure no. 4.1 shows deviation between actual sources and uses. It means there was surplus/deficit of cash at the end of every fiscal year. This shows that budgeted amount was not actually spent according to the plan of the company. Question about investment of surplus cash and opportunity cost of that surplus amount was not answered by concerned authority. In those idle cash, previous year closing balance cash was not included. FY060/061 and FY 2062/063 shows deficit balance and remaining other three year shows cash surpluses without adjusting previous year closing cash balance. Figure no. 4.1 demonstrates the trend of surplus and deficit of cash. It was started with surplus of cash balance in FY 061/062 and slightly decreases in FY 062/063 and again cash balance arises in FY061/062 then after in FY062/063 there is huge deficit in cash balance. However in FY063/064 & 064/065, the cash surplus continuously increases in comparison to immediately previous year.

4.2.2 Considering previous year remaining cash balance

Table Showing Actual Cash Surplus/Deficit with Previous Cash Balance

Table No. 4.2

Rs. In Million

Fiscal Year	Opening cash	Sources	Total	Uses	Surplus/Deficit	Closing cash
2060/061	1,019	3,945	4,945	3,957	1,007	1,007
2061/062	1,007	13,356	14,363	12,741	1,622	1,622
2062/063	1,622	10,757	12,379	11,177	1,202	1,202
2063/064	1,202	5,016	6,218	4,707	1,511	1,511
2064/065	1,102	4,541	8,006	3,465	926	926

Figure No. 4.2

Graph showing Actual sources, Uses and Surplus/Deficit with previous year balance.

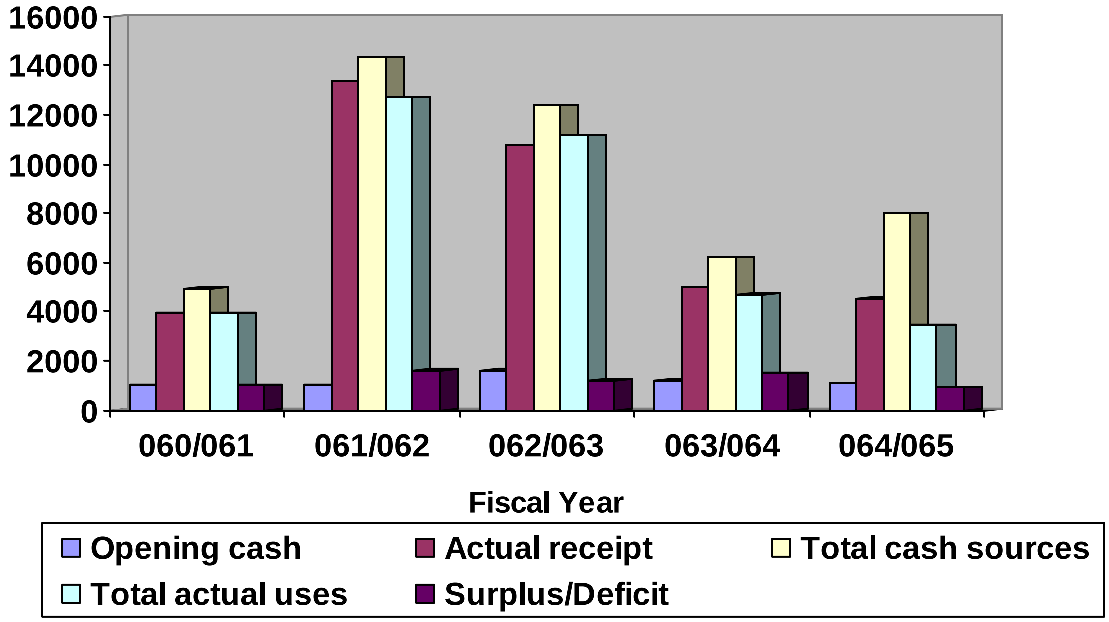
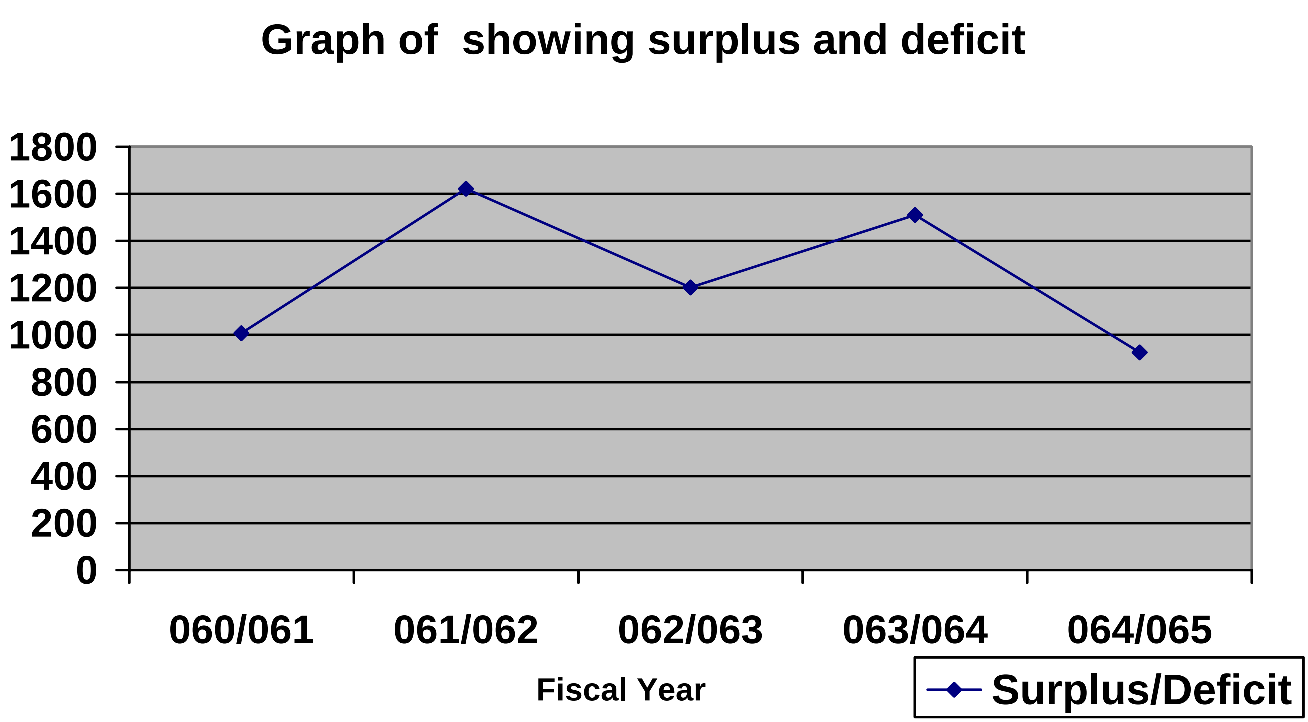


Figure No. 4.3



The table and figure presented above shows that trend of opening cash, actual receipt, cash sources, cash uses and surplus amount in every fiscal year. Total available cash is fluctuating during the study period and in 062/063 the balance is higher that the other year. Similarly, cash sources as cash uses show increasing trend up to FY 061/062 and then in decreasing trend up to 064/65. However both decline in the overall period except in FY 060/061. In the same way, in 061/062 there is decrease in cash surplus with comparing to previous fiscal year. In 2062/063 all these factors are decrease with comparison to previous year. In this last FY there is huge increase in cash surplus. The cash surplus was high in each year and was increasing year by year except 064/65. But that surplus was not invested in any productive sector, even staying in sufficient liquidity level, which would have significant effects in the profitability of the country. The huge surplus cash means that there is not sufficient cash management and proper cash planning in RBB but now in recent FY 064/065 the surplus is decreased with comparison to previous year. It means the bank is comparatively improving its cash management from 064/065 even in a small ratio.

4.2.3 Analysis of Source of Cash

4.2.3.1 Internal source of Cash

Internal sources of financing of cash which was planned by Bank in various fiscal years were categorized as collection of revenue generated from interest income and other fee base income and various income from commission e.g. Draft commission, T.T. commission, Bank guarantee commission, cheque collection charge ,etc.

Bank is an institution which collect amount from various depositors and disbursement those collected fund to other personnel and corporate customer as a loan. Thus, the main sources of cash in banking and financial sector is from its depositor. RBB collect deposit from individual and corporate sector. At present, RBB operating three accounts through which it's collect deposit, they are,

(i) Current Account

(ii) Saving Account

(iii) Fixed Account

The total amounts of deposit in RBB during last five years are a follows,

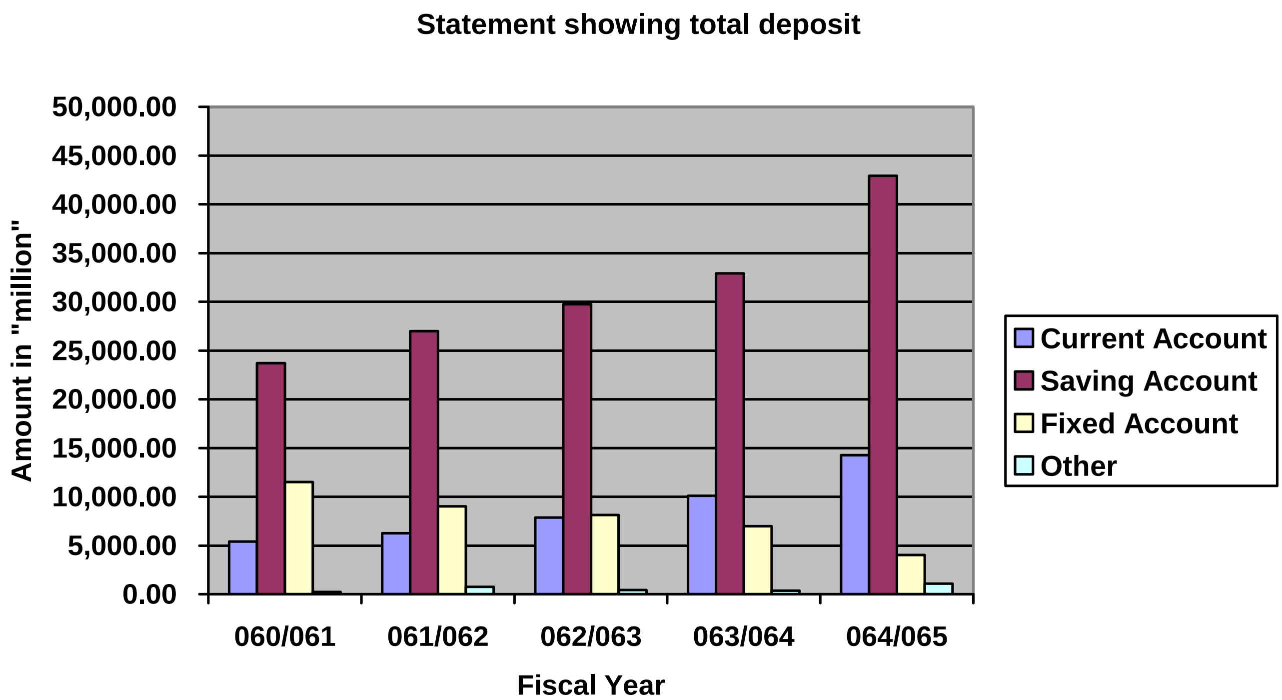
Table No. – 4.3

Table showing total deposit

Rs. In Million

Fiscal Year	Current Account	%	Saving Account	%	Fixed Account	%	Others	%	Total Deposit	%
060/061	5,424	13.27	23,704	58	11,515	28.17	224	0.54	40,867	40.86
061/062	6,274	14.58	26,979	62.71	9,022	20.97	741	1.72	43,016	43.01
062/063	7,883	17.06	29,746	64.39	8,145	17.63	421	0.91	46,195	46.19
063/064	10,085	20.03	32,909	65.36	6,998	13.89	354	0.71	50,346	50.34
064/065	14,250	22.88	42,926	68.93	4,019	6.45	1,071	1.72	62,266	62.26

Figure No. 4.4



The above table and figure reflects that the trend of deposit and weight of deposit with total deposit. It shows the saving deposit is rapidly in increasing trend, current deposit is also increasing trend and fixed deposit is in decreasing trend. It also seems to be increasing total deposit with comparison to previous every fiscal year. This shows the bank have able to attract more and more deposit. In all study period, the deposit is continuously and vastly increasing which is satisfactory for the bank. Among all deposits, saving deposit has largely occupied the percentage with the total deposit amount. Deposit is the main source of cash. Till now RBB is the largest depositor with comparison to other commercial bank in Nepal. Modernizing the banking system, providing the more facilities to the customer such as ABBS system, property loan, interest rate and better customer service, strong management are the main reason of increasing the deposit in RBB. However, the bank's saving deposit is rapidly increasing than fixed and current deposit. It shoes that bank is concentrating its strategy for collecting saving deposit rather than fixed and current deposit.

4.2.3.2 External source of Cash

The external source of cash was financed by international agencies, World Bank through Nepal Rastriya Bank under financial sector reform project. The foreign management team is working since last 4 years for improving the bank and the output is very positive till now. The external source of financing was very nominal in total source of financing. From the study of actual collection of cash, it shows that the company could fulfill it fund needs by its own internal source. The amount of loan which was borrowed from external parties is only for temporary period.

4.3 Analysis uses of cash

4.3.1 Analysis of loan sector

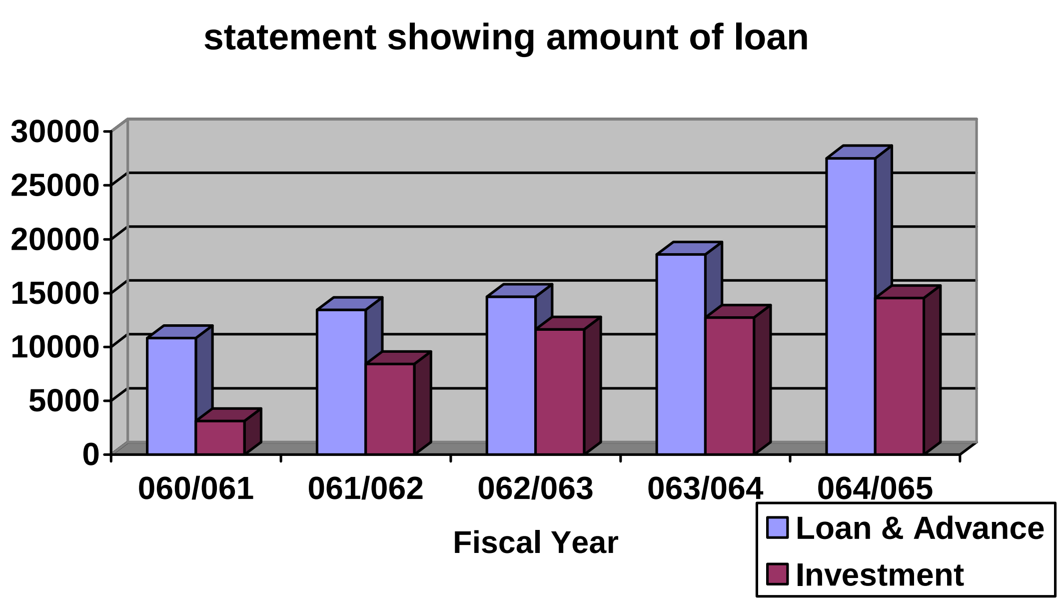
RBB is largest lending portfolio in banking sectors. The various large projects are funded by RBB. The following statement shows the amount of loan disbursement during last five years. The total disbursement amount cover loan & advance, bill purchase, investment in various financial instrument i.e. government securities, bond and stock etc.

Table showing total Investment

Figure No. 4.4 **Rs. In Million**

Fiscal Year	**Loan & Advance**	**%**	**Investment**	**%**	**Total Loan**	**%**
060/061	10,831	61.47	3,117	22.34	**13,948**	**13.94**
061/062	13,431	55.77	8,416	38.52	**21,847**	**21.84**
062/063	14,662	59.37	11,627	44.22	**26,289**	**26.28**
063/064	18,590	65.42	12716	40.13	**31,308**	**31.30**
064/065	27,524	65.42	14,543	34.58	**42,067**	**42.06**

Figure No. 4.5



The above table and figure reflects that the trend of total loan and weight of loan and advance and investment to total loan. It shows that there is increasing trend on in loan amount of RBB in different five fiscal years. Likewise, the loan and advance and investment amount is also in increasing trend. The reason behind increase in loan amount is that the bank is focusing on lending strategy. The huge increase amount of loan shows that the bank can able to mobilize it collected deposit efficiently that is beneficial for the bank because the main product of bank is its loan and high amount of loan means higher interest earning same as higher cash flow to the bank. Also it can conclude that the bank is mobilizing the collected money in loan and advance rather than in investment in different sector.

4.4 Analysis of interest receipt and interest payment

Main income sources of RBB derived from interest income. The following data table shows the interest income from its loan and advance and payment made on its deposit account. The interest receipt record in RBB’s books of account is in cash basis.

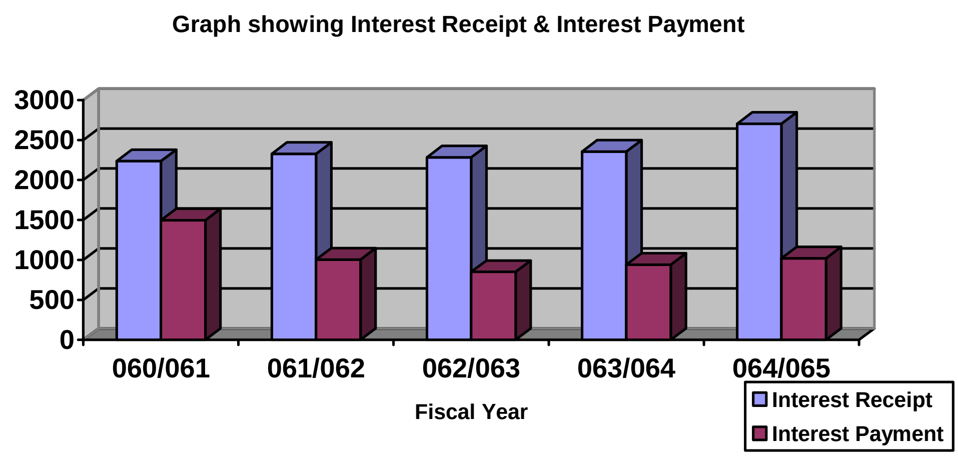
Table showing interest receipt and payment:

Table No. -4.5

Rs. In Million

Fiscal Year	Interest Receipt	Interest Payment	Surplus/Deficit
060/061	2,236	1,495	741
061/062	2,329	1,005	1,324
062/063	2,283	850	1,433
063/064	2,355	939	1,416
064/065	2,703	1,019	1,684

Figure No.4.6



The interest income from loan and advance increased each year since FY 060/061 to FY 061/062. But interest payment on its deposit decreased each year since FY

060/061 to 062/063. The interest payment in 060/061 is higher than in other fiscal year but after then the interest income rapidly increase except in 062/063 and interest payment is in decreasing trend till FY 062/063 which ultimately increased cash inflow. However there is slight increment in interest payment in FY063/064 and 064/065. Due to the focusing in recovery process as well as provide more loan the bank able to generate high interest income similarly the decreases in interest rate on its deposit make cost of fund low so the interest payment is in decreasing trend during last three years and increasing trend in two years. The main reason of increasing in interest payment is to provide the more interest rate to the customer than the previous fiscal year and in interest receipt, also in increasing trend, means the bank is able to mobilize the collected deposit in loan and advance.

4.5 Analysis of operating profit and loss

The operating profit / loss position of RBB during last five year as are follows,

Table showing operating income, operating expenses and operating profit/loss before provision for possible losses.

Table No- 4.6

Rs. In Million

Fiscal Year	Operating Income	Operating Expenses	Operating profit/loss
060/061	1,382	395	987
061/062	1,137	279	1,416
062/063	473	399	872
063/064	643	253	896
064/065	2,250	338	1,912

Note :-

- 1) Operating Income = commission + discount + exchange gain + other income
- 2) Operating Expenses = interest exp. + employee exp. + office operating exp. + exchange loss - interest income

Figure No.4.7

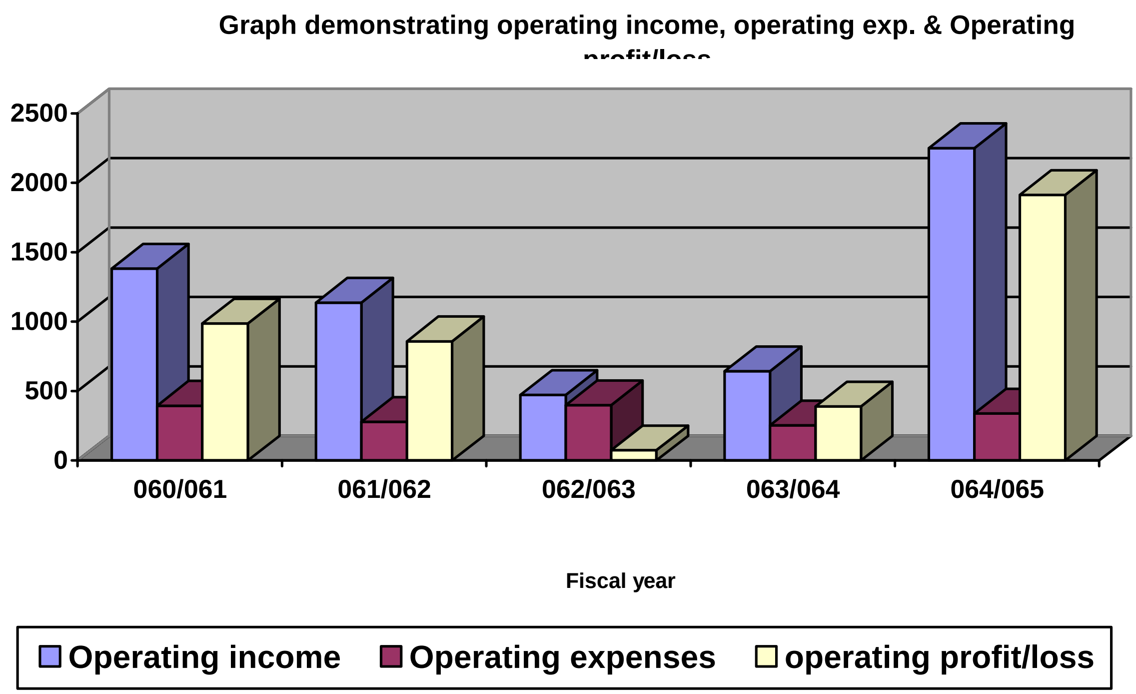


Table-4.6 and figure-4.7 shows the position of operating income, operating expenses & operating profit/loss position of RBB during last five years. The bank is getting operating profit position and it is decreasing up to year 062/063 than in 064/065.It's being rapidly increased. Again operating income is also in decreasing trend but it also has increased rapidly in 064/65. The bank is in operating profit position which suggest that the financial position of the bank is improving position and going to be strengthening in coming future if the current trend is to be continued. So, it can be concluded that the bank is making by improving its income from different sector sicj as deposit, interest income, collecting commission, discount and by decreasing its operating expenses such as interest expenses, employee expenses etc.

4.6. Analysis of closing cash balance

The following data shows the position of the cash balance in the end of the each last five years. The total cash balance is sum of the cash at vault with RBB, bank balance in Nepal Rastriya Bank and cash balance in various other foreign banks.

Table showing cash balance

Table No.-4.7

Rs. In Million

Fiscal Year	Cash balance	Increase/decrease (%)
059/060	1,019	19.88
060/061	1,007	(1.18)
061/062	1,622	61.07
062/063	1,202	(25.89)
063/064	1,511	25.71
064/065	2,308	52.74

Statement of showing closing cash bal.

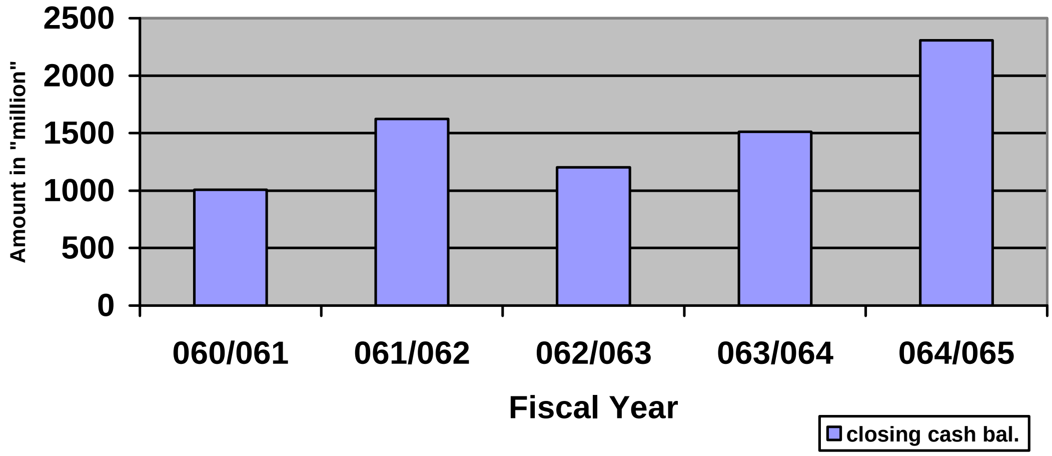


Figure No. 4.8

The above table 4.7 and figure.4.8 clearly shows that the trend of cash balance at the end of each last five years .In FY 060/061 the cash balance is decrease by 1.18% in comparison with previous year. Similarly in FY 061/062 the cash balance is increased by 61.01%. But in FY 062/063, there is decrease in cash balance. However in FY2063/64 and 2064/65, there is 25.71% & 52.74 increment in cash balance. In this last FY, the growth ratio is so high and nearly 5 times increase in comparison with last previous year. Higher cash balance means higher liquidity position of bank but it suggests that the banking is unable to utilize its cash in profitability sector and bank's profitability is going to be fall in later year due to the idle cash. The main reason for the fluctuating cash balance is not identifying the major investment sector with comparing to other private banks. RBB is not drastically changing its policy though it's policy and plans are very old. The bank should launch the different programs where cash can be fully utilized.

4.7 Ratio Analysis:

Ratio analysis is tool which is used for the diagnosis of financial health of the company. It is useful for the stakeholder of the company. It presents the actual financial position of the company. It is an expression of the quantitative relationship between two numbers. The ratio reveals the relationship in more meaningful way so as to enable one to draw conclusion from it. As the case study of cash management involves ratio analysis for judging operational efficiency, the rate of return on total assets and capital employed and activity, efficiency ratio would be particularly meaningful for management and investing. Although, there is no hard and fast rule regarding this subject matter in any organization.

Liquidity ratio, turnover ratio, profitability ratio and solvency ratio are the major types of ratio which is frequently used for the analysis. For the study, selected ratios are chosen which exhibit cash position and liquidity position of the bank.

4.7.1 Cash Position Analysis:

4.7.1.1 Absolute cash ratio

Absolute cash ratio can be computed by total cash dividing by total current liabilities which shows the bank's ability to pay its current liabilities when they due.

o **Absolute cash ratio** $= \dfrac{\text{Cash}}{\text{Current liablities}}$

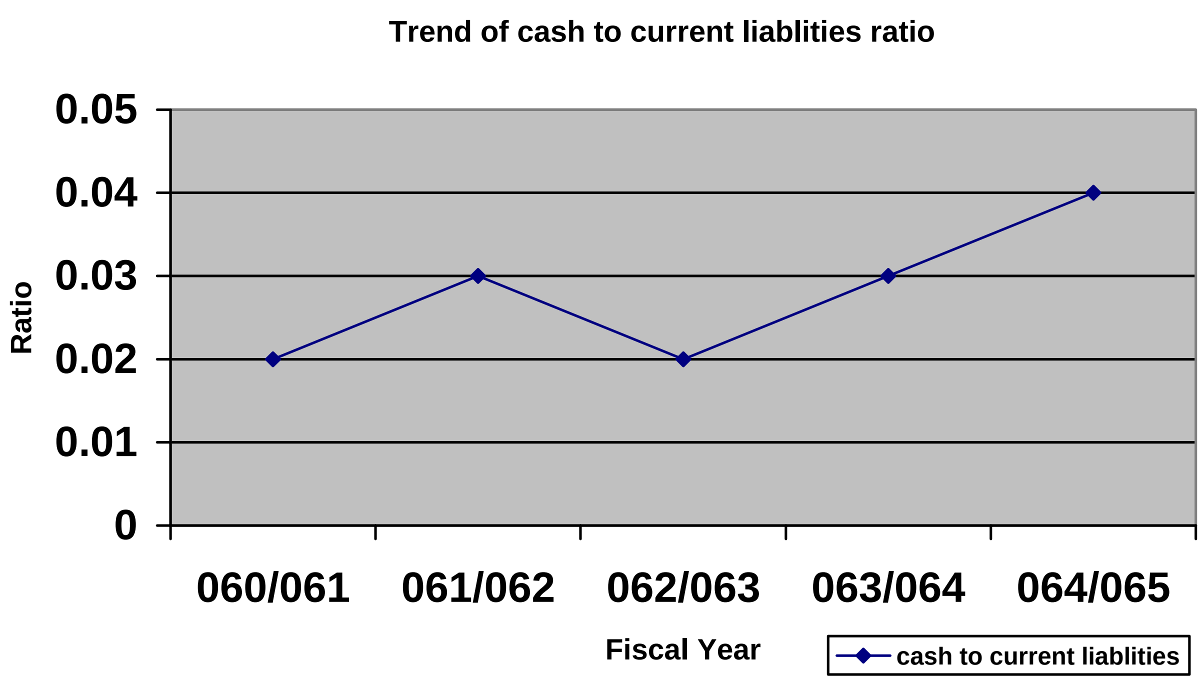
Table showing absolute cash ratio

Table No.-4.8

Rs. In Million

Year	Cash	Current liabilities	Cash/Current liabilities
2060/061	1,007	40,971	0.02:1
2061/062	1,622	47,274	0.03:1
2062/063	1,202	50,594	0.02:1
2063/064	1,511	52,627	0.03:1
2064/065	2,308	54,458	0.04:1
Average			**0.028:1**

Figure No. 4.9



On the basis of above table and figure, the cash to current liabilities ratio has increasing trend in all fiscal year except in FY 062/063. Only cash was not sufficient to pay its current liabilities. So, it shows that cash was not managed properly which may yield more return to the bank.

4.7.1.2 Cash to total assets ratio

$$\textbf{Cash to total assets ratio} = \frac{\text{Cash}}{\text{Total assets}}$$

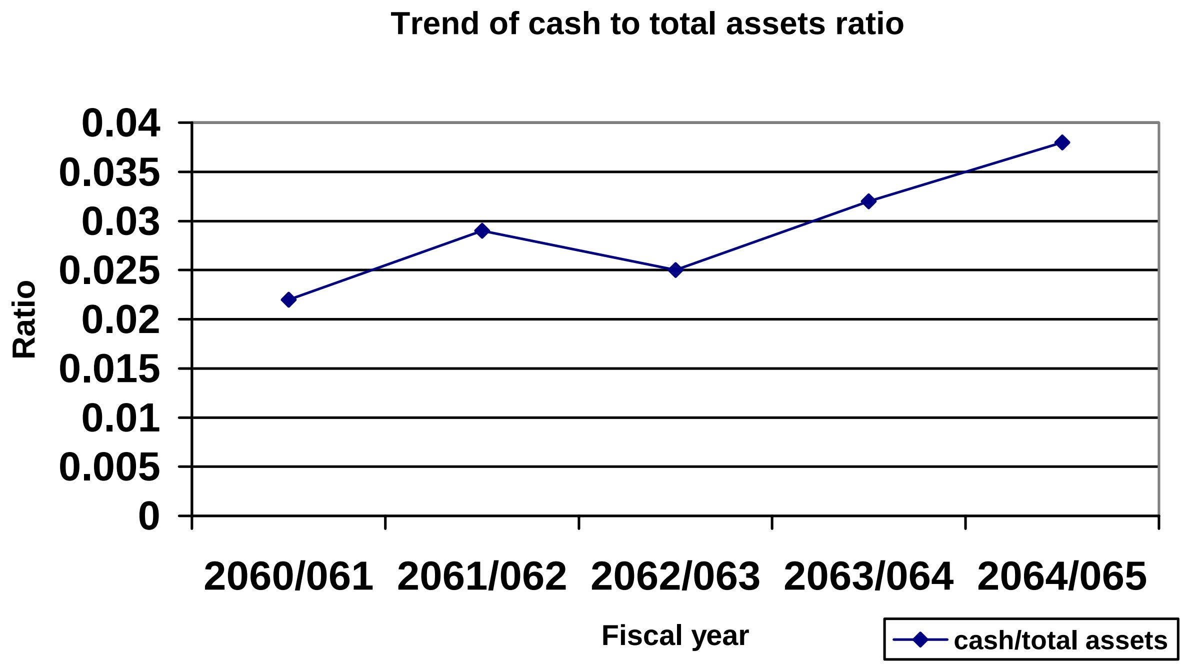
Table showing cash to total assets ratio

Rs. In Million

Table No.- 4.9

Year	Cash	total assets	Cash/total assets
2060/061	1,007	45,056	0.022
2061/062	1,622	56,822	0.029
2062/063	1,202	49,010	0.025
2063/064	1,511	47,911	0.032
2064/065	2,308	60,163	0.038
Average			**0.029**

Figure No. 4.10



The table and figure above depicts that cash is the major component in the pie of total asset. Cash to total ratio is in increasing trend. The trend of is slightly increasing position in FY 061/062 and FY2063/064 with comparison to previous fiscal year. But, in FY 062/063, ratio is slightly in decreasing trend with comparison to previous year. More cash means, it kept idle without investing in appropriate sector. On an average, the cash portion of the total assets comprised of 2.90%. It indicates that even the total assets increasing and cash balance is fluctuating, the cash to total assets ratio is increasing. It means RBB is maintaining the idle cash and total assets in a increasing trend.

4.7.1.3 Cash and Bank balance to total deposit ratio

This ratio can be obtained by dividing cash and bank balance by total deposit.

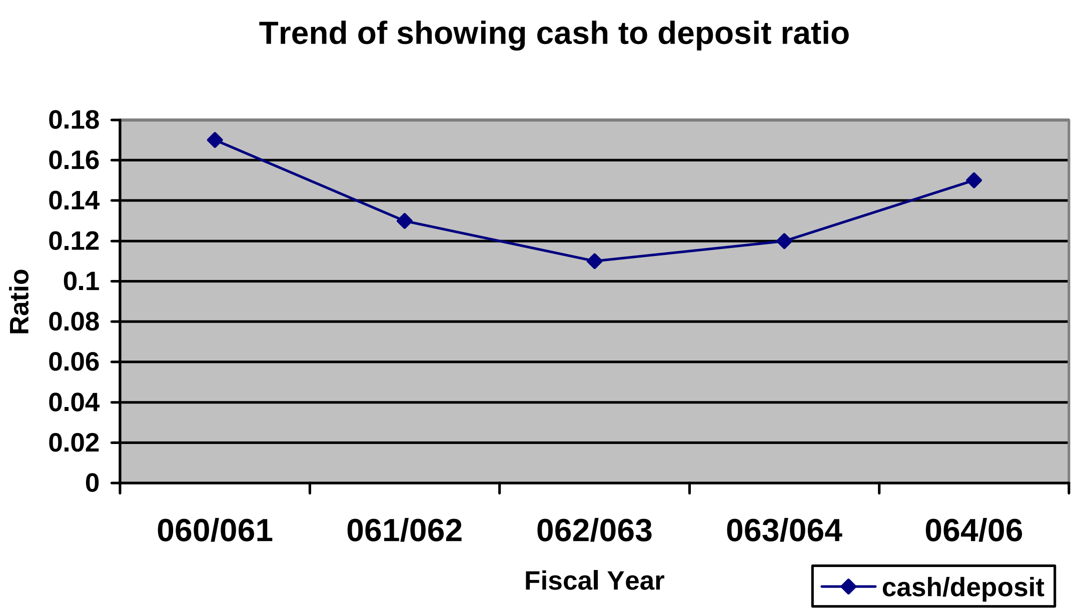
Cash & bank bal. to total deposit = $\dfrac{\text{cash and bank}}{\text{Total deposit}}$

Table No.- 4.10

Rs. In Million

Year	Cash and Bank	Deposit	Ratio
2060/061	7019	40867	0.17
2061/062	5553	43016	0.13
2062/063	5229	46195	0.11
2063/064	6151	50346	0.12
2064/065	9269	57970	0.15
		Average	**0.14**

Figure No. 4.11



The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilization of deposit from banking perspective. Cash and bank balance includes cash in hand, foreign cash in hand cheque and other cash items, balance with domestic bank and balance held aboard. The total deposit consists of current deposit, saving deposit fixed deposit, money at call and short notice and other deposit etc. The ratio shows decreasing trend in FY 2060/061 to 2062/063. But, in year five the ratio is slightly increased in compare to last year. It indicates that the bank had not utilized the idle cash in 2060/061 and after then bank has increasing utilizing the idle cash by decreasing the ratio comparing to 2060/61

4.7.1.4 Cash and Bank balance to current assets ratio

It can be obtained by dividing cash and bank balance by current assets. Large ratio shows idle cash and bank balance while small ratio shows the utilization of deposit in point of view of bank.

$$\textbf{Cash \& bank bal. to current assets ratio} = \frac{\text{cash and bank balance}}{\text{Current assets}}$$

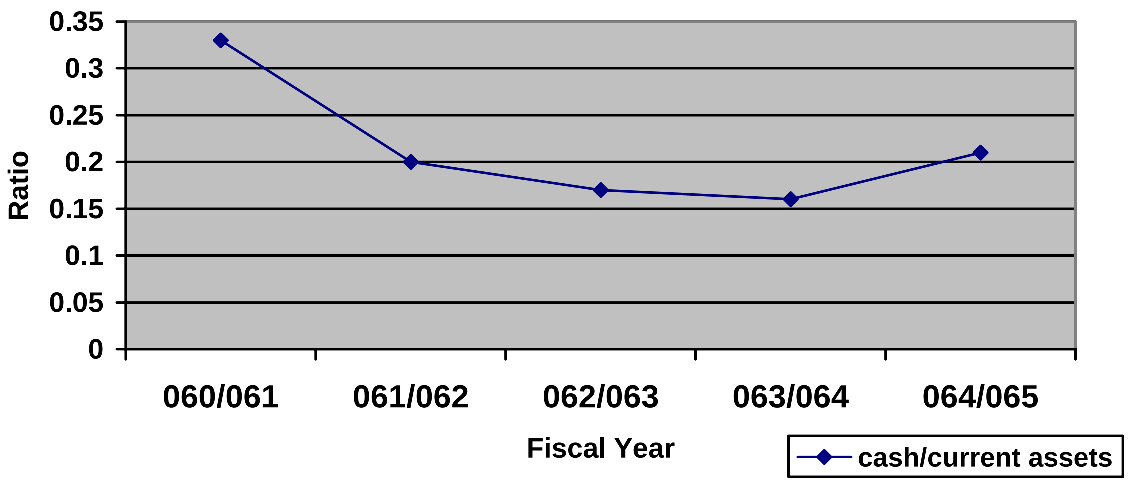
Table No- 4.11

Rs. In Million

Year	Cash and Bank	current Assets	Ratio
2060/061	7019	21067	0.33
2061/062	5553	27400	0.20
2062/063	5229	31518	0.17
2063/064	6151	37477	0.16
2064/065	9269	42562	0.21
		Average	**0.21**

Figure No. 4.12

Trend of showing cash to current assets ratio



The above table and figure reflects the relation between cash and bank to total current assets. The figure shows that the cash is the major part of the current assets. The trend of ratio is increased in FY 2060/061 with comparison to previous fiscal year. However in remaining fiscal year, it is in fluctuating trend. Higher ratio suggests that there is highly liquidity and idle cash in the organization. It indicates that when increasing in the ratio the bank has lowest cash in hand and investing inventories and other current assets rather than holding cash balance.

4.7.2 Liquidity Analysis:

Liquidity ratio shows the liquidity position (short- term solvency) of the banks. It measures the firm's ability to meet current obligations and also reflect the short-term financial strengths of the firm. This is a quick measure of the liquidity. "Liquidity ratios examine the adequacy of funds, the solvency of the firm and the firm's ability to pay its obligation when due."

(John j. Hampton, "Financial Decision Making Concept", pp 139)

Current ratio

This ratio shows the relationship between current assets and current liabilities. In other words, banks' ability to pay current liabilities.

It is calculated by dividing current assets by current liabilities,

(i) **Current ratio** = $\frac{\text{Current assets}}{\text{Current liabilities}}$

Current assets are those which can be converted into cash within a year time, and current liabilities are those which are payable within a year time. Here current assets include cash and bank (Nepal Rasta Bank & other Banks and Financial institutions) balance, money at call and short notice, loan and advances, investment in government securities, other short term investment and other miscellaneous current assets. While current liabilities include deposit, short-term borrowings, bills payable, proposed & payable dividend, income tax liabilities and other current liabilities. The widely accepted standard of current ratio is 2:1, i.e. current assets for each rupee of current liabilities is Rs. 2. it indicates that the ratio of current assets and liabilities should be double range that means if assets is more and liabilities is less, it indicates the bank is holding the inventory rather than investing it and if liabilities is more than the standard ratio it indicates the bank is investing in short term obligation without holding the inventories.

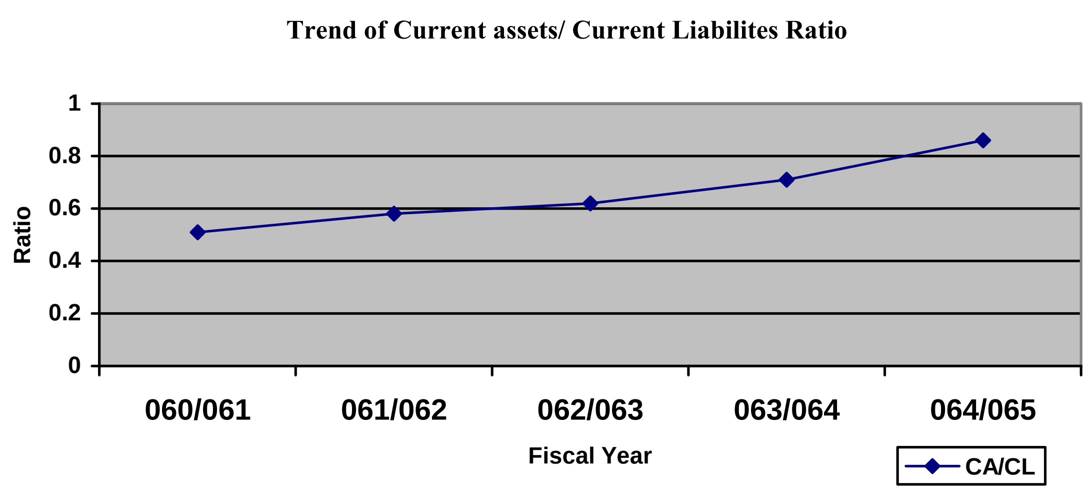
Table showing current ratio

Table No- 4.12

Rs. In Million

Year	Total current Assets	Total current liabilities	Ratio (C.A / C.L)
2060/061	21067	40971	0.51:1
2061/062	27400	47274	0.58:1
2062/063	31518	50594	0.62:1
2063/064	37477	52627	0.71:1
2064/065	52194	60487	0.86:1
Average			**0.65:1**

Figure No- 4.13



The table No. 4.12 and figure No. 4.13 depicts that the current assets of the bank cover the study period was not good enough to meet the current liabilities., however the ratio is in increasing trend. It is proved that the bank is unable to pay its obligation when due. The reason behind weak liquidity ratio is that the bank is still operating in negative net worth because of large (around 18385 million) negative reserve fund.

However, the position of liquidity is slightly improving due to the earning of operating profit in later years.

4.7.3 Loan and advance to total deposit ratio

This ratio can be computed by dividing loan and advances by total deposit of the bank.

$$\textbf{Loan and advances} = \frac{\text{loan and advances}}{\text{Total deposit}}$$

Table showing the ratio between loan and advance to total deposit.

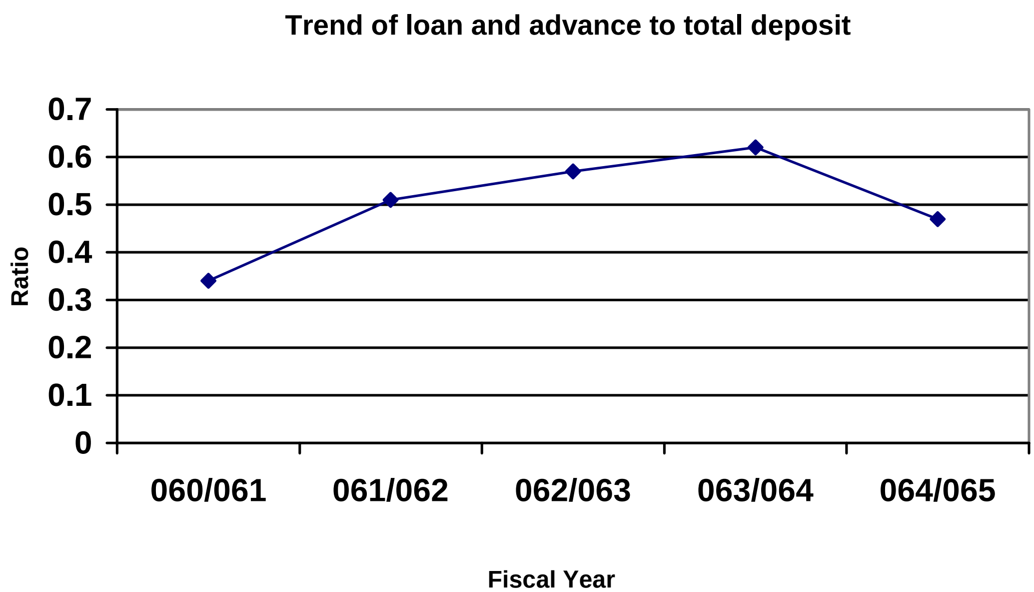
Table No. 4.13

Rs. In Million

Year	Loan and advance	Deposit	Ratio
2060/061	13948	40867	0.34:1
2061/062	21847	43016	0.51:1
2062/063	26289	46195	0.57:1
2063/064	31306	50346	0.62:1
2064/065	27,524	57,970	0.47:1
		Average	**0.50:1**

The following graph demonstrates the ratio between loan and advance to total deposit.

Figure No- 4.14



Its shows the efficiency of banks' management to use its deposits towards loan and advance & investment. Large ratio is good aspect, while small ratio shows less investment in loan and advance, which is good for cash management perspective. Above table-1.13 and figure-4.14 shows the ratio of loan and advance to total deposit in different fiscal year. The ratio is in decreasing trend in FY 060/061 and is in increasing trend up to 063/064 and in 064/065 it has decreased.

Loan loss ratio

This ratio is computed by dividing loan loss provision by loan and advance.

$$\textbf{Loan loss ratio} = \frac{\text{loan loss provision}}{\text{Loan and advance}}$$

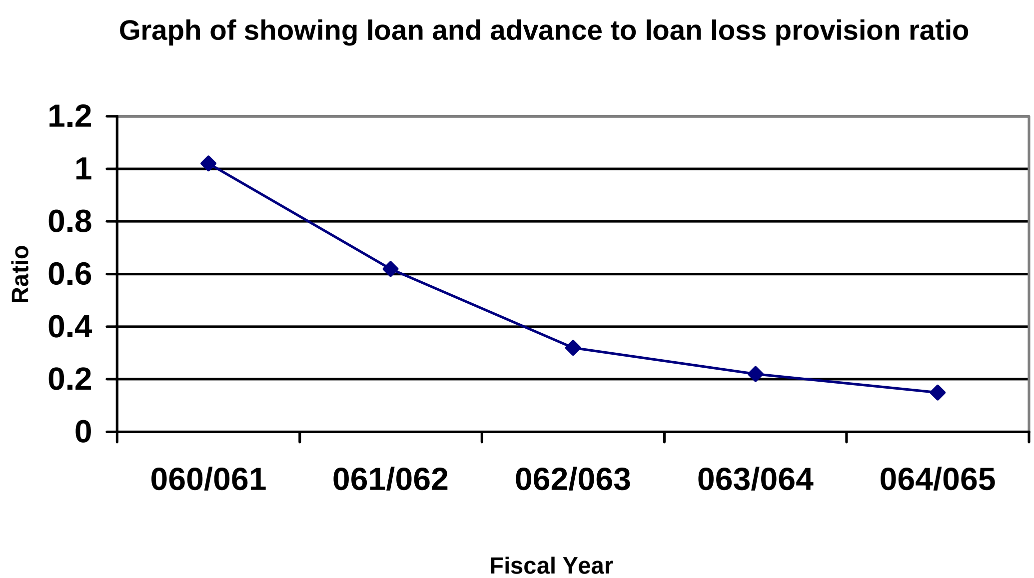
The table-demonstrating ratio of loan and advance to loan loss provision are as follows

Figure No- 4.14

Rs. In Million

Year	Loan and advance	loan loss provision	Ratio
2060/061	13948	14275	1.02
2061/062	21847	13570	0.62
2062/063	26289	8441	0.32
2063/064	31306	6804	0.22
2064/065	27524	4281	0.15
		Average	**0.47**

Figure No- 4.15



The above table and figure reflects the ratio between loan and advance to loan loss provision. The ratio is in decreasing trend in each of the fiscal year. The lower ratio is the best for the bank High loan loss ratio shows management's inefficiency to mobilize fund in loan and advances. Loan loss provision is the provision against low or bad quality of loan and advances. According to banking regulation, it is managed by following percentage;

Loan	**provision**
Good	1% of total good loan
Substandard	25% of total substandard loan
Doubtful	50% of total doubtful loan
Bad	100% of total bad loan

Note:

- Up to 15 months from investment date covers good loan.
- If loan is not paid or renewed up to 18 months from investment date than it will be converted as substandard loan.
- Similarly up to 24 months from investment date it will be doubtful loan.
- More than 24 months, it will be treated as bad loan.

4.8 Cash flow analysis

Statement Showing Cash Flow position From Various Activities

Table No.- 4.15

Rs. In Million

	Year				
Activities	**2060/061**	**2061/062**	**2062/063**	**2063/064**	**2064/065**
CFOA	190	593	899	925	457
CFIA	(1,292)	(10,574)	7,974	1,989	(1237)
CFFA	1,090	10,590	(9,293)	(2,605)	(2811)

Figure No. 4.16

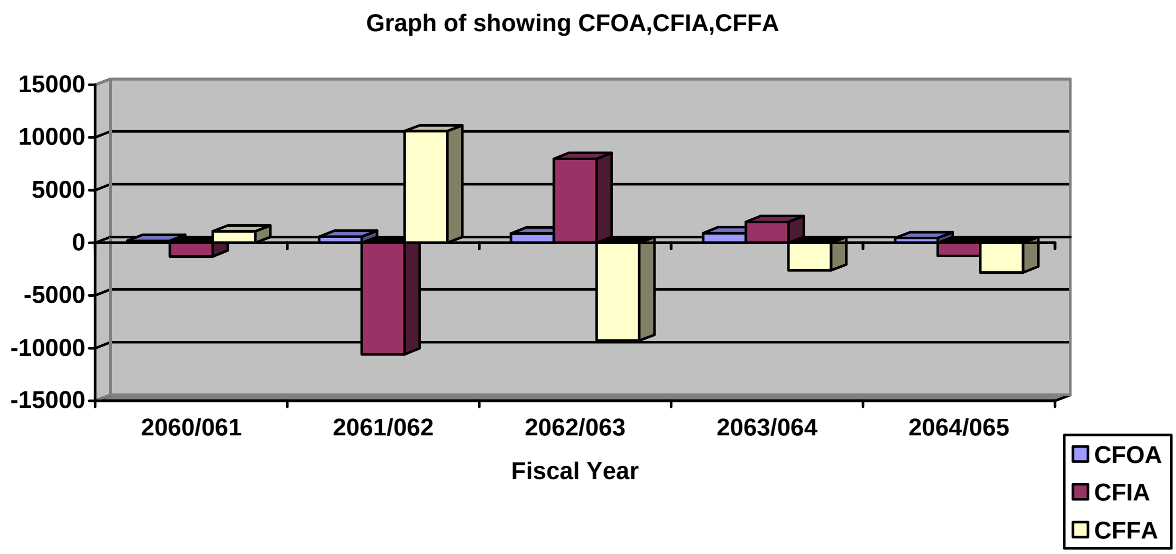
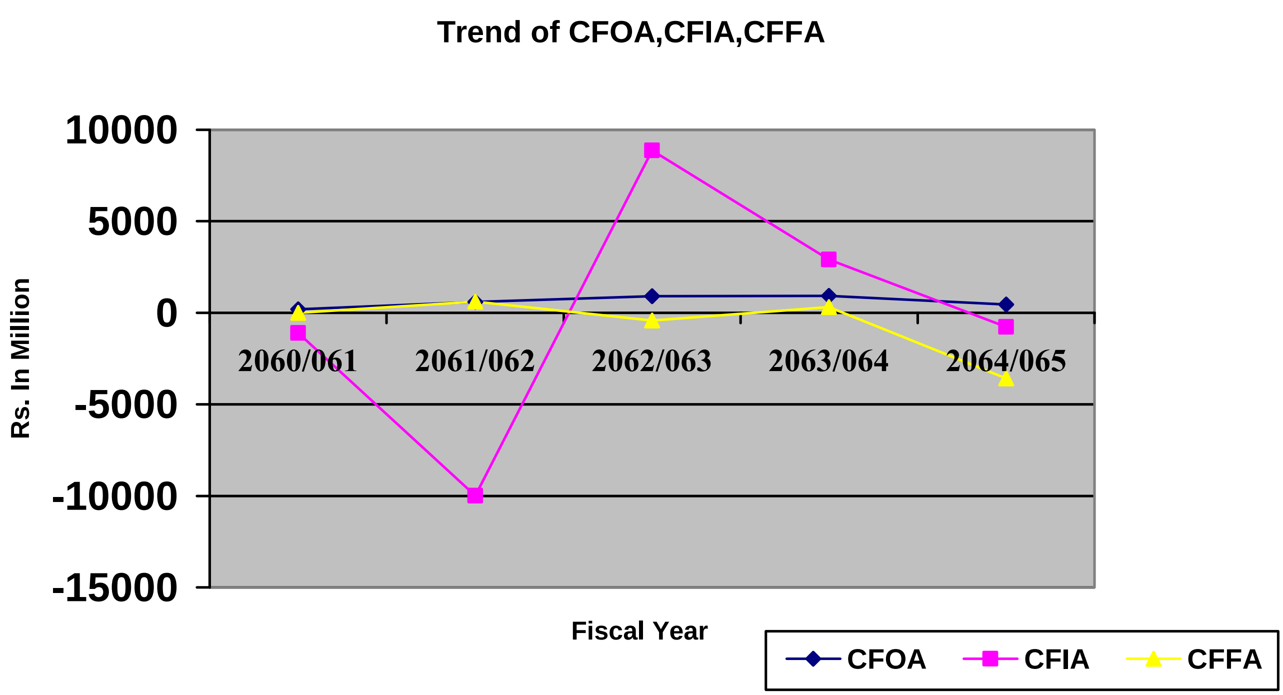


Figure No.- 4.17



CFOA – Cash flows from operating activities.
CFIA – Cash flows from investing activities.
CFFA – Cash flows from financing activities.

The table and figures above shows cash flow position of company in different fiscal year. In F/Y 2060/061 to 2062/063, the opening cash inflow is in positive figure and increased in every fiscal year with comparison to previous year. It suggests that bank's financial position going to be improving in later year being able to generate high cash inflow with comparison to previous year. There is negative cash in flow in investing activities in FY 2060/061, 061/062 and 064/065, which suggest that the bank is unable to extend its investing activities. This is not beneficial for long term perspectives. In rest of the study period there was cash outflow in investing activities. This shows that company was extending it business. Again, it shows that company was in growing stage. Company had cash outflow in financing activities in FY 2062/063 and 2063/064 & In FY 2060/061, 2061/062, 2064/065 there is cash inflow that means the deposit and borrowing is increasing.

4.9 Policy Analysis:

Some of the provision, procedure and rules relating cash management practices and internal control are discussed and analyzed in this phase of study.

- Strategic plan for ten years should be prepared with revision and amendment in every five years.
- Short term plans and annual programs should be prepared to meet the objective of the strategic plan.
- Annual programs and estimated income/expenditure budget should be presented in central office before three month by the beginning of fiscal year.

The CEO with revision and amendment present that budget in committee for the discussion and approval.

.

- Budget can be transferred and adjusted in different heads if it is required after getting prior approval of CEO or the committee.
- Deposit or income amount received against services and from other source should be deposited in the same day. If it is not possible, the cash should be deposited in next day which is mandatory.
- Signature of minimum two authorized persons is required in such transaction.
- All the transaction should be in due course within rules and procedure which has to be reported to the authority.
- After internal audit has to be done within specific time, all the reports and records should be prepared within two months by the end of fiscal year for final audit.
- There is strict provision for the advance and advance clearance.
- All the records and account should be kept systematically and in organize way following accounting policy of the company.
- There is provision of penalty and punishment for deregulating accounting rules and economic policy of the company.

There are strict provisions regarding cash handling in the bank. These legal provisions are mandatory for every authorized officer along with other subordinates staffs of the company. The decision making process will be lengthy due to compliance of time consuming rules and procedure as prescribed. Prompt decision cannot be made on the behalf of the bank. The Policy study shows that the bank is still suffering from centralization problem of management.

4.10 Major Findings

Actual position of cash at the end of FY 2061/062, 2063/064 and 2064/065 was higher than previous year, which is favorable trend in aspect with liquidity although it is not satisfactory. The deposit position of each year of study period is strong with comparison to previous year. Similarly the loan disbursement is in also satisfactory position. The bank is able to earn operating profit in last year of study period that profit helps to reduce the huge accumulated cumulative loss and financial statement of bank quite to be sound. This is favorable condition for bank, if it will continue for some year in future the cumulative loss certainly falls and converted into profit position.

- Without opening cash balance, there is deficits position in FY 2060/061 and 2062/063 so as surplus position in other remaining three years. While including opening cash balance, there was surplus cash position in each five year. Moreover, while comparison is made in between actual cash source and actual cash uses, there was big deviation resulting amount surplus.

- When the closing balance cash is considered as source if budget, there was huge amount of surplus cash balance, which is better to invest in best alternative sector instead if keeping idle.

- An attempt was made to diagnose the financial health of the company with regards to analysis of various ratios. Under this part, cash position analysis, liquidity position analysis, and cash turnover (cash velocity ratio) have been implicated

- The absolute cash ratio for the five year was 0.03 on an average. It was found that the cash position was very strong over the study period. The cash ratio was in slightly increasing trend. It shows that the cash was not managed properly which may yield more return to the bank.

- From the analysis of cash to total assets ratio it comes to know that the cash is the major component in the pie of total asset. It shows that cash is kept idle without investing in appropriate sector. On an average, the cash portion of the total assets comprised of 2.9%. It affects in the profitability of the bank.

- Under liquidity analysis, current ratio and liquidity ratio were used. A current asset of the company over the study period was good enough to meet the current liabilities. And the major portion of liquid assets comprised of cash. The position of highly liquid assets to meet the current liabilities of the company was found more than sufficient. It was because of the huge portion of cash in the current assets.

- Cash turnover analysis shows that the bank’s cash turnover ratio is in decreasing trend. In addition, the turnover ratio was too low, which indicated that the bank is unable to utilize its idle cash in generating sales. The bank’s position of liquid cash that remained idle was too high. So, there was lack of proper management of idle cash in the bank towards profitable sector, which could have yield, more revenue.

In chapter four, data presentation and analysis section, cash flow position of company in different fiscal year shown in details. In study period cash inflow from operating activities was negatives which suggest that in this year the cash outflow from operating activities is greater than cash inflow. From FY 2060/061 to

2062/063, the operating cash inflow is in positive figure and increased in every fiscal year with comparison to previous year. It suggests that bank's financial position going to be improving in later year being able to generate high cash inflow with comparison to previous year. There is Cash in flow in investment activities in FY 062/063 and 063/064, which suggest that the bank is unable to extend its investing activities. This is not beneficial for long term perspectives. In rest of the study period there was cash out flow in investing activities. This shows that company was extending it business. Again, it shows that company was in growing stage. Company had cash out flow in financing activities in FY 2062/063 and 2063/064 and 2064/065 & In FY 2059/060, 2060/061 and 2061/062 there is cash inflow that means the deposit and borrowing is increasing.

There are strict provisions regarding cash handling in the bank. The decision making process will be lengthy due to compliance of time consuming rules and procedure as prescribed. The policy study shows that the bank is still suffering from centralization problem of management.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study focuses on the specific aspects of the cash management practices of Rastriya Banijya Bank. Cash management involves planning to controlling activities of the cash and near cash items. As stated in the introduction chapter, the objective of the study are to observe the planning and controlling of cash in Rastriya Banijya Bank, to examine internal control policy in Rastriya Banijya Bank regarding cash control practices, to identify surplus and cash position in the Bank, source of financing, sector of investment and to study liquidity position of the Bank.

Review of related literature and previous studies has been concerned in the second chapter. Tools and techniques, which was implemented in fourth chapter has been described in chapter three. Fourth chapter includes presentation and analysis of data. Hence, an effort has been made in this chapter to present major finding on specific aspect of cash management practices of Rastriya Banijya Bank.

5.2 Summary of Major Findings

Actual position of cash at the end of FY 2061/062, 063/064, 064/065 was higher than previous year, which is favorable trend in aspect with liquidity although it is not satisfactory. The deposit position of each year of study period is strong with comparison to previous year. Similarly the loan disbursement is in also satisfactory position. The bank is able to earn operating profit in last two year of study period that profit helps to reduce the huge accumulated cumulative loss and financial statement of bank quite to be sound. This is favorable condition for bank, if it will be continue for some year in future the cumulative loss certainly falls and converted into profit position.

- With out opening cash balance, there is deficits position in FY 2060/2061 nad 2062/063 so as surplus position other remaining three year. When including opening cash balance, there was surplus cash position in each five year. Moreover, when comparison is made in between actual cash source and actual cash uses, there was big deviation resulting ample surplus.

- When the closing balance cash is considered as source of budget, there was huge amount of surplus cash balance which is better to invest in best alternative sector instead of keeping idle.

.

An attempt was made to diagnose the financial health of the company with regards to analysis of various ratios. Under this part, cash position analysis, liquidity position analysis, and cash turnover ratio (cash velocity ratio) have been implicated.

- The absolute cash ratio for the five years was 0.028 on an average. It was found that the cash position of company was very strong over the study period. The cash ratio was in slightly increasing trend. It shows that cash was not managed properly which may yield more return to the company.

- From the analysis of cash to total assets ratio it comes to know cash is the major component in the pie of total asset. It shows that cash is kept idle without investing in appropriate sector. On an average, the cash portion of the total assets comprised of 2.9%. It affects in the profitability of the company.

- Under liquidity analysis, current ratio and liquidity ratio were used. A current asset of the company over the study period was good enough to meet the current liabilities. And the major portion of current assets comprised of cash. The position of highly liquid assets to meet the current liabilities of the company was found more than sufficient. It was because of the huge portion of cash in the current assets.

- Cash turnover analysis shows that the company's cash turnover ratio is in decreasing trend. In addition, the turnover ratio was too low, which indicates that the company is unable to utilize its idle cash in generating sales. The company's position of liquid cash that remained idle was too high. So there was lack of proper management of idle cash in the company towards profitable sector which could have yield more revenue.

In chapter four, data presentation and analysis section, cash flow position of company in different fiscal year shown in details. In study period cash inflow from operating activities was negatives which suggest that in this year the cash outflow from operating activities is greater than cash inflow. From FY 2060/061 to 2062/063, the operating cash inflow is in positive figure and increased in every fiscal year with comparison to previous year. It suggests that bank's financial position going to be improving in later year being able to generate high cash inflow with comparison to previous year. There is Cash in flow in investment activities in FY 062/063 and 063/064, which suggest that the bank is unable to extend its investing activities. This is not beneficial for long term perspectives. In rest of the study period there was cash out flow in investing activities. This shows that company was extending it business. Again, it shows that company was in growing stage. Company had cash out flow in financing activities in FY 2062/063, 2063/064 and 2064/65 & In FY 2060/061 and 2061/062 there is cash inflow that means the deposit and borrowing is increasing.

There are strict provisions regarding cash handling in the bank. The decision making process will be lengthy due to compliance of time consuming rules and procedure as prescribed. The policy study shows that the bank is still suffering from centralization problem of management.

5.3 Conclusions

Although the liquidity and cash position of the company is very strong, it cannot be concluded that the cash management practices in Rastriya Banijya Bank was satisfactory in general. Rastriya Banijya Bank has been adopting various management tools and techniques like annual cash budget, annual actual cash flow statement, provision of financing and investment for cash management of the company. But it only plays formal role and fails to screen the weakness of the cash management. It does not apply any corrective action although its own annual analyses indicate the actual weak situation of cash management in some sector. From the study of targeted sector of cash management practices of, Rastriya Banijya Bank it can be concluded as below.

Another astonishing fact is that bank was able to collect more cash from different sources .The deposit trend is increasing in later year. It shows good position of actual cash collection of the bank. On the other hand, the bank can not invest those collected deposit efficiently. Due to these facts, there was enough surplus cash in hand every year and the bank could not manage those surpluses in the profitable sector. It was unable to cope up with the market demand which could have fulfilled through tracking the surplus cash in that profitable sector.

The study shows that bank has high liquidity which adversely affects profitability of the bank. Moreover, it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus cash in appropriate sector, there is holding cash in hand which is not beneficial in short term as well as long term perspectives of bank.

There are strict provisions regarding cash control practices like procedure of running bank account, collection of deposit policy, authority and responsibility for expenses etc in Rastriya Banijya Bank. Strict and lengthy procedure of business activities hamper in decision making which may cause to suffer for not getting business opportunity.

The amount of bad debts is the main problem of Rastriya Banijya Bank due to the NPA (Non-Performing Assets) of banks. The NPA is so high, still bank has more than 45% NPA which is serious problem of bank which ultimately affect adversely in the bank's liquidity and profitability too. The big borrowers not to pay intentionally their dues, although they are still capable to pay. The bank is unable to recovery such amount and the other concern authority of nation is also not helping to bank to ward this matter whatever they can from their level. Similarly the Government has not made any specific strong rule to penalize such borrower and help to recovery process of bank.

5.4 Recommendations

Cash management is one of the important elements of overall management area which is interrelated and integrated with economic planning and controlling of management. Financial efficiency is important for achieving the goal of any business enterprises.

On the basis of the study considering target objective, following recommendations are given for healthy financial performance and better cash management of the Rastriya Banijya Bank.

I. Preparation of realistic budget: while preparing budget the bank should analyze the actual past data and present needs of the programs applying systematic and scientific method of data analysis. Actual total uses of budget amount were not matching with budgeted target for expenses purpose. There most not be such vast deviation between actual and budgeted figure.

II. Appropriate investment policy for surplus cash: On the basis of study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus cash in profitable sector.

III. Maintain liquidity in balance: There is high liquidity in the bank. If the liquidity of the company is too high, it adversely affects the profitability of the bank. So, the bank should hold the cash as required to run annual operating expenses. Idle cash should be utilized in appropriate sector; which can be for extending services of the bank, investment in secured sector etc.

IV. Use internal source in full capacity: Internal source is sufficient to finance whole budgeted expenses of the bank. It should not borrow loan from foreign institution and other external sources because it involves cost.

V. Revised the strict provisions regarding cash: bank should adopt practical procedure and practices for handling cheques and cash. To deal financial and cash matter, responsibilities, authority and accountability should be delegated, making process more practical and flexible. It encourages for prompt decision by responsible person. It helps to impalement the budget timely.

VI. Strategies should be formulated for long term perspectives. New product and market should be developed so that the bank can earn sufficient cash in future. Beside this cost control and reduction of cost of fund is necessary through the deposit mix and controlling of other operating expenses. It can be recommended that bank should try to collect more and more deposit so as using those deposits with such sector that is able to earn high return. The bank also manage certain liquidity to manage fund in Nepal Rastra Bank as regulated by ***Banking and Financial regulation Act*** and other cash in hand to pay its current obligation when it dues.

VII. The recovery process should be strong so that the bank can able to recover its principal and interest. If strong recovery process follows by bank, the NPA level of Bank certainly falls in near future. The banks also requested to

Government and concern authority of Government to help to recovery process of bank through making strong policy and other perspectives.

VIII. The bad debts that have not possibility of recovery should be written off from books of account of bank.

APPENDICES

Appendix "A"

RASTRIYA BANIJYA BANK LIMITED
BALANCE SHEET

Rs. In Million

Assets	2064/065	2063/064	2062/063	2061/062	2060/061	2059/060
Cash Balance	926.00	1,511	1,202	1,622	1,007	1,019
Bal. with NRB	4,551.00	4,640	4,027	3,931	6,012	2,717
Money at call and short notice	55.00	20	-	-	100	740
Investment	14,543.00	12,716	11,627	8,416	3,117	4,623
Loan & Adv. & Bills Purchased	27,524.00	18,590	14,662	13,431	10,831	11,679
Fixed Assets	756.00	693	627	393	392	479
Other Assets	7,213.00	9,741	16,865	29,029	23,597	21,915
Total	**60,163**	**47,911**	**49,010**	**56,822**	**45,056**	**43,172**

Capital Liabilities	2064/065	2063/064	2062/063	2061/062	2060/061	2059/060
Share Capital	1,172	1,172	1,172	1,172	1,172	1,172
Reserve Fund	(16,678)	(18,385)	(19,891)	(21,372)	(22,610)	(23,568)
Borrowing	2,517	2,241	4,358	4,218	80	162
Deposit	57,970	50,346	46,195	43,016	40,867	39,402
Bills Payable	-	40	41	40	24	16
Other Liabilities	15,182	12,497	17,135	29,748	25,523	25,988
Total	**60,163.00**	**47,911**	**49,010**	**56,822**	**45,056**	**43,172**

2058/059
850
3,676
-
4,159
13,690
403
22,191
44,969

2058/059
1,172
(18,623)
156
38,993
20
23,251
44,969