CHAPTER 1

INTRODUCTION

1.1 General Background

Nepal is a land locked country inhabited by about 27 million people covering an area of 1,47,181 square kilometers. The country is surrounded by Tibet, the autonomous region of china in the North and Several Indian States to the East, South and Wet.

Nepal's domestic market is limited. However, with the special relationship with India embodied in a trade treaty, Nepal has access to the largest market in the region. Recently, Nepal has taken the membership of World Trade Organisation (WTO) which allows trading with different countries.

Nepal introduced economic liberation a decade ago and is committed to achieving high economic growth through the active participation of the private sector. In 1990, the first elected democratic government introduced economic liberalization emphasizing the private sector participation in the main of development.

In 1991, the government issued a policy paper on privatization which laid down the policies, modalities and administrative mechanism for the privatization of public enterprises. The privatization process in Nepal is governed by the Act.

The government may private any enterprise using any of the following methods.

- Selling shares of the enterprises to the general public including employees, workers and any other persons of companies interested in the management of such enterprises ;
- Setting up co-operatives ;
- Selling the assets of the enterprises ;
- Leasing out the assets of the enterprises ;
- Involving the private sector in the management of the enterprises and
- Adopting any other modalities considered appropriate by the government on the basis of the recommendation of the Privatization Committee.

A Privatization Committee has been established under the chairmanship of the Finance Minister and is empowered to set up sub-committees as required. A Privatization Cell has been set up within the Minister of Finance to administer the process. In the first phase of the programme which ended in 1992, three state-owned enterprises (SOEs) were privatized. By 1994, five more SOEs had been privatized and two liquidated. Since then, seven more enterprises have been privatized. The total sale price for all of these was about NRs 1.2 billion. The most prominent among the privatized companies are Bhrikuti Paper Mills, Harisiddhi Bricks and Tiles Factory, Nepal Tea Corporation. Recently, the government has sold Nepal Timber Corporation and Birgunj Sugar Mills also. Nepal had 36 public enterprises untill July 2004. By 2004, 24 public enterprises were privatized, 3 were privatized by selling assets and business, 10 privatized by selling the shares, one was liquidated and one by selling the assets and leasing the building and land.

Any dispute over any matter contained in the privatization agreement is ideally resolved through the mutual consent among the concerned parties. If this is impossible it may be referred to arbitration, conducting in accordance with Nepalese Laws relating to arbitration or the rule of the United Nation Commission on International Trade Law (UNICIRAL) whose venue is in Kathmandu.

1.2 An Introduction of Gorkha Brewery Private Limited (GBPL)

1.2.1 Establishment

Gorkha Brewery Private Limited (The Company), was set up in 1990, jointly owned and managed by the Carlsberg group of Denmark and Khetan Group of Nepal Both groups holding equity in the same proportions. The company produces beer under the brand names of Tuborg and Carlsberg. Tuborg was introduced in 199 and was the first international brand to be brewed in Nepal and Carlsberg was launched in 1995. The market share of both Carlsberg and Tuborg brands aggregates to approximately 60% of beer market. Tuborg is the largest selling international brand in the country. Recently, the company had also acquired the San Miguel Brand for Nepal, with the acquisition of this brand, the company's market share increased to more than 90%.

The company is one of the highest corporate taxpayers in the country. The company is the only brewery in Nepal equipped with a complete wastewater treatment plant. The company was awarded with the "Save the Environment Award" in 1995 for its environment - friendly operations.

The company is also active in the social sphere. It organizes and sponsors different sports competitions and cultural events in different parts of the country.

Gorkha Brewery Pvt Ltd has a most modern brewery 14 kms west of Narayangadh. The Brewery is located in the picturesque bank of Narayani River at Mukundpur, Nawalparasi. It is spread in an area of about 7 hectares of land. At present, Gorkha Brewery employs more than 170 professionals on the highly specialized fields of brewing and marketing. In order to meet the increasing demand of product in the

Nepali market. Gorkha Brewery's plant capacity is continuously expanding every year. This year the company has diversified its product to the soft drinks. The new product called Jolly has been launched in the two flavours called Jolly Lemonade and Jolly Sandy containing 1% of Alcohol.

Gorkha Brewery under licence of Carlsberg /Tuborg International and the Technical Management Agreement is with Danbrew Ltd., a sister concern of TIAS, both of Denmark. Carlsberg/Tuborg Assurance Laboratory in Copenhagen subject's samples of every batch of product, raw materials and packaging materials to stringent quality control measures. Gorkha Brewery is also equipped with an ultra-modern laboratory and the whole process of production is computer controlled. That is why the factory at Makwanpur is rated as the most modern brewery in this region.

1.2.2 Organization

The company is registered as a private company under Company Act of Nepal. The factory is situated at Makundpur in Nawalparasi and the office is situated at Hattisar, Kathmandu. Day to day office works regarding accounting, marketing and liasion with government authorities are being conducted from the Kathmandu office, GBPL is the most modern environment - friendly in Nepal. Availability of high quality water, skilled labour from Narayanghat as well as surrounding villages was among the primary reasons for the selection of the site.

Due to stringent quality specification, the raw materials are currently imported from Europe and Australia. The entire brewing is strictly maintained and controlled as per the Carlsberg A/S standard used worldwide with the help of a state of the art laboratory and a computer controlled production process. In addition, the quality of labels, crown corks, cartoons, bottles and can are strictly supervised and checked so that every single product maintains a high uniform quality.

As a proof of the company's ability to live up to the highest quality expectations. GBPL received the Carlsberg group quality award "The Carlberg Golden Words Award". The award was presented to GBPL's Chairman Mr. Mohan Gopal Khetan at the Carlsberg A/s headquarters in Copenhagen. Skilled manpower has given Gorkha Brewery the edge time and again. The friendly yet professional ambience generated maximum productivity to meet high production demand at all times of the year and on-going training programmers ensure that employees are going the best possible opportunity to meet the demanding tasks of tomorrow.

1.2.3 The company has five main Departments :

Corporate

Brewery

Operational

Finance

Administration

Marketing

A Director heads each Department. The Director of each Department becomes member of Management Committee. The managing director chairs the Management Committee.

1.3 Background of the Study

Cash is the lifeblood of a business enterprise, without cash no activities can take place. So, a business must have an adequate amount of cash to operate. The decision maker must pay close attention to the firm's cash position, events, and transactions that affect cash position. The analysis of events and transactions affecting the cash position is termed as cash flow analysis.

It is very remarkable to know the activity of cash from where it is received and to where it is applied. The cash flow statement answers such questions. Cash flow is a statement to show all the cash receipts (inflows) and cash payments (outflows) of a fir for a period. Cash flow statement is prepared to understand the relationship between accrual accounting events and their cash impacts. This statement classifies cash flows from operating, financing and investing activities as required by accounting standard. On the other hand, the statement facilitates to convey information about cash receipts and cash payments of a firm during the accounting period. Though the same information comes through the cashbook already prepared in the course of positing in ledger, the statement of cash flows presents information in a different manner so that the decision maker knows how much cash has increased or decreased in operating, investing and financing activities.

- Statement of cash flows reflects the ability of the company.
- To generate positive cash flows in future period.
- To meet its obligations and to pay dividends.

This cash flow statement helps the user to evaluate a company's ability to have sufficient cash both on short term and on long term basis. Due to this reason, the statement of cash flows in useful to virtually everyone interested in the company's creditors, investors, managers customers and prospective competitors.

The statement of cash flows assist management, investors, creditors and others by providing the following information.

- The enterprise's ability to generate positive future net cash flows.
- The enterprise's ability to meet its obligations.
- The enterprise's ability to pay dividends
- The enterprise's need for external financing
- Reason for differences between net income and associated cash receipts and payments.
- Effects on an enterprise's financial position of both including cash and non-cash investing and financing transactions during the period.

The statement of cash flows is an important financial statement in terms of providing information for investors and creditors. It shows how the accrual accounting information is converted into cash based information and arrange the information so that investors and creditors can better understand the cash effects of a company's operating, investing and financing activities. The primary purpose of the cash flow statement is to provide information about the cash receipts and cash payments of the entity. The cash flow statement helps to assess the solvency of a business and to evaluate its ability to generate positive cash flows in future period, pay dividends and finance growth.

The balance sheet provides information about the assets of an enterprise and how these assets have been financed by owned and borrowed funds at a certain time but it does not explain the changes in assets, liabilities and owner's equity resulting from an enterprise's financial performance during a specific period but earning is measured by accrual accounting. It does not show cash generated through its operations.

The statement of cash flow has now become a standard feature of financial reporting in a number of countries and is required in addition to the balance sheet and profit and loss statement. From 1998, companies in United State have been required to present statement of cash flows. Since the beginning 1992, British companies are required to present statement of cash flow information. Cash flow statements are also required in other many countries including Australia, New Zealand and South Africa. In 1992, the International Accounting Standard Committee issued an accounting standard on cash flow statements. Nepal Company Act 2006 (2053 B.S.), also made mandatory to present cash flow statement along with Balance Sheet and Income Statement.

According to institute of Chartered Accountants of Nepal has published the Financial Statement which should include Cash Flow with the Balance Sheet and Profit and Loss Account.

So, every enterprise should prepare it as integral part of its financial statement for each period for which financial statements are presented.

Cash flow analysis is done through the statement of cash flows. A cash flows statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing.

1.4 Importance of Cash Flow Analysis

Information about cash flow is useful in many ways. It can influence the decision maker in many ways :-

Investors : Investors seek those companies whose regular operating cash infow is more than outflow. From cash flow analysis, investors decide whether to invest or not in a given company.

Creditors : Creditors have to decide whether to provide credit facility or not to the given company. This cash flow analysis gives the information to the creditors whether a company will have enough cash to pay the debt at maturity period.

Management : Management comes to decide whether to know the overall pictures of business enterprise and ability to take advantages of new business opportunities that may arise through the information received from cash flow analysis.

Stockholders : Stockholders can see whether net cash provided by operations convers the dividend payment. To increase the earning per share and help to increase the market price per share in future, the company can repurchase its own stock if it has adequate cash from operating activities. the stockholders can review such information from cash flow analysis.

1.5 Statement of the Problem

Private enterprises are established to develop the economic situation of the country through involving manufacturing and trading goods and products for the support of government and better utilization and availability of goods in the market. So, the Government of Nepal has introduced the privates sector with the broad objective of privatization of the public sector industries also. However, the performance of PE's is not satisfactory except few enterprises. Many PEs are operating at losses, some are already closed due to the potential situations and negligence of the government for the better enrichment of investment.

The Private Enterprises of Nepal are facing many problems such as lack of capital, skilled manpower, low capacity, utilization, political instability, low quality raw materials and competition with open market.

Since the GBPL is one of the highest taxpayer private enterprises based on manufacturing the brewery and soft drinks. Although GBPL is operating at profit, the profits are in fluctuating trend. On the other hand profit in accounting may not reflect the economic reality of business enterprise. GBPL is investing more amounts in its fixed assets and payment of long term borrowing but the benefit from such assets could not be arise. It is important to find out why GBPL is facing with such problem.

The present analysis has tried to find out answers of following basic quedtions :

- What is the trend of sales revenue, inventory policy and debt collection policy?
- What is the situation of its operating activities?
- Whether or not it is generating cash from its operating activities corresponding to investing in assets?
- What is the situation of financial pictures in term of liquidity position?
- Whether or not GBPL is able to meet the short and long term obligations?
- Is it necessary for external financing to meet the required amount of cash?
- What is the position of ending balance of cash during the year?
- Whether or not it has sufficient amount of cash balance to handle the activities of the coming year?

1.6 Objectives of the Study

The main objective of the study is to analyze cash flow statement of Gorkha Brewery Private Limited. The specific objectives of the study are

- To analyze functional budget associated with cash flows.
- To study and evaluate the financial position and liquidity.
- To examine ability to generate cash flow in future periods.
- To provide suggestions and recommendations for effective cash management.

1.7 Significance of the Study

The overall study of cash flow analysis helps to analyze the present cash balance of Gorkha Brewery Private Ltd. Great consciousness is to be applied for determining the functional units as sales, production, material etc. The study certainly helps to understand sales, production and expenses budgets of GBPL. The study focuses on analysis of cash, cash flow budget.

The present research work is the study of cash flow analysis of Gorkha Brewery Private Ltd. This study is useful for managers, accountants, policy makers, planners, creditors, government, potential investors and other researchers.

1.8 Limitations of the Study

The present study is not free from limitations. The limitations of study are as follows :

- The study has been confined only to cash flows analysis of GBPL as a part of profit planning and control.
- The study has covered the data of last five years from FY 059/060 to FY 2063/64.
- The study is based on the secondary data. Using questionnaire, some primary data, have been collected and analyzed. This study depends upon the true responses and data available.

The conclusions depend upon the reliability of provided.

1.9 Organization of the Study

The entire study has been organized as follows :

Chapter 1 - Introduction

This chapter is the introductory framework that includes general background, introduction of the company, background of the study, statement of the problem, objectives and limitations of the study.

Chapter - 2 - Review of literature

This chapter reviews the existing literature in the relevant areas. It mainly includes the fundamental concept and brief review of previous research studies.

Chapter - 3 - Research Methodology

This chapter deals with research methodology that includes research design, data collection, method of analysis and research variables.

Chapter - 4 - Presentation and Analysis of the Study

This chapter deals with the presentation and analysis of relevant data and information. For this purpose various analytical tolls have been used to analyze and interpret the results and major findings.

Chapter 5 - Summary, Conclusion and Recommendations

This chapter is the final chapter of the study that includes summary of the study, conclusion and recommendations.

The bibliography and appendix have been incorporated at the end of the study.

CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

The statement of cash flow reports the movement of cash into and out of business in a given year. Cash is the lifeblood of the company. Cash includes currency, cheques on hand and deposits in banks. Cash equivalents are short term, temporary investments such as treasury bills, certificate of deposits, or commercial paper that can be easily converted to cash.

Business uses cash to pay bills, repay loans and make investments. The cash flow statement reports the sources and uses of cash besides showing the beginning and ending cash and cash equivalents for each year. It includes the combined total change in cash and cash equivalents form all sources and uses of cash. It is imperative that the business owner, be able to successfully prepare a statement of cash flow. The different groups of people read the financial statements for different types of information. Earnings might be the most important area for investors, but the statement of cash flow is extremely important to management, lenders tax authorities and investors. The Company Act 2053 and New Company Act 2063 have made mandatory to include cash flow as a part of the financial statement. Nowadays, every company listed in with the Securities and Exchange Board of Nepal (SEBON) is required to include a cash flow statement along with its quarterly and annual reports.

2.2 Background on Cash Flow Statement

Before getting into the nuts and bolts of cash flow statement, let us take a brief look at how its importance has evolved over the years.

Initially, business was required to evaluate the changes in financial position, or funds statement. The funds statement went through several years of development before it was widely used. In 1961, Accounting Research Study No. 2, sponsored by the American Institute of Certified Public Accountants (AICPA), recommended that a funds statement be included with the Income Statement and balance sheet in annual reports to shareholders.

Two years later, Accounting Principles Board (APB) Opinion No. 3 was issued and provided funds statement preparation guidelines. Although Opinion No. 3 did not go so far as to make the funds statement mandatory, most business, aware of the statement's value, included it in their annual reports. Finally in 1971, APD Opinion No. 19 officially made the funds statement one of the three primary financial documents required in annual reports to shareholders. The APB said that funds statements must be covered by the auditor's reports. Opinion No. 19 did not specify a particular format for the funds statement, business still enjoyed considered flexibility in how they chose to reports their funds flow information.

That flexibility came to and end in late 1987, with the Financial Accounting Standard Board's (FASB) issuance of Statement No. 95, which called for as statement of cash flows to replace the more general funds statement. The FASB, in an effort to help investors and creditors better predict future cash flow, specified a universal statement format that highlighted cash flow from operating, investing, and financing activities. This format is still used today.

In November 1987, the Financial Accounting Standard Board issued Statement of Financial Accounting Standard No. 95, "Statement of cash Flows." The statement became effective for annual financial statement for fiscal year ending after July 15, 1988. Thus the statement of cash flow is now one of the major financial statements.

"Due to increasing importance of cash flow analysis to the decision maker, FASB stated that the financial statement of the company should include information about

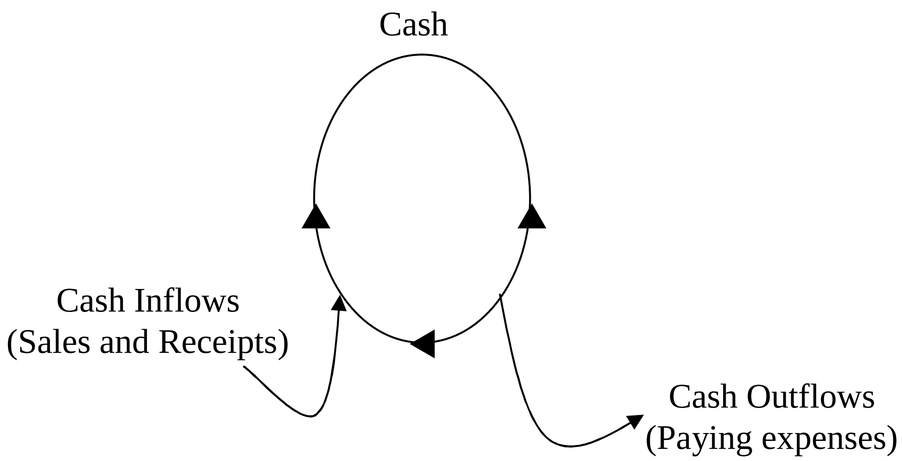
- Howa business obtains and spends cash?
- Its borrowing and repayment activities
- Sales and repurchase of ownership
- Dividend Payment and other distribution to its owners and
- Other factor that effect a company's liquidity and solvency." (Munankarmi, 2003:45)

"All enterprises that prepare financial statement in conformity with IAS are required to present a cash flow statement. The cash flow statement analysis changes in cash equivalents during a period. Cash and cash equivalents comprise cash on hand and demand deposits, together with short term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in values. Guidance notes indicate that an investment normally meets the definition of cash equivalent when it has maturity of three months or less from the date for acquisition. Equity investments are normally excluded, unless they are in substance cash equivalent (e.g. Preferred shares acquired within three months of their specified redemption date). Bank overdrafts which are repayable on demand and which form an integral part of an enterprise's cash management are also included as component of cash and cash equivalents." (IAS 07 Page-8)

"Information about the cash flows of an enterprise is useful in providing the users of financial statement with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of enterprise to utilize those cash flows. The economic decisions that are taken by users require an evolution of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation." (Bajracharya ; 2004:901)

2.3 Understanding How Cash Flow Works

The Cash Flow Cycle



In its simplest form, cash flow is the movement of money in and out of business. It could be described as the process in which business uses cash to generate goods or services for the sale to customers, collects the cash from the sales, and then completes this cycle all over again.

Inflows: inflows are the movement of cash into business. Inflows are most likely from the sale of goods or services to the customers. If credit is extended to customers and allows them to charge the sale of the goods or services to their account, then an inflow occurs as the business collects on the customer's accounts. The proceeds from a bank loan are also cash inflow.

Outflows : Outflows are the movement of money out of money out of business. Outflows are generally the result of paying expenses. If business involves reselling goods, then largest outflow is most likely to be for the purchase of retail inventory. A manufacturing business' largest outflows will mostly be for the purchase of raw materials and other components needed for the manufacturing of the final product. Purchasing fixed assets, paying back loans and paying accounting payable are also cash outflows.

2.4 Need of Cash Flow Statement

The objective or general purpose of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an enterprise's.

(a) Assets

(b) Liabilities

(c) Equity

(d) Income and Expenses, including gains and losses and

(e) Cash flows

This information along with other information in the notes to financial statements assists users in predicting the enterprise's future cash flows and in particular the timing and certainty of the generation of cash and cash equivalents. A complete ser of financial statements includes the following components :

(a) Balance Sheet;

(b) Income Statements;

(c) A statement showing either :

    i. Changes in equity : or

    ii. Changes in equity other than those arising from capital transaction with owners and distributions to owners;

(d) Cash flow statements; and

(e) Accounting policies and explanatory notes

2.5 <u>Importance of cash flow statement</u>

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation. It provides useful information to the users of the statement to:

- Assess an enterprise's ability to generate positive future cash flows.
- Assess an enterprise ability to meet its obligations, its ability to pay dividends and its need for external financing.
- Assess the reasons for differences between income and associated cash receipts and payments.
- Assess both cash and non-cash aspects of a company's investment and financial transactions.

- Assess an enterprise's quality of earning. The quality of earning refers to how loosely income is correlated with cash flows-higher the correlation, the higher the earning quality.
- Assess a company's solvency, liquidity and financial flexibility. Solvency is the ability of a company to pay its debts as they mature. Liquidity is the ability to generate adequate amount of cash and also refers to assets and liabilities nearness to cash. Financial flexibility refers to adapt during the period of financial adversity, to obtain financing, to liquidate non-operating assets for cash. (Bajracharya; 2004:901)

2.6 Benefit of Cash Flow Statement

- A cash flow statement, when used in conjunction with the rest of financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure(including its liquidity and solvency) and it ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
- Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.
- It also enhances the comparability of the reporting operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.
- Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows.
- It is also useful in checking the accuracy of past assessment of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

2.7 Preparation of Cash Flow Statement

Nepal Accounting Standard has made it compulsory that every enterprise should prepare the cash flow statement showing cash flow classified by operating, investing and financing during the period. An enterprise presents its cash flows from operating, investing, and financing activities in a manner that is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. The information may be used to evaluate the relationship among those activities.

A. Operating Activities

The amount of cash flows arising from operating is a key indicator of the extent which the operations of the enterprise have generated sufficient cash flows to repay loans, maintain the operating capability of the enterprise, pay dividend and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful in conjunction with other information, in forecasting future operating cash flows. Cash flows from operating activities are primarily derived from the principal revenue producing activities for the enterprise. Therefore, they generally result from the transactions and other events that enter the determination of net profit of loss. Examples of cash flows from operating activities are :

(a) Cash receipts from the sale of goods and rendering of services;

(b) Cash receipts from royalties, fees, commissions and other revenue :

(c) Cash payments to suppliers for goods and services:

(d) Cash payments to and on behalf of employees:

(e) Cash receipts and cash payments of an insurance enterprise for the premiums and claims, annuities and other policy benefits;

(f) Cash payments or refund of income taxes unless they can be specifically identified with financing and investing activities; and

(g) Cash receipts and payments from contracts held for dealing or trading purpose.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss, which is included in the determination of net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities. An enterprise may hold securities and loans for dealing or trading purpose in which case they are similar to inventory acquired specifically for resale. Therefore cash flows arising from the purchase and sale or dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue producing activity of that enterprise.

B. Investing Activities

The separate disclosure of cash flow from investing activities is important because the cash flow represents the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are :

- Cash payments to acquire plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development cost and self-constructed property, plant and equipment;
- Cash receipts from sale of property, plant and equipment, intangibles and other long-term assets;
- Cash payments to acquire equity or debt instruments of other enterprises and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purpose);
- Cash receipts from sales of equity or debt instruments of other enterprises and interest in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- Cash advances and loans made to other parties (other than advances and loans made by a financial institution);
- Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
- Cash payments for future contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities; and
- Cash receipts from future contract, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes or the receipts are classifieds as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

C. Financing Activities

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are :

- Cash proceeds from issuing shares or other equity instruments;
- Cash payments to owners to acquire or redeem the enterprise's shares;
- Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

- Cash repayments of amount borrowed; and
- Cash payments by lessees for the reduction or the outstanding liability relating to a finance lease.

2.7.1 Method of Preparation of Cash Flow from Operating Activities

International Accounting Standard permits an enterprise to reports its cash flows from operating activities using either:

i. Direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

ii. Indirect method, whereby net profit or loss is adjusted for the effect of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expenses associated with investing or business cash flows.

Direct Method

Enterprises are encouraged to reports cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimation of future cash flows. Under the direct method, information about major classes of gross cash payments may be obtained either:

(a) From the accounting records of the enterprise; or

(b) By adjusting sales, cost of sales (interests and similar income and interest expenses and similar charges for a financial institution) and other items in the Income Statement for :

    i. Changes during the period in inventories and operating receivables and payables;

    ii. Other on cash items; and

    iii. Other items for which the cash effects are investing or financing cash flows.

Cash Flow Statement under Direct Method

Particular	**Rs.**
Cash flow from operating activities	
A. Cash collections from debtor and cash sales	
Net sales (less return)	-------------
Add : decrease in debtor/bills receivables/Account receivables	-------------
less : increase in debtor/bills receivables/Account receivables	-------------
Add : Bad debts recovered	-------------
less : Bad debts written off	-------------
Add : increase in provision for doubtful debt	-------------
less : decrease in provision for doubtful debt	-------------
Total	
B. Cash purchase and payment made to supplier	-------------
Net purchase / cost of goods sold / material supplies	-------------
Add : increase in inventory / stock	-------------
Less : decrease in inventory / stock	-------------
Add : decrease in creditor / bills payable / Account payable	-------------
Less : increase in creditor / bills payable / Account payable	-------------
Add : purchase related expenses	-------------
Total	
C. Payment made to employee and other operating expenses	-------------
Directlabour	-------------
Add : manufacturing overhead	-------------
Add : general expenses	-------------
Add : selling expenses	-------------
Add : interest paid	-------------
Add : decrease in outstanding expenses	-------------

Less : increase in outstanding expenses	-------------
Add : increase in prepaid expenses	-------------
Less : decrease in prepaid expenses	-------------
Total	
D. Payment for tax expenses	-------------
Income tax paid	-------------
Add : Operating tax payable	-------------
Less : Closing tax payable	-------------
Total	
E. Interest and dividend received	-------------
Interest received	-------------
Dividend received	-------------
Add : decrease in outstanding interest	-------------
Less : increase in outstanding interest	-------------
Total	
Operating cash flow before extra ordinary items (A+B+C+D+E)	-------------
Add : increase in short term loan	-------------
Less : decrease in short term loan	-------------
Add: increase in bank overdraft	-------------
Less: decrease in bank overdraft	-------------
(1) Net cash flow from investing activities	-------------
Purchase of fixed assets	(-------------)
Sales of fixed assets	-------------
Purchase of investment	(-------------)
Sale of shares and debentures of other company	-------------
(2) Net cash flow from investing activities	-------------
Cash flow from financing activities	

Issue of shares and debentures	-------------
Redemption of preference share and debentures	(-------------)
Issue of long term loan	-------------
Repayment of long term loan	(-------------)
Payment of dividend	(-------------)
(3) Net cash flow from financing activities	-------------
Net change in cash or cash equivalents (1+2+3)	-------------
Add : opening balance of cash	-------------
Closing balance of cash at end	-------------

Indirect Method

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

a) Changes during the period in investing and operating receivables and payables;

b) Non - cash items such as depreciation, provisions, taxes, unrealized foreign currency gains and losses, undistributed profits of associates, and where consolidated financial statements are prepared, minority interest; and

c) All other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expense disclosed in the Income Statement and the changes during the period in investing and operating receivables and payables.

Cash Flow Statement under Indirect Method

Particular	**Rs.**
Cash flow from operating activities	
Net profit for the year	-------------
Add : Non cash or non operating expenses	
Depreciation for the period	-------------
Amortization of goodwill/patent/trademark/copyright	-------------
General reserve maintained	-------------
Discount on issue of share and debenture	-------------
Premium on issue of share and debenture	-------------
Loss on sale of fixed assets	-------------
Preliminary expenses written off	-------------
Provision for taxation	-------------
Provision for dividend	-------------
Less : Non operating income	
Appreciation on fixed assets	-------------
Premium issues of share and debenture	-------------
Discount on redemption of preference share and debenture	-------------
Profit on sale of fixed assets	-------------
Dividend received	-------------
Refund of tax	-------------
Funds from operation	-------------
Add : increase in current liabilities	-------------
Add : decrease in current assets	-------------
Less : decrease in current liabilities	(-------------)
Less : increase in current assets	(-------------)
Net cash flow from operating activities before tax	-------------

Less : tax paid	(-------------)
(1) Net cash available from operating activity	-------------
Cash flow from investing activities	
Purchase of fixed assets	(-------------)
Sale of fixed assets	-------------
Purchase of investment	(-------------)
Sale of shares and debentures of other company	-------------
(2) Net cash flow from investing activities	-------------
Cash flow from financing activities	
Issue of shares and debentures	-------------
Redemption of preference share and debentures	(-------------)
Issue of long term loans	-------------
Repayment of long term loan	(-------------)
Payment of dividend	(-------------)
(3) Net cash flow from financing activities	-------------
Net change in cash or cash equivalent (1+2+3)	-------------
Add : opening balance of cash	-------------
Closing balance of cash t end	-------------

Work Sheet Method

This method is not recognized by the Accounting Standard. But most of the writers have included it as a method of determining the cash flow.

In this work sheet, half of the space on the left hand side is left for particulars and half of the space towards right hand side is first divided into three columns. The first column is meant for the net changes, the second column is used for adjustments, and the third column tabulates the cash changes (i.e. increase or decrease). A Performa of work sheet is given below.

Work Sheet - Cash Flow Statement

Balance Sheet and Income Statement Items	Net Change		Adjustments		Cash Change	
	Debits	Credits	Debits	Credits	Debits	Credits

Rule of preparing the above work sheet

- Net change should be determined by making a comparative study of Balance Sheet of two dates. Increase in assets, decrease in liabilities and decrease in shareholder's fund should be shown to the debit of net change column. Similarly, decrease in asset, increase in liabilities and increase in shareholders fund should be shown to the credit of net change column.
- Items of expenses shown in Income Statement should be shown to the debit side of the column of net change and items of revenues shown in Income Statement should be shown to the credit of net change.
- By analyzing the increase or decrease in the items of Balance Sheet and by making a through study of the items of Income Statement, it should be found whether they carry any effect of non-cash transaction or not. It is to be remembered that the changes in Balance Sheet and items of Income Statement are the collective results of cash inflows, cash outflows and non-cash transactions.
- Adjustment entries are to be passed for eliminating the effect of non-cash transactions which are shows in the column of Adjustments only by the amount involved. Such amount in the column of Adjustments is shown against these items of Balance sheet or Income Statement respect of which adjustment has to be made. If the item has debit balance and decrease has to be given effect by adjustment, then the amount would be shown to the credit of the column of adjustment and vice-versa.

- After making this adjustment, the change in the items of Balance sheet and items of Income Statement would disclose the amounts of cash inflows and cash outflows. As such, these are transferred to the increase and decrease column of cash changes. But it should be remembered that debits and credits do not represent corresponding increase and decrease. If debits are higher than credits, the excess represents the decrease in cash and excess of credits over debits represent the increase in cash. Hence, credit balance are shown in the column of increase and debit balances are shown in the column of decrease.

Cash flow statement is prepared by listing the balance shown in the column of cash changes of the work sheet under distinct heads of sources of cash and uses of cash. However, the amount is taken as base for such listings. That item of cash inflow or cash outflow is shown first which carries higher amount and it is followed by an item of fewer amounts. Alternatively, item of cash inflows may be listed category wise, viz, operations, sales of fixed assets and financial heads. similarly, the item of outflows may be shown under distinct sub-heads of operations purchase of fixed assets and financial heads. In both cases, sources of cash are shown first and use of cash afterwards and the differences between the two are known as net changes in cash." (Gupta; 1998:284-285)

Free Cash Flows

"Free cash flow is intended to represent the cash flow available to management for discretionary purposes after the company has met all of its basic obligations relation to business operations. Many analyses put a company's cash flows into perspective by computing a subtotal called free cash flow. The term free cash flow is widely used within the business community. Different analysts compute this measure in different ways because there is no widespread agreement as to the basic obligation relating to business operations." (Bajracharya, Ojha, Goet, Sharma; 2004:935)

Computation of free cash flow

Net cash flow from operation activities	------------------
Less net cash used for acquiring plant assets	------------------
Dividend paid	------------------
Free cash flow	------------------

2.8 Cash Budget :- A tool of assessing future flows

"The primary tool used by management to anticipate and shape future cash flow is a cash budget. Cash budget helps to forecast future cash receipts and payments. It is not a financial statement and is not widely distributed to people outside the organization. But it is must useful for all accounting reports." (Bajracharya, 2004:935)

Although a cash budget is similar to a statement of cash flows, it shows the result expected in future but cash flow statement shows the achievements in the past. The past budget is more detailed and prepared by showing expected cash flows month by month and separately for every department within the organization.

"The cash budget, however, does not explain the type of activities, operating, investing and financing from and to which cash is generated and applied. Cash budget simply shows the projected cash receipts and disbursement irrespective of any activity." (Bajracharya, 2004:936)

Importance of cash budget

- Forcing managers to plan and coordinate the activities of each department in advance./
- Providing managers with an advance notice of the resources at their disposal and the results they are expected to achieve.
- Providing targets useful in evaluating department performance.
- Providing advance warning of potential cash shortages.

2.9 Strategies for Improvement in Cash Flows

No business can afford to run out of cash and default on its obligation. Even being a few days late in payrolls or paying suppliers or creditors can damage business relationship. Thus, the management's most basic responsibilities are to ensure that the business has enough cash to meet its obligation as they become due.

There are some strategies to improve cash flow, Such as

i. Increase sales (particularly those involving cash payments).

ii. Reduce direct and indirect costs and overhead expenses.

iii. Defer discretionary projects which cannot achieve acceptable cash paybacks (e.g. within one year).

iv. Increase prices especially to slow payers.

v. Review the payment performances of customers - involved sales force.

vi. Become more selective when granting credit.

vii. Seek deposits or multiple stage payments.

viii. Reduce the amount / time of credit given to customers.

ix. Bill as soon as work has been done or order fulfilled.

x. Improve system for billing and collection.

xi. Use the 80/20 rule to control on inventories, receivables and payables.

xii. Improve systems for paying suppliers.

xiii. Generate regular reports on receivable ratios and aging.

xiv. Establish and adhere to sound credit practices - train staff.

xv. Use more pro-active collection techniques.

xvi. Add late payment charges for fees where possible

xvii. Increase the credit taken from suppliers.

xviii. Negotiate extended credit from suppliers.

xix. Make prompt payments only when worthwhile discounts apply.

xx. Reduce inventory levels and improve over work-in-progress.

xxi. Sell off or return obsolete/excess inventory.

xxii. Use alternative financing methods, such as leasing, to gain access to the use(but not ownership) of productive assets.

xxiii. Re-negotiate bank facilities to reduce charges.

xxiv. Seek to extend debt repayment periods.

xxv. Net off of consolidate bank balances.

xxvi. Sell off surplus assets or make them productive.

xxvii. Enter into sale and leaseback arrangements for productive assets.

xxviii. Defer dividend payments.

xxix. Raise additional equity.

xxx. Convert debt into equity.

xxxi. Make medium and short-term cash flow forecasts and update them regularly.

2.10 Review of Articles

On the review or the an article on "Cash Flow Statement: A tool of Cash Flow Analysis" by Mr. Shiva Prasad Munankarmi, the following abstract has been taken out.

He has stated that cash flow refers to cash inflows and cash outflows. It is a total amount of cash available for the firm to put to productive uses. The primary objective of accounting is to enable shareholders and other stakeholders with information useful for assessing the amount, timing and uncertainty of debt, equity and other financial instruments issue by the firm.

Information of cash flow is useful to decision makers, i.e. investors, creditors, and management in many ways. Investors have to decide whether to invest or not in a given company. They will value higher to the company whose regular operating cash flows is more than its uses. Creditors have to decided whether to provide credit facility or not to given company. Information about cash flows can help creditors decide whether a company will have enough cash to pay the debts as these mature. Management has to take advantage of new business opportunities that may arise. And for this the management has to use cash flow analysis.

The FASB has mandated the presentation of a cash flows statement prepared in informative approach in annual reports. The cash flow statement under informative approach is prepared in activity format which contains three sections; operations, investing and financing. The cash flow statement under activity format shows the cash flow from operating activity, investing activity and financing activity. Capital and income are two basic concepts in accounting. Both are ultimately dependent on underlying cash flows. In the final analysis, cash flows into and out of the business enterprise are the most fundamental events upon which accounting measurement and decision are based. Investors and creditors therefore, may be able to obtain assistance in the prediction of future dividend levels if they have information regarding the flows of cash from following sources.

- Current operation of enterprise.
- Recurring or occasional cash flows unrelated to current operation due to rising from either unexpected events or the desire to maintain a good environment for the firm in the future.
- Cash obtained from or repaid to debentures holders / bondholders and stockholders as a part of firm financing.
- Cash flows required to increase operating facilities and inventories obtained from their sales when not needed for future operations.
- Payment of interest and dividends to investors with priority claims such as preferred stockholders.
- These five requirements together with the tax implications of each form the basis for the format of cash flows statement seen n practice today. This format includes the following three sections.

i. A statement of operating receipts and payments.

ii. A statement of financing activities.

iii. A statement of investing activities.

Objective of Cash Flow Statement

The following are the main objectives of cash flow statement.

- Cash flow statement will help the financial manager to explain the situation of sufficient cash balance in hand despite the business incurred loss or short of cash balance even if the business is making huge amount of profit.
- Comparison between cash budget and cash flow statement may prove to be useful to the management for preparing cash budget for the period to come.
- With the help of cash flow statement, the management can find out the cause of change in the cash position on two dates.
- Evaluation of financial policies can be done with the help of ash flow statement.
- As the cash flow statement helps the management to know and predict its cash position, it can plan its policies and make decisions regarding the redemption of debentures, purchase of fixed assets and soon.

Limitations of cash flow statement

Cash Flow Statement has the following limitations

- A cash flow statement reveals the inflow and outflow of cash but the exclusion of near cash items from cash obscures the true reporting of the firm's liquidity position.
- Working capital being a wide concept of funds, a funds flow statement presents a more complete picture than the cash flow statement.
- There are controversies over the items like cheques, stamps, postal orders, etc to be include in cash.

In conclusion, an accurate cash flow projection, being an integral part of financing plan, helps to avoid cash flow problems and also helps to keep borrowing costs as low as possible. Cash flow is similar to the Income Statement in that it records a company's performance over a specified period of time, usually over the quarter or year. The difference between the two is that the Income Statement also takes into account some non-cash accounting items such as depreciation. The cash flow statement also strips away all of this and tell how much actual money the company has generated. Cash flow shows us how the company has performed in managing inflows and outflows of cash and provides a sharper picture of the company's to pay bills and creditors and to finance growth.

2.11 Review of Previous Research Studies

2.11.1 Mr. Khila Nath Dahal (2000) has conducted a research entitled "A Study in Financial Performance if STCL" covering the period F.Y. 2049/50 to 2055/56. He has collected the data from secondary sources published by STCL and other information from questionnaire, journals and direct interview. The main objectives of his study are:

- To analyze the sources and uses of funds and change in financial position of STCL.
- To identify the strengths and weakness of the corporation by analyzing the financial statement and their behavior through ratios of various type.
- To investigate the financial condition and position of the corporation.
- To analyze the bankruptcy score of STCL.
- To examine the liquidity positions.

Some major findings of study are :

- Liquidity position of corporation during study period is satisfactory.
- Turnover position of STCL during the study period is in fluctuating trend. It indicates that the degree of utilization of resources varied year to year to the study period.
- The average collection period also exhibits wide fluctuation. It ranges between minimum of 25.33 day to maximum of 64.57 days leading to average collection period of 44.62 days during the study period. Thus, STCL has maintained more liberal credit policy which is a resultant to advertise impact on its profitability.
- The analysis of total assets turnover shows that STCL has not been able to utilize its total assets as it expected.
- The profitability position of the corporation is not satisfactory. The shows fluctuating trend during the study period.
- Operating expense ratio of corporation is very high and so net income after tax of the corporation seems to very low.
- STCL has not satisfactory return over its total assets during the study period. An average return on total assets of the corporation is only 7.11%.
- Return on capita employed and return on equity capita is 10.71% and 11.05% respectively.

2.11.2 Mr. Kiran Neupane (2004) has conducted a research entitled in "A Study of Cash Management of Nepalese Public Enterprise" (A case study of Salt Trading

Corporation Limited). He has collected the data from secondary sources that are published by Salt Trading Corporation Limited and related information through the direct interview and questionnaire. The period covered was F.Y. 2055/56 to 2059/60.

He has set the following objective

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

He has pointed the major findings of his research as follows.

- Cash management in STCL is primarily based on the traditional practice lacking in scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting is STCL.
- Modern practices with respect of debt collection, monitoring the payment behavior of customers and relevant banking arrangement in collection of receivables have been virtually ignored in STCL.
- STCL could not make the best use of available cash balance prudently.
- The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
- The average inventory conversion period into cash is found a little more than two months i.e. 62 days, which is very slow.
- Average cash conversion cycle take 64 i.e. little more than two months which is not a good single for the cash management or cash collection efficiency of corporation is very low.
- No optimum cash balance is maintained. The cash and bank balance with respect to current assets has been fluctuating. Similar is the cash with respect to the total assets.

2.11.3 Miss Sapana Shahi (2004) did a research work on "A study on Financial Performance and Capital Structure of STCL." She has used the secondary data covering the period F.Y. 2054/55 to 2058/59 and other published and unpublished reports and bulletins of the corporation. The objectives of her research work are :

- To analyze the sources and uses of funds resulting in financial position of STCL
- To identify the strengths and weakness of the corporation by analyzing the financial statement and behavior through various ratios.

She has drawn the following findings.

- The analysis of liquidity position of the corporation concludes that the funds invested in current assets are more that the required amount. On the other hand, there is no appropriate adjustment between the current assets and current liabilities of the corporation holding more of the inventory.
- Assets utilization position of the corporation has been analyzed by using the various turnover ratios like inventory, receivables turnover, current assets turnover, fixed assets turnover and total assets turnover.
- The inventory turnover on sales is 7.32 in average i.e. inventory cycle is only 8 times in a year. The analysis shows that average inventory represents 24% of its total assets.
- On average account receivable turnover stands about 6.38 time and average collection period stands 58 days.
- The current assets turnover ratio of the corporation during the study period is 1.88 on average. The analysis shows that corporation has invested more funds in current assets unnecessarily.
- The analysis of total assets shows that STCL has been able to utilize its total assets as much as expected. The average ratio is 1.5 times which shows that STCL has not been able to utilize its resources to generate sales revenue as compared to inventory in total assets during the study period.
- Debt to net-worth of the corporation is 11:11 on average. Most of the total assets are financed by the debt capital. The Corporation has maintained more risky capital structure and unable to take benefit of trading on equity be employing debt.
- An average gross margin of corporation is 8.47% which is not satisfactory for the trading corporation lie STCL. Average net profit margin on sales during the study period is only 3.59% which is a very low margin. Due to unnecessary administrative and selling overheads. STCL is unable to earn sufficient net profit margin.
- Operating expenses ratio of the corporation seems to be in decreasing trend. Average ratio stands about 94% which is very expenses ratio.

2.11.4 Mr Niraj Adhikari (2004) has submitted a dissertation on topic "A Comparative and Analytical Study on Cash Flow of selected Finance Companies" to Faculty of Management T.U. in the course of partial fulfillment of M.B.S.

The data were collected from both primary and secondary sources. The period covered was from F.Y. 2054/55 to 2057/58. The basic objective of this research paper is to analyze the trend of cash flows of selected institutes, to examine and compare the cash flow statements of those financial institutions, to identify the strengths and weaknesses of working capital management especially cash management of those financial institutions.

Major Findings

i. National Finance Company

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

ii. Lumbini Finance and Leasing Company

- The amount of total cash flow from operating activities is in increasing trend in the first two years but in the final year it is decreasing.
- Deposit mobilization / collection is in increasing trend.
- The amount of current assets is decreasing in the first two years but in the final year of study, it is in increasing trend and current liabilities is in decreasing trend.
- The amount of loan is decreasing in the first two years of the study period but it is increasing in the final year.
- Cash flow from investing activities is in decreasing trend.
- Borrowing is in decreasing trend.

2.11.5 Mr. rohit Kumar Dhakal has conducted a research entitled "Cash flow budget analysis of service industry as a component of profit planning and control" (A Case Study of Sagarmatha Insurance Company Pvt Ltd.) in 2005.

The objectives of the study are :

- To find the tend of premium collection and investing and its impact in cash budget
- To evaluate various budgets with actual results

- To analyze sales and expense budgets with cash budget of Sagarmatha Insurance Co Pvt. Ltd.
- To draw the true picture of profit planning and control of Sagarmatha Insurance Co Pvt. Ltd.

To accomplish the above objective, he has made research covering the F.Y. 2055/56 to 2059/60. Other essential information were taken from the primary data while secondary sources of data were used for the research methodology.

His major findings are as follows :

- The company follows the traditional method for planning the cash.
- The company posses a large amount of fund but it is not profitability invested. The company could not invest its available fund for national interest. The company is having narrow look for its investment. Even its return on investing is decreasing (10.4%) toward the end of study period.
- The company does not follow the optimum cash balance process. There is high idle cash (15-20%) of total cash available with it which invested prudently would have handsome returns.
- Though the total premium is increasing, its net profit is continuously decreasing
- The company is under capitalized. It does not possess borrowed capital its return on assets is 7.95% and if it could get cheaper fund, it can go for borrowed capital.
- The company does not seem applying the effective managerial tool "Profit Planning and Control" for controlling its activities.

He has drawn the following conclusion:

- The management should plan the cash management of any company because of its importance.
- The proper cash flow management depends upon managing cash inflow and cash outflow. The management should give high priority for encouraging the cash inflow timely. Similarly, the payment are to be made appropriately.
- The investment decision should be cost effective as well as appropriate time base.
- Factors like nature of business, level of revenue, credit term, types of customers, economic condition greatly affect the cash flow management. These

factors are to be considered an used appropriately. The banking arrangement for meeting the cash short and depositing the excess cash immediately is also another factor.

- The motive of holding cash, determining the optimum balance of cash, cash flow cycle and statistical analysis of cash flow are in separated activities in the cash flow management.

It is very difficulty to determine the bankruptcy position of company. The result will volatile with the change in the volume of the various components affecting the bankruptcy score criteria. However the result is higher than the score fixed to determine the possibility of bankruptcy. Hence the probability of bankruptcy of company is not seem during the study period.

2.12 Research Gap

The present research is focused upon the cash flow analysis of Gorkha Brewery Private Limited in the field of profit planning and control. No previous research way yet made on Cash Flow Analysis of GBPL. Therefore, literature on the subject matter is not available.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of this chapter is to focus on different research methods which are used while conducting this study. Every study needs a systematic methodology to show the better results of the research. In this study, cash flow analysis of Gorkha Brewery Pvt. Limited also needs an appropriate research method. In order to conduct this study, the following processes are adopted.

3.2 Research Design

"Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variance "Kerlinger" (Sthapit 2004, 45)

"Research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure". (Kothari)

Thus, a research design is a research plan or structure which is path for conducting research work. Without research deign, it is not possible to conduct a research work.

A well settled research design is necessary to fulfill the objective of this study. It means definite procedure and technique that guide to study and propounds way for research variability. The present study is basically a case study of Gorkha Brewery Pvt. Limited. This study is based on descriptive and analytical research design. For the study, historical data of last five year are collected and tabulated. Different tools are used to analyze and then the results ar evaluated to find our the performance of Gorkha Brewery Pvt. Limited.

3.3 Population and Sample

Although there are many private enterprises which are involved in manufacturing and trading fields in our country, it is not possible to study all of them regarding the research topic. Therefore, among these one reputed company i.e. Horkha Brewery Private Limited is take as a sample company from population for this research study.

3.4 Source of Data

The study mainly uses the secondary data published by GBPL. Beside these data, other supplementary data and information have been acquired from various source like newspapers, magazines, website, unpublished reports and articles. Related information have been collected through the direct interview and questionnaire.

3.5 Data Collection Procedure

The data are collected from head office of Gorkha Brewery Pvt. Limited Hattisar Kathmandu. This study is based on secondary data. The financial statement has been collected directly from the Account Department. Five years' Balance Sheet, Profit and loss account and other related document published are collected. The data are collected from the fiscal year 2059/60 to 2063/64.

3.6 Data Processing and Tabulation

The available data are complied and processed according to the objectives of study. Before processing the data, they are tabulated. This tabulation is based on the time series convering five year period from fiscal year 2059/69 to 2063/64. Percentage and index are also used in tabulation depending upon the necessity of the subject.

3.7 Tools and Techniques used to analyze the data

The data analysis is made on the basis of various financial and statistical tools. To find the true position of Gorkha Brewery Private Limited, following tools and techniques were used.

3.7.1 Financial Ratio Analysis

Financial analysis is the process of analyzing various items of financial statement of firm to ensure its comparative strengths and weaknesses. Financial analysis is equally fruitful to the internal as well as external parties concerned to a corporate firm. Financial statement analysis involves a study of the relationship between Income Statement and balance sheet, how this relationship changes over time and how a particular firm with other firm in its industry.

These are various types of financial ratios used to make a comparative analysis of financial statement. For the purpose of research studies, following financial ratios are used.

- Liquidity Ratio
- Leverage Ratios
- Asset and Investment Management Ratios
- Profitability Ratios

3.7.2 Statistical Tools

The research hold various statistical tools which are as follows

- Mean

- Correlation and regression analysis
- Probable Error (P.E.)
- Trend analysis

3.7.3 Cash Flow Statement

The cash flow analysis is done by preparing cash flow statement. The statement of cash flow visualizes the picture of movement on cash owing to the operating, investing and financing activities of the enterprise.

The information in the form of statement of cash flows provides a basis for analyzing financial results. Additional analysis is possible through the use of three ratios relating to cash flow: Cash flow per share of common stock, cash flow margin and cash flow liquidity ratio.

i. Cash flow per share = Net cash flows from operating activities / Average no. of common shares.

ii. Cash flow margin = Net cash flows from operating activities / Net sales

iii. Cash flow liquidity ratio = Net cash flows from operating activities plus cash balance / Current liabilities.

3.8 Research Variables

Sales, Purchase, operating expenses, profit and loss account, Balance Sheet items, cash from operating activities, cash from investing activities, cash from financing activities are the major research variables of the study.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

4.1 Sales Budget

The main activity of every manufacturing enterprise is to sell its product to the customers. The sales budget shows the quantities and amount of each product that the company is planning to sell. The selling activity of the company generates revenue for its growth and sustainability, which is the major source of cash inflow. The sales plan is based on forecast. It is a fundamental basis for other functional budget. The production level, inventory level and manufacturing as well as non manufacturing expenses budgets depend on sales forecast. Thus, if the sales budget is not forecasted accurately, other budget may not be accurate.

Gorkha Brewery Private Limited produces the following five products.

- Tuborg beer
- Carlsberg beer
- San Miguel beer
- Gorkha beer
- Jolly

GBPL prepares the Annual Marketing plan and Budget, which are approved by the Board of Directors each year. All expenditures and investment of all the departments are included in the budget.

Timing and responsibility regarding preparation of the Budget are as follows :

(a) Annual Budget

Task	Dead Line	Responsibility
Monthly sales volume by brand, packaging, channel, market share/total industry, pricing, discount, incentives, trade offers & bonus	10th July	Sale and Marketing Director

(b) Preparation of quarterly forecasts

Task	Dead Line			Responsibility
Monthly sales volumn by brand, packaging, channel, market share/ total industry, pricing, discount, incentives, trade offers & bonus	20th Oct	17th Oct	19th Oct	Sale and Marketing Director

4.1.1 Comparison of Budget Sale and Actual Sales

The given tables below show the budget sales and the actual sales during the study period.

Table No. 1

Comparison of Budget Sale and Actual Sales

Fiscal Year	Budget Sales (Rs)	Actual Sales (Rs)	Variance (Actual Sales / Budget Sales)
2059/60	959,564,624	703,648,739	73.33
2060/61	1,051,634,349	870,753,241	82.20
2061/62	1,189,779,483	834,987,241	70.18
2062/63	1,390,336,791	1,246,854,034	89.68
2063/64	1,509,342,281	1,274,186,754	84.42
Total	**6,100,657,528**	**4,930,430,009**	
Average	**1,220,131,506**	**986,086,001**	

(Source : Annual Reports of GBPL)

The above table shows the comparison between budget sales and actual sales of GBPL during the fiscal year 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64, the actual sales were 73,33, 82.20, 70.18, 89.68 and 84.42 respectively. In F/Y 2061/62 it had achieved lowest ratio of 70.18% whereas in 2062/63 it had raised up to the highest point of 89.68% of budgetary sales which indicated the better management planning and sales. Since GBPL predict quarterly sales and verifies with actual sales but overall performance of the sales is fluctuating.

The following table shows the actual sales revenue of Gorkha Brewery Private Limited during the study period.

Table No. 2

Total Sales Revenue

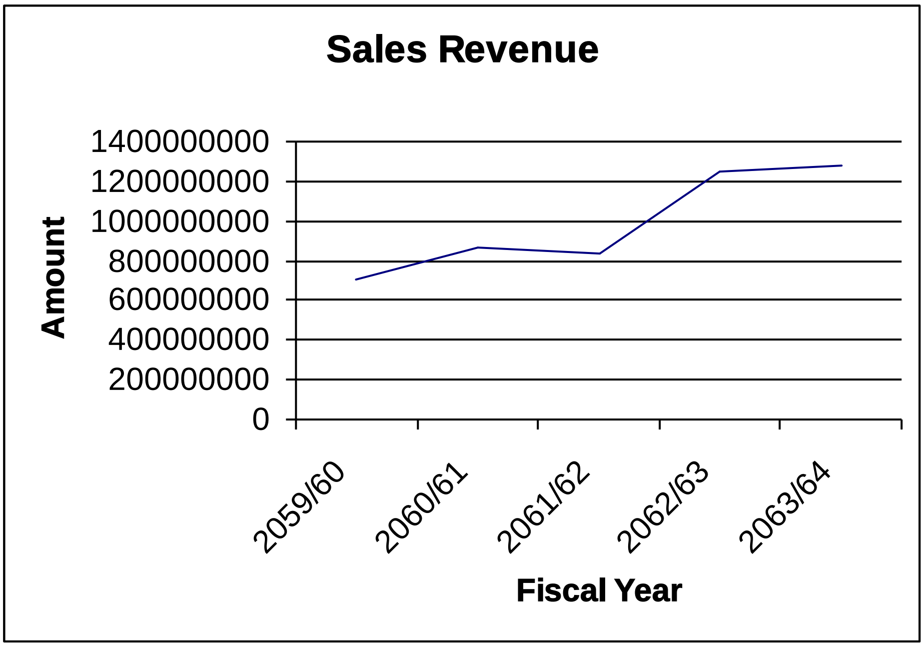
Fiscal Year	Sales Revenue (Rs)	Increase / (Decrease)	%
2059/60	703,648,739	-	-
2060/61	870,753,241	167,104,502	23.75
2061/62	834,987,241	(35,766,000)	(4.11)

2062/63	1,246,854,034	411,866,793	49.33
2063/64	1,274,186,754	27,332,720	2.19
Total	**4,930,430,009**	**-**	**-**
Average	**986,086,001**	**-**	**-**

(Source : Annual Reports of GBPL)

The above table shows that the total sales revenue of GBPL was fluctuating. During the fiscal year 2060/61, the sales increased by 23.75% recording Rs 167,104,502 but in F.Y. 2061/62, the company failed to get the same momentum. As a result, the sale revenue decreased by 4.11% i.e. 35,766,000. Again the company regained and increased its sale volume by 49.33% i.e. Rs 411,866,793 in the F.Y. 2062/63 and in the year 2063/64 the fair raise by 2.19% in sale volume noted. The average sale during the study period was Rs. 986,086,001.

The above total sales figure can be shown more effectively by graphical representation.



The above graph shows that the total sales revenue increased in the F.Y. 2060/61. But it decreases in the F.Y. 2061/62 which indicated that the trading activity of GBPL was not satisfactory. But after this it increased in the fiscal year 2062/62 and slight increase in 2063/64 was recorded. GBPL should revise its sales policy, new product should be promoted heavily, and search for new market etc should be initiated.

4.1.2. Estimation of Sales revenue for future

The Least square method can be used to estimate the possible future sales revenue for the future. A straight trend line method will show the relation between time period and actual of the relevant year. In this method, it is assumed that the sale changes with the change in time. Here time factor is considered as independent variable and sales is considered dependent variable. Then straight-line i.e. actual sales revenue (y) in time period (x) is expressed by:

$$y = a + bx$$

The trend line can be used to compute the value of a and b using the following formula.

$$b = \frac{n \quad xy \, Z \quad x \quad y}{n \quad x^2 \, Z(\quad x)^2}$$

$$a = \frac{y}{n} Z \frac{b \quad x}{n}$$

Table No. 3

Fitting of trend line

(Rs in Lakh)

Fiscal Year (X)	**Sales (y)**	**x = (X - 2060/61)**	**xy**	**x2**
2059/60	7,036,48	-2	-14072.96	4
2060/61	8,707,53	-1	8707.53	1
2061/62	8,348.87	0	0	0
2062/63	12,468.54	1	12468.54	1
2063/64	12,741.86	2	25483.72	4
n = 5	y = 49,304.28	x = 0	xy = 15,171.7	x^2 = 16

Now substituting the values, we get

$$b = \frac{5 \,|\, 15171.77 \, Z0 \,|\, 49304.28}{5 \,|\, 16 \, Z0^2}$$

b = Rs. 948.23 Lakh

Again,

$$a = \frac{49304.28}{5} Z \frac{948.23 \,|\, 0}{5}$$

a = 9860.85

Now, equation of trend line is :

y = 9860.85 + 948.23x

The trend line shows the estimated sales revenue for the nest year. The annual rate of increment in sales revenue will be Rs. 984.23 Lakh.

Estimation of sales revenue for the F.Y. 2064/65

In this case x = 2063/64 - 2060/61 = 3

y = Rs. 9860.85 + Rs. 948.23 |3

y =Rs. 12705.54 Lakh

Estimation of sales revenue for the F.Y. 2065/66

In this case x = 2065/66 - 2061/62 = 4

y = Rs. 9860.85 + Rs. 948.23 | 4

y =Rs. 13653.77 Lkh

Hence, the expected sales revenue for the F.Y. 2064/65 will be Rs 12705.54 Lakh where as to will be Rs 13653.77 Lakh in 2065/66 respectively. This sales revenue will increase every year by Rs. 948.23 Lakh. This expected sales revenue shows that the sales revenue in the F.Y. 2064/65 will slightly decrease whereas in F.Y. 2065/66 it will increase highly than in the proceeding year.

4.2 Cost of goods sold Budget

This cost of good sold budget shows the total amount of cost that has been utilized for the production of the goods sold in each year. Generally, sales and cost of good sold are linked. Therefore, if sale increases then more production is required to fulfill the increasing sales.

The following table shows the total amount of cost of goods sold by GBPL during the study period.

Table No. 4
Cost of goods sold

(Rs in Lakh)

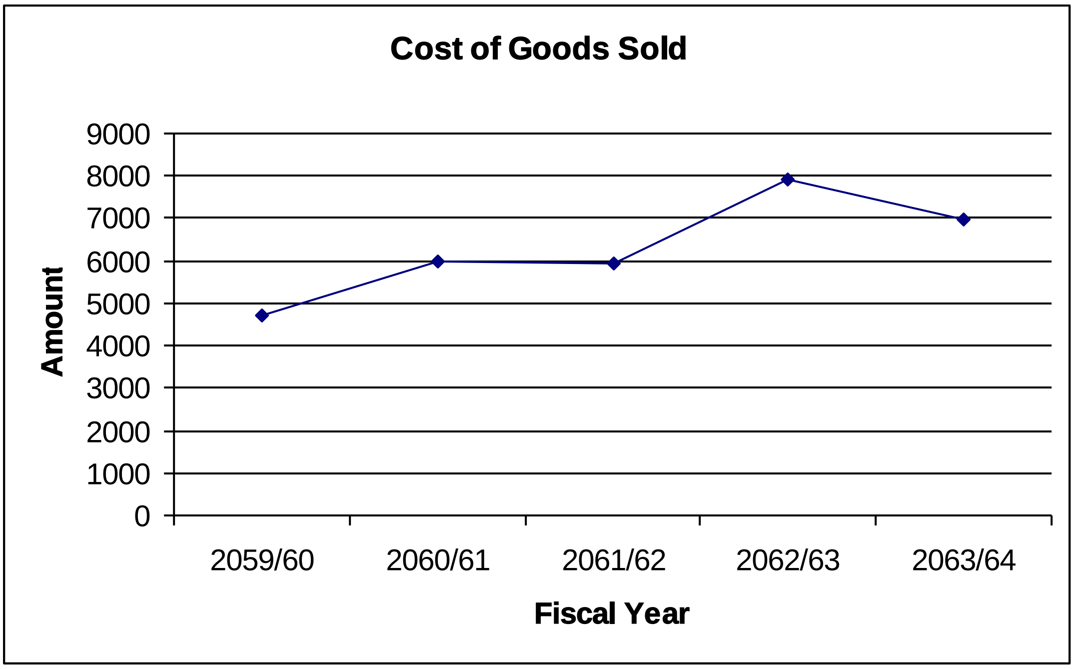
Fiscal Year	Cost of Sales	Increase / (Decrease)	%
2059/60	4,727,.34	-	-
2060/61	5,999.45	1,272,11	26.91
2061/62	5,950.96	(48.49)	(0.81)
2062/63	7,931.08	1,980.12	33.27
2063/64	6,978.64	(952.44)	(12.01)
Total	**31,587.47**		
Average	**6,317.49**		

(Source : Annual Reports of GBPL)

The above table no. 4 shows Rs 1,272.11 Lakh i.e. 26.91% of Cost of goods sold has increased in the first fiscal year in the same way sale had increased. But in the F.Y. 2061/62 the cost of good sold had decreased by 0.81% due to which the sale revenue was also effected so it decreased by 4.11%, in the nest year the cost increased by Rs 1980.12 Lakh where as in the F.Y. 2063/64 the cost of good sold decreased by Rs. 952.44 i.e. 12.01% but the sale revenue slightly increased by 2.19% than the previous fiscal year.

This indicates that the cost of good decreased but sales revenue slightly increased which would make more cash inflow in these years. The average cost of sale is 6,617,49 Lakh.

Cost of sale can be clearly shown in following graphical representation.



From the above diagram, it is clear the cost of good sold had slightly increased in 2060/61 whereas it had fairly decreased in the F.Y. 2061/62 but it substantially increased in the F.Y. 2062/63 which is favorable indication for the company but in F.Y. 2063/64 it has decreased.

4.3 Inventory Planning

Inventory refers to the stock of different type of consumable goods held by an organization. A firm generally maintains some inventory in stock to achieve a desired level of sales. Inventory constitutes one of the important items of current assets. It permits the production and sale process of a firm to operate smoothly. Inventories are current assets which involves significant investment of funds. As firm goes on investing in more and more inventories, the cost of funds being tied up will also be increasing. Therefore, investment in inventories must be minimized to the extent it is unnecessary.

The following table shows the total amount of inventory maintained by GBPL during the study period.

Table No. 5

Level of Inventory

(Rs In Lakh)

Fiscal Year	Inventory	Increase / (Decrease)	%
2059/60	1,290.58	-	-
2060/61	1,717.60	427.02	33.09
2061/62	1,823.60	106.00	6.17
2062/63	1,844.03	20.43	1.12
2063/64	2,291.34	447.31	24.26
Total	**8,967.34**	-	-
Average	**1,793.43**	-	-

(Source : Annual Reports of GBPL)

The table no. shows Rs 1,793.43 Lakh average inventory level during the study period. Inventory was increased by Rs. 427.02 Lakh, (33.09%) in the F.Y. 2060/61. In the same way in F.Y. 2061/62 and 2062/63 it had slightly increased by 6.17% and 1.12% than the preceding year respectively. But in the F.Y. 2063/64 it was Rs 2,291.34 Lakh inventories value which was 24.26% more than the previous year. Overall inventory level during the study period was moderately growing, ranging from lowest level amounting Rs. 1,290.58 Lakh in the F.Y. 2059/60 to highest-level amounting Rs 2,291.34 Lakh in the F.Y. 2063/64. This indicates that the GBPL has no proper inventory policy to manage inventories effectively.

The investment in inventories results into more cost of funds being tied up as a result of which there is decrease in profitability, misuse of inventories, lost, damage and holding cost in terms of large space and others. At the same time, insufficient investment in inventories creates stock-out problem, obstruction in production and selling of goods. So that the firm may loose the customers as they shift to the competitors.

The inventory level also helps to analyze the cash flow analysis. This inventory level maintained at the end of each year affects the cash flows form operating activities.

After the analysis of the above table we observe that the inventory level of GBPL is in increasing trend which indicates that cash outflow occurred. Since, the level also play role in the profitability of company huge balance in inventory in 2060/61 had lead to suffer loss.

4.4 Financial Ratios

Financial ratio analysis helps to evaluate the performance of the company by using various financial data extracted from different financial statements. Ratio analysis is a technique to study the data extracted from different financial statements. Ratio analysis is a technique to study the relationship between two or more sets of financial data taken from Income Statement and balance sheet. Ratio analysis provides the information relating to strengths and weaknesses of a financial data in relating to other.

There are various types of financial ratios used to make the analysis of financial statement. They are as follows.

i. Liquidity Ratio

ii. Leverage Ratio

iii. Activity Ratio

iv. Profitability Ratio

4.4.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its short - term (generally one year) obligation and reveals the short - term financial strength and weakness. Liquidity ratio usually consists of current ratio and quick ratio.

4.4.1.1 Current Ratio

A current ratio is the quantitative relationship between current assets and current liabilities. Current assets are those that can normally be converted into cash within an accounting year and current liabilities refer to those obligations which must be paid within an accounting year. It is calculated as follows.

Current Ratio = Current Assets / Current Liabilities

Generally current ratio of 2:1 is considered satisfactory. High current ratio funds favor with short - term creditors whereas low ratio causes concern to them. An increase in the current ratio reflects improvement in the liquidity position of the business while the decrease is a signal of deterioration in the liquidity position of the business.

Table No. 6

Current Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
CA	3,233.04	4,150.94	2,704.85	4,308.20	4,316.61	3,742.73
CL	5,195.92	4,127.50	2,692.14	3,326.59	2,669.21	3,602.27
CR	0.62	1.01	1.00	1.30	1.62	1.04

(Source : Annual Reports of GBPL)

From the above table no.6, it can be observed that GBPL had not satisfactory liquidity position. In the first fiscal year of study period, current ratio was 0.62 which was considered very low than the above standard. The current ratio was 1.01, 1.00, 1.30, and 1.62 in the F.Y. 2060/61, 2061/62, 2062/63 and 2063/64 respectively. These ratios indicate that GBPL would not capable to meet the short-term obligation. The average current ratio recorded 1.04 during the study period is serious ratio which should be analysed by the company.

4.4.1.2Quick Ratio

The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. It establishes the relationship between liquid assets and current liabilities. The terms quick assets include all the current assets minus inventory and prepaid expense. Inventories are excluded because they may be difficult to liquidate them at their full book value. Quick ratio is calculated as follows:

QR = CA - Inventories - Prepaid expense / CL

As it eliminate inventory and prepaid expense for matching against current liabilities. Therefore is a more rigorous test of liquidity as compared to current ratio. Generally acid test ratio of 1:1 is considered satisfactory as a firm easily meet all current liabilities.

Table No. 7

Quick Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
QA	1,942.46	2,433.34	881.25	2,464.17	2,025.27	1,949.30
CL	5,195.92	4,127.50	2,692.14	3,326.59	2,669.21	3,602.27
QR	0.37	0.59	0.33	0.74	0.76	0.54

(Source : Annual Reports of GBPL)

The above table shows that the company had poor resources for the quick asset to meet its immediate liabilities because the quick assets were well below than standard, which clearly indicate that the company had no ability to pay off short-term obligations.

4.4.2 Leverage Ratio

This ratio indicates the extent to which debt financing is being use by a firm. It is the measure of long - term solvency of a firm or the degree of safety afforded to creditors. It is important to analyze leverage position form two aspects: first, how the firm is using the borrowed funds to finance its assets and second how far the firm is able to serve its debt in term of satisfying regular fixed charge. On the light of these facts, we attempt to analyze following financial ratios.

4.4.2.1Debt Equity Ratio

Debt equity ratio is one of the widely used leverage ratios to evaluate the long-term solvency of a firm. This ratio expresses the relationship between debt capital and equity capital. It is calculated as follows :

DE Ratio = Total Debt / Total Equity

Total debt includes all debts, viz long - term debt and current liabilities. The shareholders equity includes equity capital, preference capital, reserve fund and any balance of undistributed profits.

Table No. 8

Debt Equity Ratio

(Rs in Lakh)

Fiscal Year	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**Average**
Total Debt	5,875.92	6,787.42	7,538.08	7,130.91	5,215.46	6,509.56
Total Equity	5,938.91	5,938.91	5,938.91	5,938.91	5,938.91	5,938.91
DE Ratio	0.99:1	1.14:1	1.27:1	1.20:1	0.88:1	1.10:1

(Source : Annual Reports of GBPL)

The above table no. 8, if shows the fair contribution at a company's financing by debt holders than that by equity holders. In the first year of study period, debt equity ratio was observed 0.99, which indicated less risk to debt holder. But in the F.Y. 2060/61, 2061/62 and 2062/63 the ratio were slightly increased by 1.14, 1.27 and 1.20 respectively. In the F.Y. 2063/64 the company had then decreased its debt ratio to 0.88 which was the lowest ratio. The average ratio was 1.10 that was quite nice.

4.4.2.2 Debt Assets Ratio

The debt - assets ratio shows the proportion of total debt used in financing total assets of a firm. Low debt - assets ratio is considered satisfactory to debt holder due to the protection against possible losses at the time of liquidation. However, from the management point of view, the firm with low debt ratio is not able to get leverage advantage. It is calculated as follows.

Debt Assets Ratio = Ratio Debt / Total Assets

Table No. 9

Debt Assets Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
Total Debt	5,875.92	6,787.42	7,538.08	7,130.91	5215.46	6,509.56
Total Equity	10,440.17	10,354.24	8,576.01	10,822.98	10,440.17	10,126.71
D/A Ratio	56.3%	65.6%	87.9%	65.9%	50.0%	64.3%

(Source : Annual Reports of GBPL)

The above calculation shows that the company had 56.3% debt assets ratio in the fiscal year 2059/60 that indicated the company had acquired fair amount of assets from debt financing. Similarly the company had maintained the fair amount of debt financing in assets in F/Y 2060/61, 2062/63 and 2063/64 with average percentage of 65.6%, 65.9% and 50% but in the F/Y 2061/62 the debt to assets had raised to 87.9% which was the risk side but the company had managed to maintain the ratio. Overall average debt-assets ratio was recorded at 64.3%.

4.4.2.3Interest Coverage Ratio

The interest coverage ratio, also known as times interest earned (TIE) ratio, measure the extent to which interest on debt capital is covered by EBIT. It measures the debt servicing capacity of a firm. If the firm fails to maintain such capacity, it brings legal action to debt holders which possibly result into bankruptcy. Greater the ICR, the more safety from creditors' view point that interest claimed is fulfilled. It is calculated as follows.

ICR = EBIT / Interest

Table No. 10

Interest Coverage Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
EBIT	77.55	271.91	485.63	2,251.23	2,927.88	1,202.84
Interest	461.13	384.01	364.8	301.8	219.92	346.33
ICR	0.17	0.71	1.33	7.46	13.31	3.47

(Source : Annual Reports of GBPL)

The table no. 10 shows that ICR ratio was 0.17 times in the F/Y 2059/60. It was increased till the F/Y 2062/63, but in 2063/64 it was substantially high i.e. 13.31 which indicated positive for the creditors. It signified that more safety for creditors to claim interest in their debt. The company had satisfactory level of EBIT to cover the interest for debt holders. On average, EBIT was observed 3.47 times during the study period which showed debt holders safety to claim interest on debt.

4.4.3. Activity Ratios

Activity ratio refers to that ratio which shows the relationship between sales and other available resources utilized for the smooth operating of a firm. It also indicates operations efficiency of a business fir for a particular period of time. It measures the firms ability to acquire the assets needed for the potential growth of a firm. It includes following ratio.

4.4.3.1Inventory Turnover Ratio

Inventory turnover ratio (ITR) measures how firm's average investment in inventory is capable of generating sales. It is the test of the liquidity of firm's investment in inventories. It is calculated as follows.

ITR = Cost of goods sold / Average Inventory

A low inventory turnover ratio indicates that the firm is holding excessive stock of inventory and is unable to turn it over in term of sales. The excessive inventory investment in inventory is considered to be unproductive, as idle assets earn nothing.

Table No. 11

Inventory Turnover Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
Cost of goods sold	4,727.34	5,999.45	5,950.96	7,931.08	6,978.64	6,317.49
Average Inventory	1,290.58	1,504.09	1,770.60	1,833.82	2,067.69	1,693.35
Ratio	3.66	3.99	3.36	4.32	3.38	3.73

(Source : Annual Reports of GBPL)

From above table no. 11, it can be observed that the ITR in the F/Y 2059/60 was 3.66 times which increased to 3.99 times in the F/Y 2060/61 indicating that the velocity of conversion of stock into sales was better than the preceding fiscal year. In the F/Y 2060/61, it decreased to 3.36 times. Again in the F/Y 2062/63it increased to 4.32 times, but it has decreased to 3.38 times in the F.Y. 2063/64. The company had average 3.73 times of inventory turnover during the study period. GBPL had invested more on stock and slow moving of goods was noticed.

4.4.3.2Average Collection Period

Average collection period is also called Days Sales Outstanding (DSO) which measures how quickly the account receivables are being converted into cash. It shows the average length of time in term of number of days that a firm must wait after making sales before receiving cash. It is calculated as follows.

ACP = Receivables* ò *360 / Sales

The minimum day on ACP is favorable for a company. It shows the company is collecting the debtors within a short period.

Table No. 12

Average Collection Period

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
Sales	7,036.48	8,707.53	8,349.87	12,468.54	12,741.86	9,860.86
Receivables	496,339	619,102	58,381	37,019	116,107	256,390
ACP in days	70.54	71.10	6.99	2.97	9.11	26.91

(Source : Annual Reports of GBPL)

The above table no. 12 shows that average collection period of GBPL during the first two years of study period was too high which indicated the GBPL had not been collecting its credit sales. ACP was 70.54 and 71.10 days in the both fiscal years. But during the year 2061/62 it drastically fell down to 6.99 days and again in 2062/63 it reached the lower point i.e. 2.97 but in the F/Y 2063/64 it slightly increased to 9.11 days. The average receivable is satisfactory.

4.4.3.3Fixed Assets Turnover Ratio

Fixed assets turnover ratio (FATR) indicates the firm's ability to generate sales based on its various fixed assets like plant and equipment. It measures the effectiveness of the firm's utilization of fixed assets. A low fixed assets turnover ratio indicates that the firm is using its fixed assets not effectively. It is calculated as follows:

FATR = Sales / Fixed Assets

Table No. 13

Fixed Assets Turnover Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
Sales	7,036.48	8,707.53	8,349.87	12,468.54	12,741.86	9,860.86
Fixed Assets	5,521.81	5,278.30	5,729.91	5,243.53	4,967.31	5,348.17
FATR (times)	1.27	1.65	1.46	2.38	2.57	1.84

(Source : Annual Reports of GBPL)

The company had only 1.84 times average fixed assets turnover during the study period., showing that the company had not utilized its assets in full capacity. This indicated that the company was required to re-evaluate strategies, marketing efforts and capital expenditure.

4.4.3.4Total Assets Turnover Ratio

The total assets turnover ratio (TATR) is calculated by dividing sales by total assets. It measures the overall utilization of the firm's assets. A low ratio indicates that the company is not generating an adequate value of business for the size of its assets investments. So increasing TATR ratio is preferred.

TATR = Sales / Total Assets

Table No. 14

Total Assets Turnover Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
Sales	7,036.48	8,707.53	8,349.87	12,468.54	12,741.86	9,860.86
Total Asset	10,440.17	10,354.24	8,576.01	10,822.98	10,440.17	10,126.71
TATR (Times)	0.67	0.84	0.97	1.15	1.22	0.97

(Source : Annual Reports of GBPL)

The above table no. 14 showed that the total assets turnover ratio was very low. It has been 0.67, 0.84, 0.97, 1.15 and 1.22 times in the F/Y 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. Since the times were in increasing trend but the average time was only 0.97 times which indicated the company had ability to generate business volume in term of generating sales revenue than the preceding year to some extent. But it needs to evaluate overall strategies and capital expenditure programmes.

4.4.4 Profitability Ratio

Profitability is the net end result of a number of corporate policies and decisions. It is the key factor that measures how effectively the firm is being operational and managed. Profitability ratios are calculated to measure the overall efficiency of the business. This ratio is used to analyze the financial strengths and weakness of a firm. Generally, profitability ratios are calculated either in relation to sales or in relation to investment.

Table No. 15

Profitability Ratio

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64	Average
Sales	7,069.48	8,707.53	8,349.87	12,468.54	12,741.86	9,806.86
Gross Profit	2,309.13	2,708.08	2,398.90	4,537.45	5,763.21	3,543.35
NPAT	(383.58)	(112.10)	109.84	1,772.20	2,461.78	769.63
Shareholders Equity	5,938.91	5,938.91	5,938.91	5,938.91	5,938.91	5,938.91
Total Assets	10,440.17	10,354.24	8,576.01	10,822.98	10,440.17	10,126.71
GPM	32,82%	31.10%	28.73%	36.36%	45.23%	35.93%
NPM	(5.45)%	(1.29)%	1.32%	14.21%	19.32%	7.80%
ROA	(3.67)%	(1.08)%	1.28%	16.37%	23.58%	7.60%
ROE	(10.75)%	(3.04)%	4.64%	48.00%	47.12%	20.75%

(Source : Annul Reports of GBPL)

4.4.4.1Gross Profit Margin

The most common ratio is as the calculation of gross profit as a percentage of net sales. A firm should have a reasonable gross profit margin (GPM) to ensure adequate coverage for operating expenses of the firm and sufficient return to the owner of the business. The gross profit should be adequate to cover operating expenses and to provide fixed charge to pay dividend and build up reserves. It is calculated as follows.

GPM = Gross Profit ò ***100/Sales***

Table no. 15 shows that the gross margins were fluctuating. The decreasing trend was observed in the F/Y 2060/61 and 2061/62 but the company had managed to increase GPM in 2062/63 and 2063/64 by 36.39% and 45.23% respectively. This increasing trend of gross profit was a sign of good management as it implied that the cost of production of the firm relatively low which would be sufficient to cover the operating expenses and adequate to the owners.

4.4.4.2Net Profit Margin

This ratio measures the overall profitability of the firm. This ratio indicates the management's ability to operate the business with sufficient success, not only recover to the cost of production, operating expenses and cost of borrowed fund but also to leave a margin of receivable compensation to the owners for providing their capital at risk. This ratio is calculated as follows :

NPM : Net Profit ò ***100/Sales***

Net profit margin of GBPL was negative in the first two years of study period. After that year it gradually increased. It was (5.45)% and (1.29)% in the year 2059/60 and 2060/61 but after this the company had gradually increased to 1.32% in F/Y 2061/62, 14.21% in F/Y 2062/63 and 19.32% in 2063/64 respectively which proved the efficient performance of management and company was able to cover the cost of production, operating expenses and cost of borrowed fund. On average, net profit margin was observed 7.80% during the study period.

4.4.4.3 Return on Assets

The return on Assets (ROA) measures the overall effectiveness of management in generating profit with its available asset. The higher the firm's return on assets, the better it is doing in operation and vice - versa. It is calculated as follows.

ROA = NPAT ò ***100 / Total Assets***

From the above table no. 14, it is observed that the return on assets in the first two fiscal year of study period was negative i.e. (3.67)% and (1.08)%. But it was 1.28%, 16.37% and 23.58% in the F/Y 2061/62, 2062/63 and 2063/64 respectively. This indicates that the company was able to use available resources than in the preceding year. The average return on assets was observed 7.60%, which was considered as low return on the company's assets.

4.4.4.4 Return on Equity

The return on equity (ROE) measures the return on the owner's (both preferred and common stockholders) investment in the firm. Higher the ratio of return on equity, the is better for owners. It is calculated as follows.

ROE = NPAT ò ***100 / Stockholder Equity***

From above table no. 13, it is observed 20.75% average return on equity. The company had negative ROE in the F/Y 2059/60 and 2060/61, which indicated that the company had not properly utilized the owner's fund. After that it was gradually increased to 4.64% and 48.00% in F.Y. 2061/62 and 2062/63. But in the F/Y 2063/64 it was slightly decreased to 47.12%. The above table shows that the company had unstable ROE during the study period.

4.5 Analysis of Cash Flow

This statement of cash flows reflects the change in financial position from F/Y 2059/60 to 2063/64, classifying transactions into three categories, operating, investing and financing activities. Gorkha Brewery Private Limited prepares cash flow statement under indirect method that is most often used in annual Reports. Under indirect approach, net profit or loss is adjusted for the effect of transaction of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows. The following table shows the Cash Flow Statement of Gorkha Brewery Private Limited during the study period .

Table No. 16
Cash Flow Statement

(Rs in Lakh)

Fiscal Year **Particular**	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**
1.Cash Flow from operating activities					
Net profit before tax	(383.58)	(112.10)	109.84	1,772.21	2461.78
Add :					
Depreciation	446.24	539.95	526.67	760.60	686.90
Interest Expenses	461.13	384.01	364.80	303.81	219.92
Gain / Loss from sales of assets	0.11	2.20	0.61	-	-
Provision for Bonus	-	-	10.98	177.22	246.17
Less :					
Loss on sale of immovable Assets	-	-	-	0.99	-
Interest Income	59.30	68.00	80.86	101.72	85.79
Operating cash Flow before change in WC	**464.60**	**746.06**	**932.04**	**2,911.13**	**3,528.98**
Decrease (Increase) in Current Assets	1,066.19	(778.81)	1,532.59	97.48	(762.75)
increase (Decrease) in Current Liabilities	(307.15)	705.79	(1,463.65)	(2.11)	(1,566.01)
Cash generated from Operating Activities	**1,223.64**	**673.04**	**1,000.98**	**3,006.50**	**1,200.22**
Interest pad	(461.13)	(384.01)	364.80	303.81	219.92
Income Taxes paid	(83.91)	(86.05)	(42.04)	(405.60)	(381.58)
Cash flow before extraordinary item	**678.60**	**202.98**	**611.46**	**2,310.39**	**593.67**
Income taxes paid earlier year	-	-		-	(261.63)
Income/Expenses from extraordinary items	-		-		
Net cash flow from operating activities (A)	**678.60**	**202.98**	**611.46**	**2,310.39**	**332.04**
2. Cash flow from investing activities					
Dividend received	59.30	68.00	80.86	101.71	85.79
Sale/(purchase) of fixed assets	(1,424.79)	(298.64)	(546.25)	200.00	(410.68)
Others	-	-	-	-	-
Sale/ (purchase) of investment	(500.00)	(125.00)	(546.25)	200.00	115.00
Net Cash Flow from investing activities (B)	**(1,865.49)**	**(355.64)**	**(2,753.02)**	**26.50**	**(209.89)**
3. Cash Flow from financing activities					
Issue of shares	-		-		
Borrowing (payment) of loan	1,123.62	(420.00)	1,751.36	(265.11)	(125.00)
Others	-	625.71	434.66	(776.52)	(1,13307)

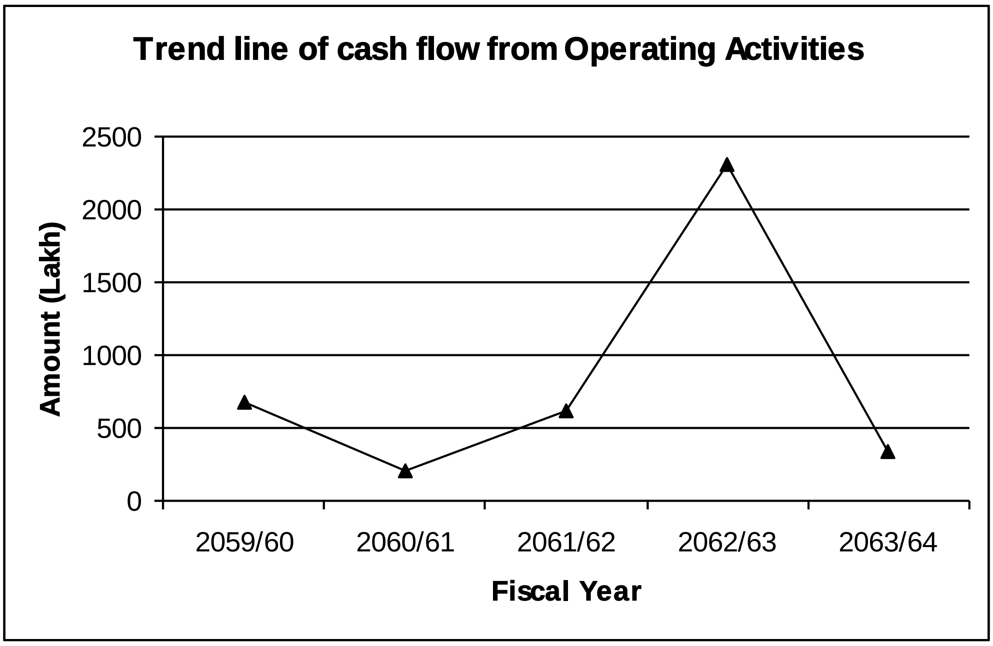
Net Cash flow from financing activities (C)	**1,123.62**	**205.71**	**2,186.02**	**(1,041.63)**	**(1,258.07)**
Change in cash position (A+B+C)	(63.27)	53.05	44.46	1,295.26	(1,135.92)
Opening Cash and Bank Balance	66.59	3.32	56.37	100.83	1,396.09
Closing Cash and Bank Balance	**3.32**	**56.37**	**100.83**	**1,396.09**	**260.17**

(Source : Annual Reports of GBPL and Appendix 8)

4.5.1 Analysis of Cash Flow from Operating Activities

Net cash flows from operating activities of GBPL was 678.60 Lakh in 2059/60 but in the fiscal year 2060/61 it decreased to Rs. 202.98 Lakh due to increase in the current liabilities and increase in current assets. In the F/Y 2061/62 it has increased to Rs. 611.46 Lakh due to the decrease in current assets and the company was in profit but in the F/Y 2062/63 the company's operating profit jumped to Rs. 2,310.39 Lakh because of heavy increase in the net profit. In the current fiscal year it was Rs. 332.04 Lakh although the company obtained high net profit but decrease in current liabilities and income tax paid reduced the cash flow operating activities.

The above statement of cash flow shows that GBPL had maintained the positive cash flows from operating activities. But CFOA was fluctuating during the study period. The CFOA decreased in F/Y 2060/61, slightly increased in 2061/62 but in 2062/63 it drastically increased however in F/Y 2061/62 it fell down to Rs 332.04, this is due to the payment of the current liabilities of the company. Overall the performance of the company was good which helped the creditors. The cash flow from operating activities during the study period can be shows in graphical representation as follows.



The above trend line shows that GBPL had positive cash flow from operating activities and the above trend line shows the company had fluctuating CFOA during the study period.

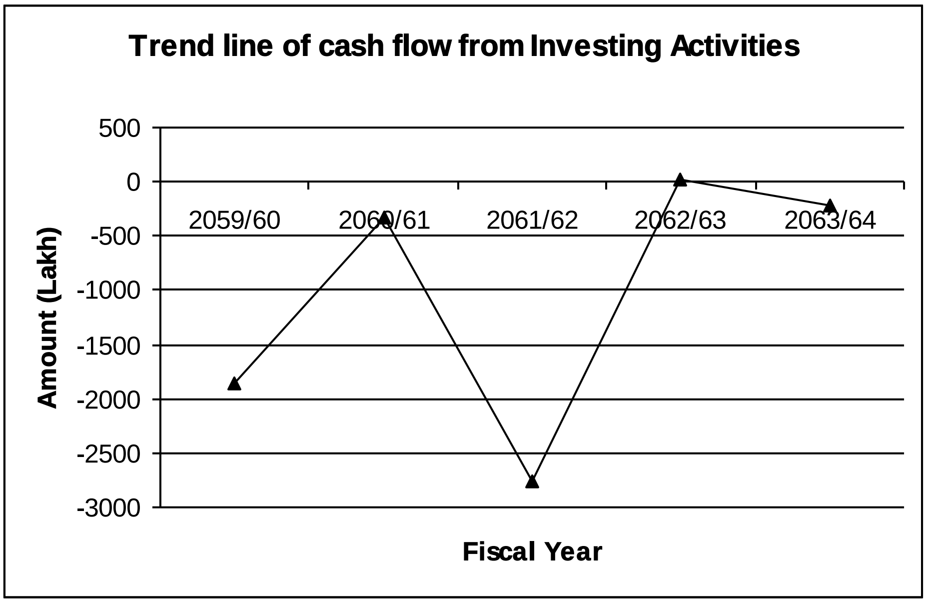
Normally, there is positive correlation between sales revenue and cash from operating activities. Higher the sales revenue is considered higher the CFOA and vice-versa. The correlation coefficient (r) between sales revenue (x) and CFOA (y) was identified 0.44. This shows that the sales revenue and CFOA are moderate positively correlated. The reliability of r was tested by calculating 6×P.E. which was found to be 1.45. Since r<6×P.E., it was not significant which shows the calculated value of r was not reliable. ***(Appendix-1)***

4.5.2 Analysis of Cash Flows from Investing Activities

Cash flow from investing activities of GBPL was observed negative in the following fiscal year i.e. 2059/60, 2060/61, 2061/62 that indicated more procurement of fixed assets and purchase of investments. But in F/Y 2062/63 the investing activities was positive i.e. Rs 26.50 Lakh due to the sale of investments. There was small portion of cash inflows from investing activities from dividend received and from sale of fixed assets. It was observed that the cash flows from investing activities were (Rs 1865.49), (Rs 355.64) Lakh during the first two-year of study period. It has drastically increased to (Rs 2,753.02) in 2061/62 but in the F/Y 2062/63 it was 26.50 Lakh. Negative cash flows from investing activities of Rs (209.89) was seen due to purchase of fixed assets in the F.Y. 2063/64.

During the study period the main investing activities involve new investment acquisition and purchase of fixed assets to enhance future growth opportunities. The negative cash flow from investing activities in every year indicated that the company was able to expand business.

The cash flow from investing activities during the study period can be show in graphical representation as follows.



The above trend line shows that the cash flow from investing activates was negative during the study period of 2059/60, 2060/61, 2061/62 and 2063/64 which indicated that the company had purchased more fixed asserts and made investment in other company. The outflow from investing activities seemed more in the fiscal year 2063/64 as compared to the previous year.

The correlation coefficient (r) between sales revenue (x) and cash flow investing activities (y) was observed 0.74 which showed there was highly correlation between them. The value of r was tested by calculating the value of 6× P.E. which wad found to be 0.78 which indicated the value of r was not reliable because r<6×P.E. ***(Appendix-2]***.

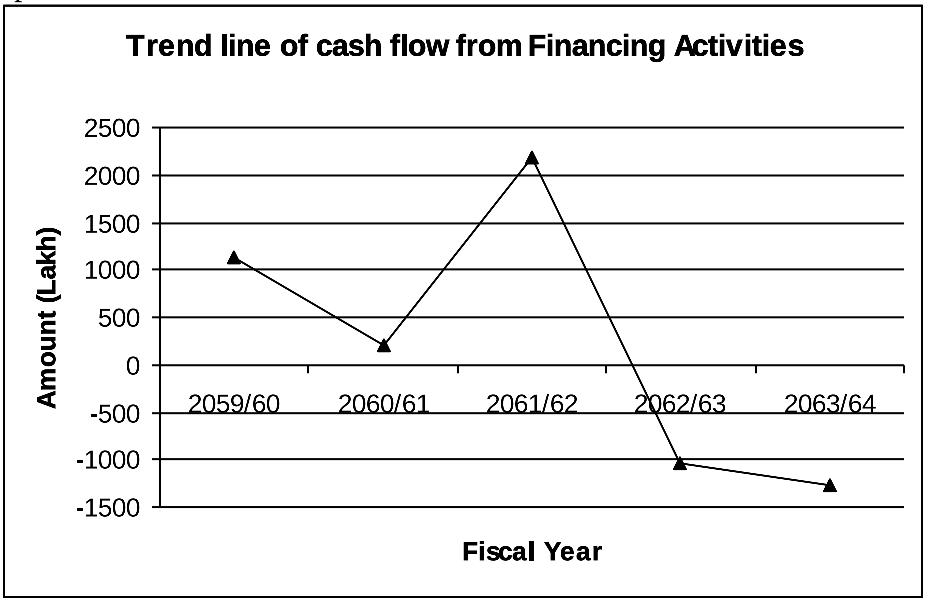
4.5.3 Analysis of Cash Flow from financing Activities

Issue of share is one of the sources of cash inflows of financial activities. GBPL has issued Rs. 663,230 share out of which 253,050 shares are issued for consideration other than cash and Rs. 127,568,651076 was shows as the application money received for the new shares. But until now management has issued neither new share. Another source of cash inflow of GBPL is the loan i.e. secured and unsecured. It had borrowed loan Rs. 1,123,62 Lakh, and 1,751.36 Lakh, (secured loan in the F/Y 2059/60, 2061/62 respectively. The company had borrowed Rs 625.71 Lakh and Rs 434.66

Lakh (unsecured loan) in the F.Y. 2060/61 and 2061/62. It repaid Rs 420 Lakh (secured loan) in the F.Y. 2060/61. The company also repaid Rs 265.11 Lakh (secured loan) and Rs 776.52 Lakh (unsecured loan) in the F.Y. 2062/63. Again it repaid Rs 125 Lakh (secured loan) and Rs. 1133.07 Lakh (unsecured Loan) in the F.Y. 2063/64.

The company's financing activities were observed positive i.e. Rs. 1,123.62, Rs 205.71, Rs 2,186.02 Lakh in the F/Y 2059/60, 2060/61 and 2061/62 respectively due to the inflows of secured and unsecured loans to be company but it was negative i.e. (Rs 1,041.63 Lakh) and R 1,258.07 Lakh) in the F.Y. 2062/63 due to the payment of the loans.

The cash flows from financing activities during the study period can be shown in graphical representation as follows.

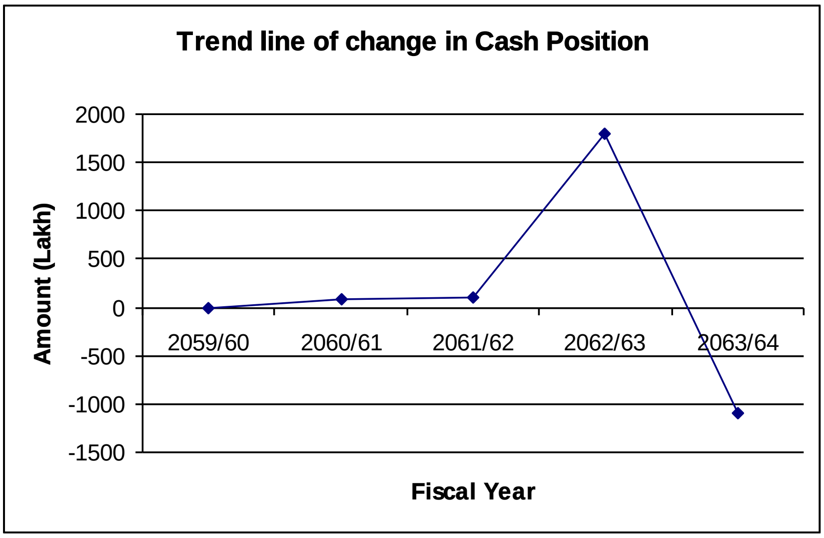


The above trend line shows that the cash flow from financing activates was fluctuating during the study period. Cash flow from financing activities was positive during the three years after then it was negative. In the F/Y 2060/61 it decreased slightly but in the F.Y. 2061/62 it has been sharply increased. In the same way in the F/Y 2062/63 it has been sharply decreased and in the F.Y. 2063/64 it reached to its lowest point. The trend line shows the unstable cash flows from financing activities.

The correlation coefficient (r) between sales revenue (x) and cash flows from financing activities (y) was observed (0.87) which shows there was negative correlation between them. The value of r was tested by calculating the value of 6×P.E. which was 0.42 and indicated that the calculated value of r was not reliable because r<6×P.E. ***(Appendix-3)***

4.6 Cash Position Analysis

The change in cash position during the study period can be shown in graphical representation as follows.



The above trend line shows the fluctuating change in cash position. In the first year of study period it was negative change in cash position, which signified the decreasing trend. In the F.Y., 2060/61 the company was able to generate little cash. So it was in positive. In F.Y. 2061/62 it was in positive level. However it was slightly decreased but in the F.Y., 2062/63 it has increased sharply to its highest point. Then, dramatically it fell down to its lowest point in the F.Y. 2063/64. It was due to purchase of the fixed assets and payment of the loans by the company.

4.7 Analysis of Profit and Loss

Profit and Loss a/C contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and in selling and distributing the goods for the particular accounting period. Revenue refers to the amount which the customers pay to the company for providing goods and services. To provide goods and services to customer, the company uses economic resources which result in expenses. Profit and loss account shows the actual net profit or loss from its operating for a particular period. Net profit is an indicator of the company's efficiency in terms of business operation.

The following table shows the profit and loss trend of GBPL during the study period.

Table No. 17

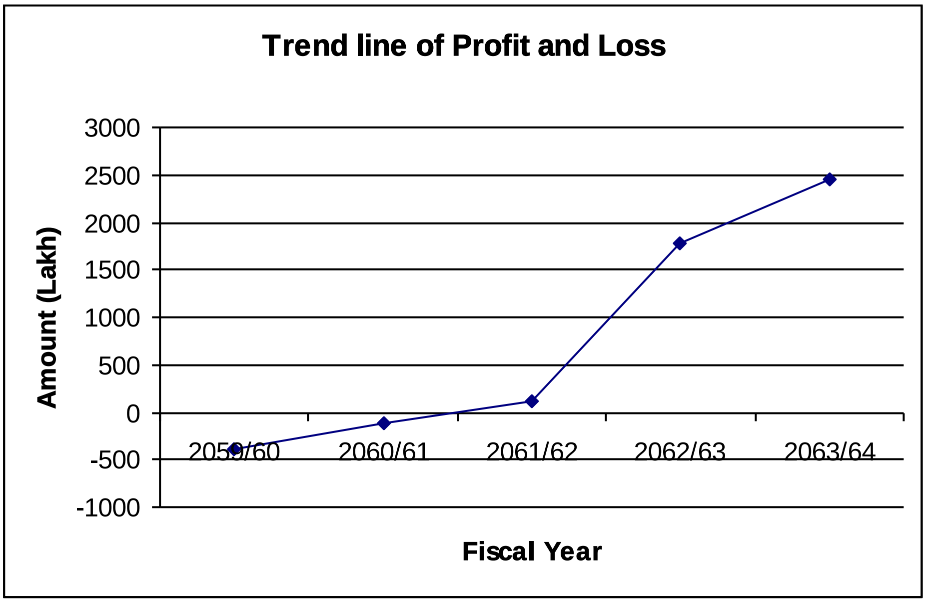
Profit and loss

(Rs in Lakh)

Fiscal Year	Profit and Loss
2059/60	(383.58)
2060/61	(112.10)
2061/62	109.84
2062/63	1,772.20
2063/64	2,461.78
Total	**3,848.14**
Average	**769.63**

(Source : Annual Reports of GBPL)

From the above table no. 16 it is observed that the net profit after tax was negative in the first two year of the study period i.e. (Rs 383.58) and (Rs 112.10) Lakh in F.Y. 2059/60 and 2060/61 respectively. But after 2061/62 it was positive profit which was observed in the increasing trend i.e. Rs 109.64, Rs 1,772.20 and Rs 2,461.78 Lakh in 2061/62 and 2063/64 respectively. It was average Rs. 769.63 Lakh during the study period. We can also analyse it in the representation as follows.



From the above trend line of P/L, it is cleared that GBPL had incurred loss in the first two years of study period. After this year the profit trend was increased up to the 2063/64 which indicated the operating activity is assumed as better in these years.

Generally, there is positive relationship between sales and profit and loss. It is assumed that when sale increases, then P&L also increases and vice-versa. This relationship is calculated by using the Karl Pearson's coefficient correlation. The correlation (r) between sales (x) and NAPT (y). The reliability of r is tested by calculating the value of 6 × P.E. The value of 6 × P.E. has calculated 0.01, which indicated that the value of r was significant. ***(Appendix - 4)***

4.8 Analysis of Cash and Bank Balance

The term "cash" is the most important current asset for the operation of a business. Therefore the company should keep sufficient cash, neither more nor less. More cash balance reduces the rate of return on equity.

The term cash includes coins, paper notes and cheques held by the company and balance in its bank accounts. Sometimes, near cash items such as marketable securities or bank deposits are also included in cash.

Table No. 18

Cash and Bank Balance

(Rs in Lakh)

Fiscal Year	Cash And Bank Balance	Increase (Decrease)%
2059/60	3.32	-
2060/61	56.36	1597.59
2061/62	100.83	78.90
2062/63	1,396.06	1,284.56
2063/64	260.12	(81.37)
Total	**1,846.58**	**1,351.75**
Average	**369.32**	

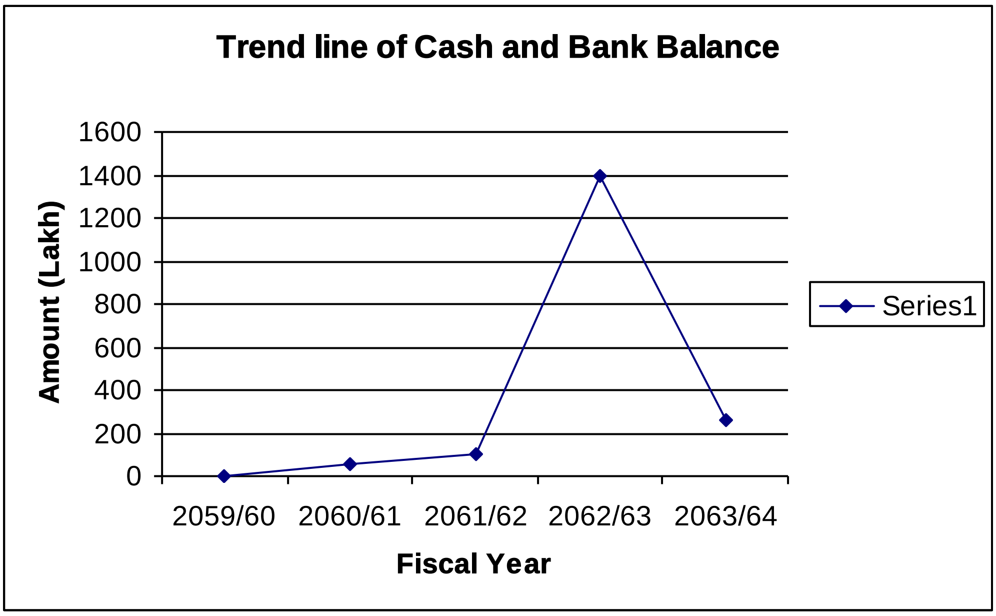
(Source : Annual Reports of GBPL, Table no 16 and Appendix 7)

The above table no. 18 shows the amount of cash and bank balance of GBPL during the study period. The cash balance at the end of each fiscal year was compared to preceding year to analyze fluctuation on cash and bank balance. The company had average Rs 369.32 Lakh cash and Bank balance during the study period.

In F/Y 2059/60 cash and bank balance of GBPL was observed Rs. 3.32 Lakh that was increased to Rs 56.37 Lakh in the fiscal year 2060/61. In the F/Y 2061/62 it was Rs 100.83 Lakh that was increased by 78.90% increase the previous year. But in F/Y

2062/63 it was sharply increased to Rs. 1,396.05 Lakh i.e. increased by 1,284.56% than the previous year but in F.Y. 2063/64 it decreased to Rs. 260.12 Lakh.

The cash and bank balance during the study period can be shown in graphical representation as follows.



The above trend line shows the company had fluctuating cash and balance. There was slightly increasing trend from, first two years of study period. After that it sharply increased in F/Y 2062/63 but it was dramatically decreased in F.Y. 2063/64.

The figure suggests that he cash and bank balance held was very inconsistent in nature ranging from Rs. 33.22 Lakh in F/Y 2059/60 to highest Rs. 1,396.05 Lakh in F/Y 2061/62. Such fluctuation stated that the company had not been following a definite policy regarding the amount of cash to hold at end of the year.

4.9 Analysis of ability of generate cash flows in flows in future

The information in statement of cash flows also assists in predicting the ability to generate future cash flows. Here an effort is made to find out the future cash flows of Gorkha Brewery Private Limited for the F/Y 2064/65 and 2065/66. For this, cash flow from operating, investing and financing activities are calculated by fitting the straight trend line considering operating, investing and financing activities as dependent variable and sales revenue as independent variable.

Fitting the straight trend line taking fiscal year (x) as independent variable and sales revenue (y) as dependent variable, sales revenue would be Rs. 12705.54 Lakh and Rs. 13653.77 Lakh in the F/Y 2064/65 and 2065/66 respectively. ***(Table no. 3)***

Estimation of Cash Flow from Operating Activities

Here sales revenue is considered as independent variable and cash flow from operating activities as dependent variable. Then, the straight line of CFOA (y) on sales revenue (x) is expressed by

$$Y = a + bx$$

The trend line can be used to compute the value of a and b by using the following formula

$$b = \frac{n\Sigma xy - \Sigma x\Sigma y}{n\Sigma x^2 - (\Sigma x)^2}$$

$$a = \frac{\Sigma y}{n} - \frac{b\Sigma x}{n}$$

Table No. 19

Fitting of Trend Line

(Rs in Lakh)

Sales	CFOA(y)	x = (x+8349.87)	xy	X^2
7,036.48	678.60	(1,313.39)	(891,266.45)	1,724,993.29
8,707.53	202.98	357.66	72,597.83	127,920.68
8,349.87	611.46	-	-	-
12,468.54	2,310.39	4,118.67	9,515,733.98	16,963,442.57
12,741.86	332.04	4,391.9	1,458,316.36	19,289,576.16
n=49304.28	**Σy=4135.47**	**Σx=7554.93**	**Σxy=10155381.71**	**Σx^2=38105932.70**

(Source : Annual Reports of GBPL, Table no. 2 and Table no 16)

Now substituting the value, We get,

$$b = \frac{5 \times 10155381.71 - 7554.93 \times 14135.47}{5 \times 3810593270 - 7554.93^2}$$

b = Rs. 0.15 Lakh

Again,

$$a = \frac{4135.47}{5} - \frac{.15 \times 7554.93}{5}$$

a = 605.93

Now equation of trend line is :

y = 605.93 + 0.15x

The above trend line shows the CFOA for the next year. The annual rate of increment in cash flow from operating activities was Rs. 0.15 Lakh

Estimation of CFOA for the F/Y 2064/65

In this case x = 2063/64 - 2060/61 = 12705.54 - 8349.87

y = Rs 605.93 + Rs. 0.15×4355.67

y = Rs. 1259.28 Lakh

Estimation of CFOA for the F/Y 2065/66

In this case x = 2065/66 - 2061/62 = 5303.90

y = Rs 605.93 + Rs. 0.15×5303.90

y = Rs. 1401.51 Lakh

Taking sales revenue (x) as independent variable and cash flow from operating acidities (y) as dependent variable, cash flow from operating activities would be Rs. 1259.28 Lakh and Rs. 1401.51 Lakh in the F/Y 2064/65 and 2065/66 respectively. From the estimation of future cash flows from operating activities, it seems positive in future.

Estimation of Cash Flow from Investing Activities

Here sales revenue is considered as independent variable and cash flow from investing activities is considered as dependent variable. Then the straight line of CFIA (y) on sales revenue (x) is expressed by :

$$Y = a + bx$$

The trend line can be used to compute the value of a and b by using the following formula

$$b = \frac{n\phi xy \; Z \phi x \phi y}{n\phi x^2 \; Z (\phi x)^2}$$

$$a = \frac{\phi y}{n} Z \frac{b\phi x}{n}$$

Table No. 20

Fitting of Trend Line

(Rs in Lakh)

Sales	**CFOA(y)**	**x = (x+8349.87)**	**xy**	$\mathbf{X^2}$
7,036.48	(1,865.49)	(1,313.39)	2450115.91	1,724,993.29
8,707.53	(355.64)	357.66	(127198.20)	127,920.68
8,349.87	(2,753.02)	-	-	-
12,468.54	26.50	4,118.67	109,144.76	16,963,442.57
12,741.86	(209.89)	4,391.9	(921,834.78)	19,289,576.16
n=49304.28	**px=(5157.54)**	**px=7554.93**	**pxy=1510227.68**	**px^2=38105932.70**

(Source : Annual Reports of GBPL, Table No 2 and Table No 16)

Now substituting values, We get

$$b = \frac{5 \mid 1{,}510{,}227.68\ Z\ 7554.93 \mid (5157.54)}{5 \mid 3810593270\ Z\ 7554.93^2}$$

b = Rs. 0.35 Lakh

Again,

$$a = \frac{(5157.54)}{5}\ Z\ \frac{35 \mid 7554.93}{5}$$

a = (1558.17)

Now equation of trend line is :

Now equation of trend line is :

y = (1558.17) + 0.35x

The above trend line shows of the CFIA for the next year. The annual rate of increment in cash flow from investing activities will be Rs. 0.35 Lakh.

Estimation of CFIA for the F/Y 2064/65

n this case x = 2064/65 - 2061/ = 12705.54 - 8349.87

y = Rs (1558.17) + Rs 0.35×4355.67

y = Rs. (33.68) Lakh

Estimation of CFIA for the F/Y 2065/66

In this case x = 2065/66 - 2061/62 = 13653.77 - 8349.87

y = Rs (1558.17) + Rs 0.35×5303.90

y = Rs. 290.54 Lakh

In the same way taking sales revenue (x) as independent variable and cash flows from investing activities (y) as dependent variable, cash flow from investing activities would be (Rs. 33.68 Lakh) and Rs. 290.54 Lakh in the F/Y 2064/65 and 2065/66 respectively.

Estimation of Cash Flow from Financing Activities

Here sales revenue is considered as independent variable and cash flow from financing activities is considered as dependent variable. Then the straight line of CFFA (y) on sales revenue is expressed by :

Y = a + bx

The trend line can be used to compute the value of a and b by using the following formula

$$b = \frac{n\phi xy \, Z \phi x \phi y}{n\phi x^2 \, Z (\phi x)^2}$$

$$a = \frac{\phi y}{n} Z \frac{b\phi x}{n}$$

Table No. 21

Fitting of Trend line

(Rs in Lakh)

Sales	**CFOA(y)**	**x = (x+8349.87)**	**xy**	**X^2**
7,036.48	1123.62	(1,313.39)	(1,475,751.27)	1,724,993.29
8,707.53	205.71	357.66	73,574.24	127,920.68
8,349.87	2186.02	-	-	-
12,468.54	(1041.63)	4,118.67	(4,290,130.23)	16,963,442.57
12,741.86	(1258.07)	4,391.9	(5,525,430.86)	19,289,576.16
n=49304.28	**py=(1215.65)**	**px=7554.93**	**pxy=11217738.12**	**px^2=38105932.70**

(Source : Annual Reports of GBPL, Table No.2 and Table No. 16)

Now substituting values, We get

$$b = \frac{5 \mid 11217738.12 \, Z 7554.93 \mid 1215.65}{5 \mid 3810593270 \, Z 7554.93^2}$$

b = Rs. (0.49) Lakh

Again,

$$a = \frac{1215.65}{5} Z \frac{49 \mid 7554.93}{5}$$

a = 982.17

Now, equation of trend line is :

y = 982.17 + 0.49x

The above trend line shows the CFFA for the next year. The annual rate of increment in Cash Flow from Financing activities will be Rs. 0.49 Lakh

Estimation of CFFA for the F/Y 2064/65

In this case x = 2064/65 - 2061/62 = 12705.54 - 8349.87

y = Rs. 982.17 + (0.49) × 4355.67

y = (Rs 1152.11 Lakh)

Estimation of CFFA for the F/Y 2065/66

In this case x = 2065/66 - 2061/62 = 13633.77 - 8349.87

y = Rs. 982.17 + (0.49) × 5303.90

y = (Rs. 1612.02 Lakh)

Taking sales revenue (x) as independent variable and cash flows from financing activities (y) as dependent variable, cash flows from financing activities would be (Rs. 1152.11 Lakh) and (s 1612.02 Lakh) in the F/Y 2064/65 and 2065/66 respectively. The trend of cash flow from financing activities will seem to be negative in the next year.

By using expected values of cash flows from operating, investing and financing activities it shows expected cash balances at the year-end of F/Y 2064/65 and 2065/66 are shown in the following table.

Table No. 22

Expected Cash and Bank Balance

(Rs in Lakh)

Fiscal Year / Particulars	2064/65	2065/66
1. Cash flow from operating activities	1259.28	1401.51
2. Cash flow from investing activities	(33.68)	290.54
3. Cash flow from financing activities	(1152.11)	(1612.02)
Change in cash position (1+2+3)	43.49	80.03
Opening balance of Cash and Bank	260.17	333.66
Closing balance of Cash and Bank	333.66	413.69

(Source : Table No 19,20,21 and 16)

From above table no. 22, the expected change in cash position would be Rs. 73.49 Lakh and Rs. 80.03 Lakh in the F/Y 2064/65 and 2065/66 respectively. This is increasing trend of change in cash position as compared to preceding year. The total expected cash balance at the end of each fiscal year would be Rs. 333.66 and Rs. 413.69 Lakh respectively. From this calculation, GBPL's cash balance for future period seems to be in increasing trend, which is favorable for the company.

4.10 Analysis of Cash Turnover Ratio

The cash balance of the company should be optimum to meet its current obligations. The cash turnover ratio explains how quickly cash is recovered from sales. Higher ratio indicates the company's sound liquidity position and vice-versa. Although high ratio considered as good, this indicates excess cash balance being held like. It is calculated as follows :

Cash Turnover Ratio = Cash and Bank Balance / Sales

Table No. 23

Cash Turnover Ratio

(Rs in Lakh)

Fiscal Year	*Cash and Bank Balance*	*Sales*	*Ratio %*
2059/60	3.32	7,036.48	0.05
2060/61	56.36	8,707.53	0.65
2061/62	100.83	8,349.87	1.21
2062/63	1,396.56	12,468.54	11.20
2063/64	260.12	12,741.86	2.04
Total	**1,816.78**	**49,304.28**	**-**
Average	**363.36**	**9,860.86**	**3.68**

(Source : Annual Reports of GBPL, Table No. 2 and Table No. 18)

The table no. 22 shows that GBPL has fluctuating Cash turnover ration. The highest ratio was recorded 11.20 times in the F/Y. 2062/63 and lowest ratio of 0.05 times was observed in the F.Y. 2059/60. The average ratio was 3.68 times.

From the F/Y 2060/61, cash turnover ratio was increased gradually than the preceding year. Generally, a high sale implies high cash balance to hold and vice - versa. But the above table shows the company has perfectly applying policy on holding cash balance in relation to sales volume.

Normally, cash balance held at the end of each year could fluctuate in relation to different variables. One of the variables to change cash balance is considered as sales volume. Higher the sales volume, higher the cash balance held in each and vice -versa. Generally cash balance and sales volume are positively correlated. Here an effort is made to find our the relationship between sales volume and cash & bank balance using correlation coefficient.

The correlation (r) between sales revenue (x) and cash & bank balance (y) was calculated as 0.69, which shows high degree of correlation between them. This indicates that sales and cash & bank balance move in same direction i.e. if sales volume increase then cash & bank balance also increase and vice - versa.

Whether r was significant or not, 6× P.E. was calculated. The value of 6×P.E. was 0.95 which was greater than calculated value r. This indicates the correlation between sales revenue and cash & bank balance r = 0.69 was not significant. It can be concluded that GBPL is not considering the higher sales volume, higher cash & bank balance and vice - versa.

4.10.1 Analysis of Cash and Bank Balance to current Assets Ratio

Cash in the most liquid current asset. The amount of cash balance in a company helps in meeting the current obligations. The ratio of cash & bank balance to current assets indicates the proportion of cash - bank balance to current assets. Higher ratio shows more cash held by the company as current assets. On the other hand, the stable pattern of ratio for different years indicates that the company has been following the systematic policy regarding how much cash balance to hold at the end of each year. It is calculated as follows.

Cash to Current Assets Ratio = Cash × 100 current assets

Table No. 24

Cash to Current Ratio

(Rs in Lakh)

Fiscal Year	***Cash and Bank Balance***	***Current Assets***	***Ratio %***
2059/60	3.32	3,233.04	0.10
2060/61	56.36	4,150.94	1.36
2061/62	100.83	2,704.85	3.73
2062/63	1,396.56	4,308.20	32.41
2063/64	260.12	4,316.61	6.03
Total	**1,816.78**	**18,713.64**	**-**
Average	**363.36**	**3,742.73**	**9.71**

Source : Annual Reports of GBPL, Table No. 6 and Table No. 18)

From the above table, it is observed that the highest ratio was 32.41% in the F/Y 2062/63 and the lowest ratio was 0.10% in the F.Y. 2059/60. Cash to current assets ratio was 1.36$%, 3.73%, and 6.03% in the F/Y 2060/61, 2061/62 and 2063/64 respectively. It shows that the liquidity position of GBPL had slightly increased in F/Y 2060/61 and 2061/62 but it has sharply increased to 32.41% in 2062/63 which indicated that the contribution of cash into current assets was increasing. In the F.Y. it has decreased to 6.03%.

Overall cash to current ratio was 9.71 which was not satisfactory to meet its current obligations from cash and bank balance.

4.10.2 Analysis of Cash and Bank Balance to Current Liabilities Ratio

This ratio is used to indicate the amount of cash available to pay current obligations of the company. A moderate ratio is considered as satisfactory. Too high ratio indicates excess cash balance held idle and too low ratio indicates that company is unable to pay its liabilities from cash and bank balance. It is better to pay its liabilities in time to get credit facilities. It is calculated as follows :

Cash to Current Liabilities Ratio = Cash × 100/Current liabilities

Table No. 25

Cash and Bank Balance to Current Liabilities Ratio

(Rs in Lakh)

Fiscal Year	*Cash and Bank Balance*	*Current Liabilities*	*Ratio %*
2059/60	3.32	5,195.92	0.104
2060/61	56.36	4,127.50	0.0334
2061/62	100.83	2,692.14	0.1554
2062/63	1,396.56	3,326.59	(0.1355)
2063/64	260.12	2,669.21	(0.1595)
Total	**1,816.78**	**18,011.36**	
Average	**363.36**	**3,602.27**	**10.09**

(Source : Annual Reports of GBPL, Table No. 6 and Table no. 18)

The above table no. 25 shows the ratio between cash & bank balance and current liabilities. In the first year of study period this ratio was 0.06% which indicated the company had very fewer amounts of cash available to meet short term obligations, but in the succeeding year this ratio increased to 1.37% and 3.75% in the F/Y 2060/61 and 2061/62 but the ratio sharply increased to 41.97% in the F/Y 2062/63 than the preceding year which showed that there was sufficient cash and bank balance to pay the current liabilities. However, in the fiscal year the ratio decreased to 9.57% indicating poor availability to pay short-term obligations.

On average the company had 10.09% cash and bank balance to current liabilities. This balance of cash was not sufficient to pay current liabilities and GBPL should manage other sources to pay short - term obligations.

4.11 Analysis of Cash flow per share, Cash flow margin and Cash flow liquidity Ratio

The information in the statement of cash flow provides basis for analyzing financial results. Additional analysis is possible through the use of three ratios relating to cash flow which is cash flow per share of common stock, cash flow margin and cash flow liquidity ratios.

Table No. 26

Cash flow per share. Cash flow margin and Cash flow liquidity Ratio

(Rs in Lakh)

Fiscal Year	**2059/60**	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**Avg**
CFOA	678.60	202.98	611.46	2,310.39	332.04	165.42
Cash Balance	3.32	56.37	100.83	1,396.09	260.17	72.67
Net Sales	7,036.48	8,707.53	8,349.87	12,468.54	12,741.89	1,972.17
CFOA + Cash Balance	681.92	259.35	712.39	3,706.48	592.21	238.09
Avg. common share	1,187.78	1,187.78	1,187.78	1,187.78	1,187.78	237.56
Cash Flow per share	0.57	0.17	0.51	1.95	0.28	0.70
Cash Flow Margin %	9.64	2.33	7.32	18.53	2.61	8.39
Cash Flow Liquidity ratio	2.20	0.95	2.39	9.73	1.40	3.54

(Source : Annual Reports of GBPL, Table No. 16)

4.11.1 Cash Flow per share

The cash flow per share of common stock ratio is equal to the net cash provided by operation divided by the average no of share of common stock outstanding. This ratio indicates the company's ability to pay dividend and liabilities. Higher the ratio, greater the ability to pay liabilities.

Cash Flow per share = Net cash flow from operating activities / Average no. of common shares

Cash flow per share of common stock ratio indicates the ability to pay dividend and liabilities. Table no. 26 produce cash flow per share of common stock, which is very low and indicates GBPL's poor ability to pay dividend and current liabilities. Thus the company should use other sources to pay dividend and current liabilities. On the other hand the company should improve its operating activities to generate enough cash flows. Cash flow per share is Rs. 0.57, Rs. 0.17, Rs. 0.51, Rs. 1.95 and Rs. 0.28 in the F/Y 2059/60, 2060/61, 2061/62, 2062/63 and 2063/64 respectively. This ratio is highest in the year 2061/62 i.e. 1.95 per share, the overall cash flow per share has been observed only Rs. 0.70.

4.11.2 Cash Flow Margin

The cash flow margin ratio is equal to net cash provided by operation activities divided by net sales. This ratio is a measure of a company's ability to turn sales revenue into cash. The higher ratio is considered as the better one.

Cash Flow Margin = Net cash flows from operating activities / Net Sales

The above table no. 26 shows the cash flow margin of GBPL during the study period which seemed not satisfactory because the company policies were ineffective to turn sales revenue into cash due to low cash flow margin. The company had some extent tried to generate cash from sales revenue with highest margin i.e. 9.64% and 18.53% in F.Y. 2059/60 and 2061/62.

4.11.3 Cash Flow Liquidity Ratio

The cash flows liquidity ratio is equal to the total of cash, marketable securities and net cash provided by operating activities divided by current liabilities. This ratio us a test of a company's short - term debt paying ability.

Cash flow liquidity ratio = Net cash flows from operating activities plus cash balance / Current Liabilities

The ability to pay short-term debt had identified very poor during the study period. Since ratio was observed positive which indicated that the company and ability to pay short-term dent to some extent but it was not satisfactory due to low liquidity ratio.

So, the company should extend its trading activities effectively to generate more cash inflow and should maintain more cash and bank balance at the end of each year.

4.12 Analysis of Free Cash Flow

Free cash flow was intended to represent the cash flow available to management for discrepancy purpose, after the company has met its entire basic obligation relating to business operation. It is calculated by deducting net cash used for investment in plant assets and any dividend paid from net cash flows from operating activities. It is calculated as follows.

Net cash flow from operating activities	----------------
Less : Net cash used for acquiring plant assets	----------------
Dividend paid	----------------
Free Cash Flow	----------------

Table No. 27

Free Cash Flow

(Rs in Lakh)

Fiscal Year	2059/60	2060/61	2061/62	2062/63	2063/64
1. CFOA	678.60	202.98	611.46	2,310.39	332.04
2. Cash used for purchase of plant assets	(1,424.79)	(298.64)	(2,287.63)	(275.21)	(410.68)
3. Dividend paid	-	-	-	-	-
4. Free Cash Flow (1-2-3)	(746.19)	(95.66)	(1,676.17)	2,035.18	(78.64)

(Source : Annual Reports of GBPL)

The table no. 27 shows that GBPL has not enough cash from operating activities to meet its basic obligation in the first three year of study period. It had only 2,035.18 Lakh free cash flows in the F/Y 2062/63 sufficient to meet its obligations because the free cash flow was negative in F/Y 2059/60, 2060/61, 2061/62 and 2063/64 respectively. The management should raise cash from other sources to pay liabilities. Although the term free cash flow is widely used within the business community, different companies compute this measure in different ways because there is no widespread agreement as to the basic obligation relating to business operation.

4.13 Life Cycle Study of Gorkha Brewery Private Limited with the help of Cash Flow Analysis

Cash flow analysis also helps to locate the stage of life cycle of a company. Generally, every company passes through the four stage of its life cycle viz introduction, growth, maturity and decline stage.

(i) Introduction Stage

In the beginning of establishment (introduction stage) of a company, generally the cash flow from operating activities is assumed negative due to low sales revenue low profit and high operating expense. Likewise cash flow from investing activities is negative because of investment in different fixed assets. But in the beginning year, the company issues common stocks, preference shares and borrows loans in large amount resulting to the positive cash flows from financing activities.

(ii) Growth Stage

In the growth stage, sales revenue gradually increases or its operating activity goes upward and also the profit which generates, gradually cash inflows from operating activities. To enhance the business activities, the company need to continue its investing activities in growth stage which indicates the outflow from investing activities of business. So, cash flow from operating activities. To enhance the business activities, the company needs to continue its investing activities in growth stage which indicates the outflow from investing activities of business. So, cash flow from operating activity is considered as positive in this stage.

(iii) Maturity Stage

In the maturity stage of a company, sales revenue is assumed to be in peak point and more profit is generated from operating activities. Operating expenses decreases that cause the sufficient amount of cash inflow from operating activities. In this stage the cash flows from operating activities will be sufficient to pay huge amount of short-term obligations of the company. Due to the huge amount of cash inflows, the company can repurchase its outstanding shares which helps to increased the share price of the company. But in the maturity stage, the trend of cash outflow from investing activities may be increasing or decreasing which depends on the management view whether to expand the business or not. If the company is going to expand its operating activities, in different sector or different country, it needs more additional fixed assets. Due to more cash flows from operating activities, it can invest in other company's shares. But if the company is enjoying its current market, it does need further assets and it can also sells is old fixed assets at the maturity stage. Due to sufficient cash flows from operating activities, the company can repay its loan, which the company has borrowed in its introduction and growth stages, which cause the outflows from financing activities in the maturity stage.

(iv) Decline stage

In the decline stage of life cycle a company, sales revenue and profit trend start to decrease which cause low amount of cash inflows from operating activities. The trend of cash flows from operating activities occurs in this stage. At this stage, it is not better to invest in fixed assets and also it cannot invest in other company because of low cash flows from operating activities. In this stage, the company should search new business activities. Due to this reasons, the company starts to sell its remaining assets which should generate positive cash inflow from investing activities. Likewise, in this stage the company cannot issue shares and debentures. The company should use other sources to pay its obligations due to insufficient cash inflows from operating activities.

Considering the above facts, here an attempt was made to find out what stage of life cycle the Gorkha Breweru Private limited has, taking average cash flow from operating, investing and financing activities.

Table No. 28

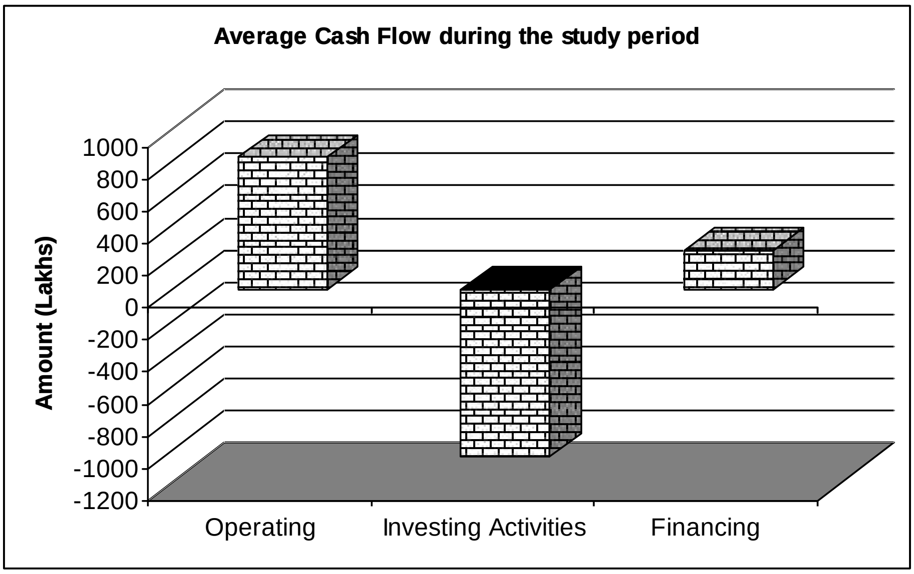
Average Cash Flow

(Rs in Lakh)

Fiscal Year	*Cash flow from Operating activities*	*Cash flow from Investing Activities*	*Cash flow from Financing Activities*
2059/60	678.60	(1,865.49)	1,123.62
2060/61	202.98	(355.64)	205.71
2061/62	611.46	(2,753.02)	2,186.02
2062/63	2,310.39	26.50	(1,041.63)
2063/64	332.04	(209.89)	(1,258.07)
Total	**4,135.47**	**(5,157.54)**	**(1,215.65**
Average	**827.09**	**(1,031.51)**	**243.13**

(Source : Annual Reports of GBPL, and Table No. 16,19,20 and 21)

The table no. 28 showed that the average cash flow from operating activities was Rs. 4137.47 Lakh. Likewise it was (Rs. 5157.54 Lakh) and Rs. 1215.65 Lakh from investing and financing activity during the study period. This figure can be presented in the following diagram.



From the above diagram, it is clear that an average cash flow from operating activities was positive which indicated that the company had generated cash inflows from operating activities during the study period though the financial statements are prepared on accrual basic. But average cash flow from investing activities was negative during the study period. This indicated the purchase of fixed assets and investment in other companies. Again the cash flow from financing activities was positive which showed each inflow from financing activities and it was due to long - term borrowing GBPL had huge amount of outflows from investing activities and inflows from operating activities but the company had generated small amount of inflows from financing during the study period. It shows that the company had financed its investment from financing as well as from CFOA. This type of activity can be observed on growth stage of the life cycle. Thus it can be conducted that Gorkha Brewery Private Limited company was in growth stage of life cycle.

4.14 Major Findings

(1) The sales revenue of GBPL had increased in the fiscal year 2063/64. The average sales revenue had reached to Rs. 9,860.86 Lakh

(2) Cash inflow and profit of the company had decreased because of decrease in cost of goods sold.

(3) The company is not adopting the definite inventory policy because the levels of inventory fluctuated.

(4) The company has no ability to pay short-tern obligations, which indicate the company's weak financial position.

(5) The long term solvency position of the company was satisfactory as it had used relevant amount of debt as compared to equity.

(6) The debt servicing capacity was satisfactory since the average interest coverage ratio is 3.47 times.

(7) The company was holding higher levels of inventory, which was considered to be unproductive and treated as idle assets that earn nothing.

(8) The average collection period was 26.91 days, which showed the slow collection from debtors.

(9) The company was not utilizing its assets effectively because its fixed assets and total assets turnover ratio was very low.

(10) Overall profitability ratio was not satisfactory although it had made profit upto the last current year.

(11) The cash flow from operating activities was in positive and was adequate to meet the short term and long term obligations. The trend of cash flow from operating activities fluctuated and on an average it was Rs. 827.09 Lakh.

(12) On an average, the company had invested Rs. 1,031.51 Lakh in fixed assets and shares of other companies. But the earning from investing activities was not sufficient. It indicated that the evaluations of capital investment plan were not made.

(13) The company had raised funds through both secured and unsecured loans. It had not issued shares in the study period. Due to such loan, more interest was required to be paid.

(14) No optimum cash and bank balance were maintained. The cash and bank balance were fluctuated that indicated to definite policy was maintained regarding the amount of cash held at the end of each year.

(15) The cash flow per share was found very low which showed insufficient cash to pay dividend and current liabilities.

(16) Average cash flow margin was 8.39% which indicated the company had no ability to generate sufficient sales revenue.

(17) Free cash flow was found negative in the past five years, which showed that operating activities failed to meet the basic obligations.

(18) The company had not adequate cash and bank balance to meet its short - term and long - term debts.

(19) It was found that the company was in the growth stage if viewed from the life cycle.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In this present era, privatization has taken momentum for the development of every country. Many western countries are more developed due to privatization. The manufacturing industries play vital roles in the development of the country. Due to unlimited wants and desires of people, the manufacturing sectors are involved to fulfill the demands by creating new gods and exporting quality products to other countries.

For the development and growth of a country, private enterprises need to work in trading and manufacturing sectors. In this context, Gorkha Brewery Private Limited was established to provide qualitative beers and services to the public, Now, GBPL has become a manufacturing company which has played a significant role for the economic development of the country. For the effective performance, it needs to generate sufficient amount of cash, which is considered as the lifeblood of business enterprises. Without cash, no activities can take place. So a business must have an equate amount of cash to operate. To know the actual cash position of a company, assessment of cash inflows and outflows from different activities during a fiscal year is essential. For this purpose "a study of cash flows analysis" has been chosen as a topic. The main objective of this study is to analyze the cash flow statement in order to find out the actual cash position of GBPL during the study period.

As stated earlier, cash flow analysis is done by preparing a cash flow statement which shows cash inflows and outflows of a company from different activities viz. operating, investing and financing activities during a period. The main objective of the cash flow statement is to convey information about the cash receipts and cash payments of a company during the accounting period. The statement of cash flow is useful to virtually every company, short and long term creditors, investors, management and both current and perspective competitors.

For the purpose of conducting this study covering the F/Y 2059/60 to 2063/64, data were used to find the actual cash position of GBPL. To know the cash and bank balance and other information relating to cash flow of GBPL, different financial and statistical tools were used.

The cash and bank balances of GBPL were not satisfactory during the study period. The company was not able to generate sufficient cash inflows from its operating activities. The amount of net cash provided by operation is not adequate to support the planned business operation and capital expenditure. Due to poor cash inflows from operating activities, the company has depended on long-term borrowing and unsecured borrowing to finance for investing activities. The company has paid huge amount of interest due to more long - term borrowing. So, the company needs to change its strategies and replace its high interest rate debt by lower interest rate debt by lower interest rate debt by lower interest rate debt. On the hand it can call the money of common stock which will reduce borrowing and interest.

Due to inefficiency of generating sufficient operating cash flow and more investing in fixed assets which have little return to the company, it is unable to pay dividend to stockholder. The company has problems to pay short term and long - term liabilities. The company has been increasing investments in investing activities but it is not able to earn sufficient return from them. The company has made investment in fixed assets by taking long-term borrowing but it has not issued common shares during the study period.

5.2 Conclusion

The analysis of cash flow statement helps to conclude that the normal business operation of Gorkha Brewery Private Limited was not sufficient during the study period. Although the company had made profit during last three years of study, period the cash flow at the end of each fiscal year was not satisfactory and was highly fluctuated. Generally, it is better to increase cash flow in succeeding years. The cash flow from operating activities also cannot cover the short term and long term liabilities. The company has also made investments through loans and overdraft which caused excessive payment of interest. So, it is better to call amount on the issued common stocks or raise funds from low cost sources.

The company is not holding optimum level of cash balance at the end of each year, which is indicated by unstable ending balance of cash of GBPL. Shortage of cash puts obstructions in smooth operation of the business whereas excessive cash than what is required contribute nothing to the profitability of the company since idle cash earns nothing. So, the company should follow the policy to purchase marketable securities at the time of excessive cash balance and sell them at the time of shortage of cash. Similarly, the company does not have the ability to meet its current liabilities from its cash balance. To enhance the earning per share and to increase the market price per share in the future, the company can repurchase its own stocks if it has sufficient cash flows from operating activities. But from the analysis of cash flow statement, it seems that there is no possibility to repurchase its own stock.

5.3 Recommendations

The detail analysis of cash flow statement and other related information of Gorkha Brewery Private Limited has made possible to provide some suggestions. These recommendations will be best in the interest of the company while conducting business activities and will help to increase the cash flows in the future.

(1) The company should properly segment its internal as well as external markets and make accordingly sales plan for the future period.

(2) The company should take the advantages of new market by extending its market in various places. For this purpose, the company should introduce new qualitative products according to the demand of existing and potential customers and also should make research and development programmes effectively.

(3) The company should study the business environment continuously as well as should make SWOT analysis so that its activities can be adjusted accordingly.

(4) On the basis of segmentation of market, the company should formulate plans and policies.

(5) Product mix, price differentiation and cost reduction policy should carefully be implemented. The company has to reduce the controllable costs and to make appropriate product mix and price differentiation.

(6) The company should make appropriate capital structure while helps the reduction of cost of capital.

(7) The company had issues additional stocks during the study period but only the application money was received so far. Hence, it is suggested that to reduce the cost of external financing, the company should call for the allotment and issue further shares. The company should use the source of internal financing.

(8) The company is paying huge amount of interest on debts. So, it is better to assess the debt and shares that enable to raise funds from low cost sources.

(9) The company has earned low return from investing activity. Before making decision on capital investment the company should evaluate the alternative projects and choose than investment alternative which will have more expected cash flow in future.

(10) The company has excessive stock, So it is better to keep the optimum level on inventory to reduce the cost associated with inventory management or turn over inventory as quickly as possible avoiding stock-outs that may reach in a less of sales.

(11) To increase the cash flow, the company should collect its receivable as quickly as possible without loosing future sales and should managed to pay account payables without deteriorating the company's credibility.

(12) The company should accurately forecast the amount and timing of cash flows so that borrowings can be minimized thus lessening interest expenses.

(13) The company had held unstable cash balance during the study period, which indicated that the company had maintained optimum cash balance. The cash balance should be held according to the requirement of the company and should invest in liquid assets in the case of cash saving.

(14) Investing activities were financed by raising secured loans and unsecured loans. So, the company should operate in such a way that all the investing activates are able to cover from long-term financing as well as from cash flows from operating activities.

(15) In addition to cash flow statement, the company should prepare the cash budget Cash flow statement Reports about the cash activities of past period. It reflects the actual result of past cash transactions. To know the expected cash transactions, the cash budget should be prepared.

(16) No business can run without cash and making default on its obligation. The basic management responsibilities are to ensure that the business has enough cash to meet its obligations as they become due. Thus, the company should take several strategies to increase cash flows managing income taxes peak pricing and developing on effective product mix in both the short and long term.

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Appendix - 1

Correlation of CFOA & Sales Revenue

Fiscal Year	**Sales (X)**	**CFOA(Y)**	**x=(X-$\overline{X}$)**	**y=(Y-$\overline{Y}$)**	**x^2**	
2059/60	7,036.48	678.60	(2,824.38)	(148.49)	7,977,099.79	
2060/61	8,707.53	202.98	(1,153.33)	(624.11)	1,330,160,86	
2061/62	8,349.87	611.46	(1,510.99)	(215.63)	2,283,078.69	
2062/63	12,468.54	2,310.39	2,607.68	1,483.30	6,5800,015.84	
2063/64	12,741.86	332.04	2,881.00	(495.05)	8,300,184.05	
n = 5	ϕX=49,304.28	ϕY=4,135.47	-	-	ϕx^2=26,690,539.24	ϕ

As we know,

$\overline{X} = \frac{\phi x}{n}$

$\overline{Y} = \frac{\phi y}{n}$

$r = \frac{\phi xy}{\sqrt{\phi x^2}\sqrt{\phi y^2}}$

$r = \frac{3906744.44}{5166.28 \,|\, 1703.91}$

r = 0.44

P.E. = $0.6745 \times \frac{1 Z r^2}{n}$

Therefore, P.E. = 0.24

Appendix - 2

Correlation of CFIA & Sales Revenue

Fiscal Year	Sales (X)	CFIA(Y)	$x=(X-\overline{X})$	$y=(Y-\overline{Y})$	x^2	
2059/60	7,036.48	(1,865.49)	(2,824.38)	(833.98)	7,977,099.79	
2060/61	8,707.53	(355.64)	(1,153.33)	675.87	1,330,160,86	
2061/62	8,349.87	(2,753.02)	(1,510.99)	(1,721.51)	2,283,078.69	
2062/63	12,468.54	26.50	2,607.68	1,058.01	6,5800,015.84	
2063/64	12,741.86	(209.89)	2,881.00	821.62	8,300,184.05	
n = 5	ϕX=49,304.28	ϕY=(5157)	-	-	ϕx^2=26,690,539.24	ϕ

As we know,

$$\overline{X} = \frac{\phi x}{n}$$

$$\overline{Y} = \frac{\phi y}{n}$$

$$r = \frac{\phi xy}{\sqrt{\phi x^2}\sqrt{\phi y^2}}$$

$$r = \frac{9,303,198.42}{5166.28 \,|\, 2431.12}$$

$$r = 0.74$$

$$\text{P.E.} = 0.6745 \times \frac{1 Z r^2}{n}$$

Therefore, P.E. = 0.13

Appendix - 3

Correlation of CFFA & Sales Revenue

Fiscal Year	**Sales (X)**	**CFFA(Y)**	**x=(X-$\overline{X}$)**	**y=(Y-$\overline{Y}$)**	**x^2**	
2059/60	7,036.48	1,123.62	(2,824.38)	(2,824.38)	7,977,099.79	7
2060/61	8,707.53	205.71	(1,153.33)	(1,153.33)	1,330,160,86	1
2061/62	8,349.87	2,186.02	(1,510.99)	(1,510.99)	2,283,078.69	2
2062/63	12,468.54	(1,041.63)	2,607.68	2,607.68	6,5800,015.84	6
2063/64	12,741.86	(1,258.07)	2,881.00	2,881.00	8,300,184.05	8
n = 5	ϕX=49,304.28	ϕY=1,215.65	-	-	ϕx^2=26,690,539.24	ϕx^2

As we know,

$\overline{X} = \frac{\phi x}{n}$

$\overline{Y} = \frac{\phi y}{n}$

$r = \frac{\phi xy}{\sqrt{\phi x^2}\sqrt{\phi y^2}}$

$r = \frac{(13,054,568.26)}{5166.28 \mid 2907.86}$

r = (0.87)

P.E. = $0.6745 \times \frac{1 Z r^2}{n}$

Therefore, P.E. = 0.07

Appendix - 4

Correlation of CFFA & Profit and Loss

Fiscal Year	**Sales (X)**	**P & L (Y)**	**x=(X-$\overline{X}$)**	**y=(Y-$\overline{Y}$)**	**x^2**	
2059/60	7,036.48	(383.58)	(2,824.38)	(1,153.21)	7,977,099.79	
2060/61	8,707.53	(112.10)	(1,153.33)	(881.73)	1,330,160,86	
2061/62	8,349.87	109.84	(1,510.99)	(659.79)	2,283,078.69	
2062/63	12,468.54	1,772.20	2,607.68	1,002.57	6,5800,015.84	
2063/64	12,741.86	2,461.78	2,881.00	1,692.15	8,300,184.05	
n = 5	ϕX=49,304.28	ϕY=3,848.14	-	-	ϕx^2=26,690,539.24	ϕy

As we know,

$\overline{X} = \frac{\phi x}{n}$

$\overline{Y} = \frac{\phi y}{n}$

$r = \frac{\phi xy}{\sqrt{\phi x^2}\sqrt{\phi y^2}}$

$r = \frac{12,760,430.90}{5166.28 \mid 2532.03}$

r = 0.98

P.E. = $0.6745 \times \frac{1 \mathrm{Z} r^2}{n}$

Therefore, P.E. = 0.01

Appendix - 5

Correlation of Sales Revenue & Cash and Bank Balance

Fiscal Year	Sales (X)	C & B (Y)	$x=(X-\overline{X})$	$y=(Y-\overline{Y})$	x^2	
2059/60	7,036.48	3.32	(2,824.38)	(360.04)	7,977,099.79	
2060/61	8,707.53	56.37	(1,153.33)	(306.99)	1,330,160,86	
2061/62	8,349.87	100.83	(1,510.99)	(262.53)	2,283,078.69	
2062/63	12,468.54	1,396.09	2,607.68	1,032.73	6,5800,015.84	
2063/64	12,741.86	260.17	2,881.00	(103.19)	8,300,184.05	
n = 5	ϕX=49,304.28	ϕY=1,816.78	-	-	ϕx^2=26,690,539.24	ϕ

As we know,

$$\overline{X} = \frac{\phi x}{n}$$

$$\overline{Y} = \frac{\phi y}{n}$$

$$r = \frac{\phi xy}{\sqrt{\phi x^2}\sqrt{\phi y^2}}$$

$$r = \frac{4{,}163{,}369.73}{5166.28 \mid 1170.45}$$

r = 0.69

$$\text{P.E.} = 0.6745 \times \frac{1 \mathrm{Z} r^2}{n}$$

Therefore, P.E. = 0.16

Appendix - 6

Profit and Loss account of Gorkha Brewery limited Private Limited For the Five years

Fiscal Year / ***Particulars***	***2063/64***	***2062/63***	***2061/62***
Sales Revenue	2,064,297,457	2,150,404,619	1,456,085,287
Excise duty Paid	(790,110,703)	(903,550,585)	(621,098,046)
Net sales	**1,274,186,754**	**1,246,854,034**	**834,987,241**
Cost of good sold	(697,864,924)	(793,108,823)	(595,096,574)
Gross Profit	576,321,830	453,745,211	239,890,667
Other income	11,016,449	14,896,183	10,571,369
Total income	587,338,279	468,641,394	250,462,036
Business Expenses			
Sales and Distribution Costs	(169,133,599)	(136,364,248)	(119,233,899)
Administrative expenses	(125,416,214)	(107,153,610)	(82,664,570)
Profit from operations	292,788,466	225,123,536	48,563,567
Interest Expenses	(21,992,009)	(30,180,941)	(36,480,428)
Staff bonus expenses	(24,617,860)	(17,722,054)	(1,098,467)
Profit before tax (NPST)	**246,178,597**	**177,220,541**	**10,984,672**
Provision for income tax	(66,751,071)	(44,804,816)	-
Profit after tax	**179,427,526**	**132,415,725**	**10,984,672**
Accumulated Loss up to last year	(224,684,280)	(357,100,006)	(343,363,554)
Net profit for the year	**(45,256,754)**	**(224,684,281)**	**(332,378,882)**
Appropriation			
Income tax for early years	(26163795)	-	-
Impact on change in A/c policy	-	-	(1979121.00)
Intangible asset Impaired	-	-	(22742000.00)
Profit & Loss transfer to B/S	**(71420549)**	**(224684281)**	**(357100003)**

Appendix -7

Balance Sheet of Gorkha Brewery limited Private Limited For the Five years

Source of Funds	***2063/64***	***2062/63***	***2061/62***
Equity			
Share capital	593,891,625	593,891,625	593,891,625
Reserved	(71,420,550)	(224,684,280)	(357,100,003)
Total Equity	522,471,075	369,207,345	236,791,622
Gross total	**777,096,075**	**749,639,677**	**721,387,110**
Application of fund			
Fixed Assets	1,034,229,171	994,376,309	972,605,839
Less Depreciation	(537,497,595)	(470,022,432)	(399,614,594)
Net Block	**496,731,576**	**524,358,877**	**572,991,245**
Work in Progress	-	-	-
Intangible assets	-	-	-
Investments	115,625,000	127,125,000	147,125,000
Current Assets			
Inventories	229,134,825	184,403,671	182,360,803
Trade / Receivables	32,252,034	10,283,817	16,217,645
Closing Cash and bank balance	26,012,377	139,605,603	10,082,707
Advance and Deposit	144,262,106	96,527,435	61,824,685
Total A	**431,661,342**	**430,820,526**	**270,485,840**
Less : Current liabilities and provision			
Trade and other payable	128,632,216	70,065,729	106,497,722
Short term loan	2,115,853	200,067,098	161,618,758
Installment of long term loan payable	-	-	-
Provision	136,173,747	62,526,870	1,098,467
Total B	**266,921,816**	**332,659,697**	**269,214,947**
Net Current Assets (A-B)	**164,739,526**	**98,160,829**	**1,270,893**
Gross Total	**777,096,075**	**749,639,677**	**721,387,110**

Appendix - 8

Cash flow Analysis of Gorkha Brewery limited Private Limited For the Five years

Fiscal Year / *Particulars*	*2059/60*	*2060/61*	*2061/62*
1. Cash flow from operating activities			
Net profit before tax	(383.58)	(112.10)	109.84
Add : Adjustments			
Depreciation	446.24	539.95	526.67
Interest expenses	461.13	384.01	364.80
Gain / Loss from sale of assets	0.11	2.20	0.61
Provision for bonus	-	-	10.98
Less :			
Loss on sale of asset	-	-	-
Interest income	59.30	68.00	80.86
Operating cash flow before change in WC	**464.60**	**746.06**	**932.04**
Decrease (Increase) in current assets	1,066.19	(778.81)	1,532.59
Increase (Decrease) in current liabilities	(307.15)	705.79	**(1,463.65)**
Cash generated from operating activities	**1,223.64**	**673.04**	1,000.98
Interest paid	(461.13)	(384.01)	(347,48)
Income tax paid	(83.91)	(86.05)	(42.04)
Cash flow before extraordinary item	**678.60**	**202.98**	**611.46**
Income tax paid in previous year	-	-	-
Income / expenses from extraordinary items	-	-	-
Net cash flow from operating activities (A)	**678.60**	**202.98**	**611.46**
2. Cash flow from investing activities			
Dividend received	59.30	68.00	80.86
Sale / purchase of fixed assets	(1,424.79)	(298.64)	(2287.63)
Others	-	-	-
Sale / purchase of investment	**(5000.00)**	(125.00)	(546.25)
Net Cash flow from investing activity (B)	**(1,865.49)**	**(355.64)**	**(2,753.02)**
3. Cash flow from financing activities			
Borrowing (payment) of loan	1,123.62	(420.00)	1751.36
Others	-	625.71	434.66
Net Cash flow from financing activity (C)	**1,123.62**	**205.71**	**2,18602**
Change in cash position (A+B+C)	(63.27)	53.05	44.46
Opening Cash and Bank Balance	-	3.32	56.37
Closing Cash and Bank Balance	**3.32**	**56.37**	**100.83**