

# **Chapter-I**

## **Introduction**

### **1.1 Background of the Study**

Financial Institutions are one of the main sources of economy. They do the several economic and financial activities. But most of them are not operating well. They are suffering from various problems directly and indirectly.

Organized banks are not the pioneers of financial transaction. There was lot of actors who contributed to this field. Even before the establishment of banking system in Nepal, financial transactions were in practice as under taken by some moneylenders like Sahu-Mahajan & Jamindars. The transactions that help during those days were not in an organized manner. Such organized way of financial affairs could not direct the nation towards the economic development. Hence, to fulfill the growing need of economy; Nepal Bank Limited came into existence in 1937 as the first commercial bank of Nepal even before the establishment of central bank i.e. Nepal Rastra Bank.

Nepal Bank Ltd. started the act of consolidating the scattered capital since its establishment in order to mobilize in productive sector. It developed a systematic tradition & culture of modern banking system in Nepal. Such system could able to establish a strong base for the upliftment of the National economy.

In 1995, Nepal Rastra Bank has been established under Nepal Rastra Bank Act, 1995. It has been playing the significant role in following aspects; "to insure proper management for the issue of Nepalese currency notes to make proper arrangements for the circulation of Nepalese currency throughout the kingdom and to stabilize the exchange rates of the Nepalese currency in order to ensure the convenience and economic interests of the general public." (Nepal Rastra Bank Act, 1995, p.8)

Nepal Rastra Bank also plays most important role in different sectors. It helps to mobilize capital or fund for development and encourages trade and industrial sector for enhancement. It provides financial security as well as valuable instructions to commercial banks and other related sectors. Therefore it is more essential to the development of banking system and regulation of financial activities in the government of Nepal.

Through by this study I want to compare and analyze the trend of cash flow in different selected financial institutions. The selected institutions are Nabil Bank Ltd. (NBL) and Himalayan bank limited (HBL) are in Commercial Banks.

In 1974, commercial bank Act has been introduced in Nepal. This Act has helped to emerge numbers of commercial banks with a view "to maintain the economic interest and comfort of the public in general, facilitate to provide loan for agriculture, industry and trade, and make available banking services to the country and the people". (Commercial Bank Act. 2031 B.S., p.12)

Now commercial banks are operated under the directive of NRB and Commercial Bank Act 2058. There is also existence of Bank and Financial Institution Ordinance (BAFIO) to operate commercial bank on the new climate. After the liberalization in the decade of 2050 various commercial banks started to provide the service in the field of monetary sector of the country. Number of finance companies and saving and credit co-operative institutions have been established to provide monetary service to the country.

After the restoration of multiparty democracy, Nepal government has adopted to implement the economic liberalization. The economy is based on mixed economy .Only the finance companies Act, 2042 (1985) became operational and finance companies started to solve. Later, in 2042 (1985), finance companies Act has been formulated "to incorporate finance companies for non-banking business having about dynamism in the economic development of the country in order to promote the economic benefit of the people in general through institutionalized investment consolidating the scattered capital in the country." (Finance Company Act. 2042 B.S., p.13)This statement clarifies that finance company Act has been introduced in Nepal to enhance the speed of

economic growth by the use of accumulated for the peoples' economic benefit.

## **1.2 Focus of the Study**

Cash is the life blood of business organization. It is the fuel that keeps the business alive. Without cash no business transaction can even imagined to be done. So, analysis of liquidity positions is an important aspect of modern business organizations. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the causes of cash position to change. The analysis of the events and transaction that effect the cash position of the company is termed as cash flow analysis.

Cash flow simply refers the flows of cash 'In' and 'Out' of a business over certain period of time. It defines the flow of cash. Normally there are the two types of cash flows (i.e. positive and negative) Positive cash flow means inflow of cash and negative means outgoing of cash. Cash flow exclude movements between items that constitute cash or cash equivalents because these components are the part of cash management of enterprises rather than parts of its operating, investing & financing activities.

Cash flow simply refers to the flow of cash into or outflow of business over a period of time. Watching the cash inflow and out flows is one of the major management tasks. The outflow of cash is measured by those checks issued by every month to pay salaries, suppliers, creditors and others. The inflows are the cash received from customers, lenders & inventories or any type of sources. The terms of cash outflow and inflow systematically defined as sources & uses of cash.

Cash flow can be defined as a two ways positive cash flow and negative cash flow. If incoming of cash is more then out going of cash in a business, the company has a positive cash flow. A positive cash flow is very good position for business enterprises like a good health. 'Cash flow' is one of the must vital elements for the survival of a business. It can be negative or positive; the later is obviously a most undesirable situation.

### 1.3 General information about Selected Commercial Banks

#### Nabil Bank Limited (NABIL)

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

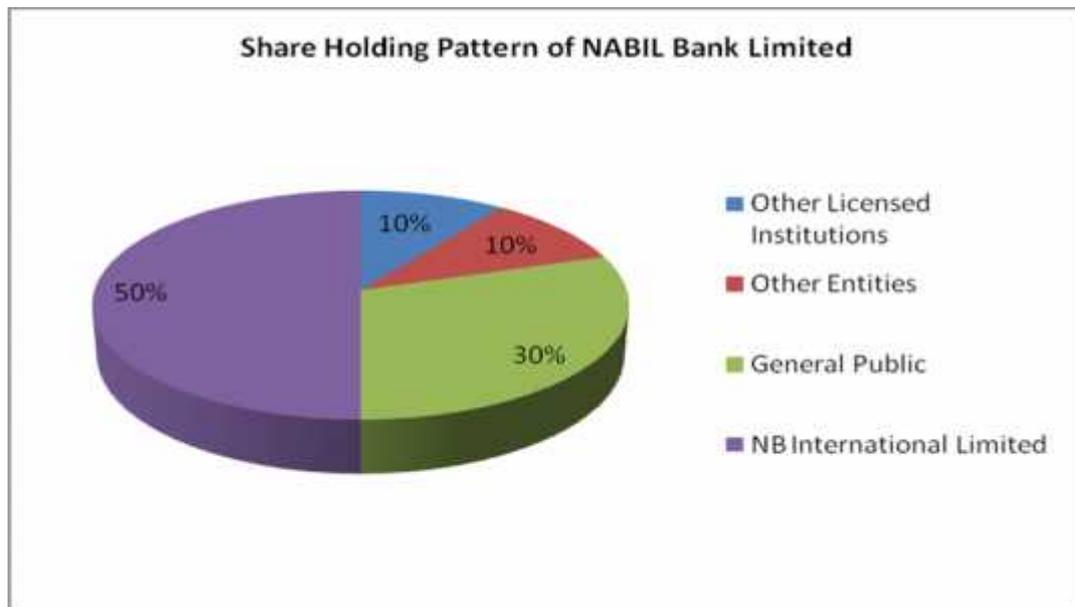
Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

#### The share holding pattern is illustrated as follows:

<b>1. Local Ownership</b>	<b>50 %</b>
Government of Nepal	-
“A” Class Licensed Institutions	-
Other Licensed Institutions	10 %
Other Entities	10 %
General Public	30 %
Others	-
<b>2. Foreign Ownership</b>	<b>50 %</b>
NB International Limited	<u>50 %</u>
<b>Total</b>	<b>100%</b>

*(Sources: Annual Report 2063/064)*

**Figure – I**



### **Himalayan Bank Limited (HBL)**

Himalayan Bank Limited is the 6<sup>th</sup> commercial bank and 4<sup>th</sup> joint venture bank in Nepal. Himalayan bank, a joint venture with Habib bank of Pakistan was established on the 6<sup>th</sup> February 1992. It started its operation 18<sup>th</sup> January 1993 (5<sup>th</sup> Magh 2049) with a paid of capital of 60 million. It has raised the equity fund to Rs. 240 million by capitalizing of profit only of the total issued share capital.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Himalayan bank's policy is to extend quality and personalized services to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The bank as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customer, Himalayan bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level

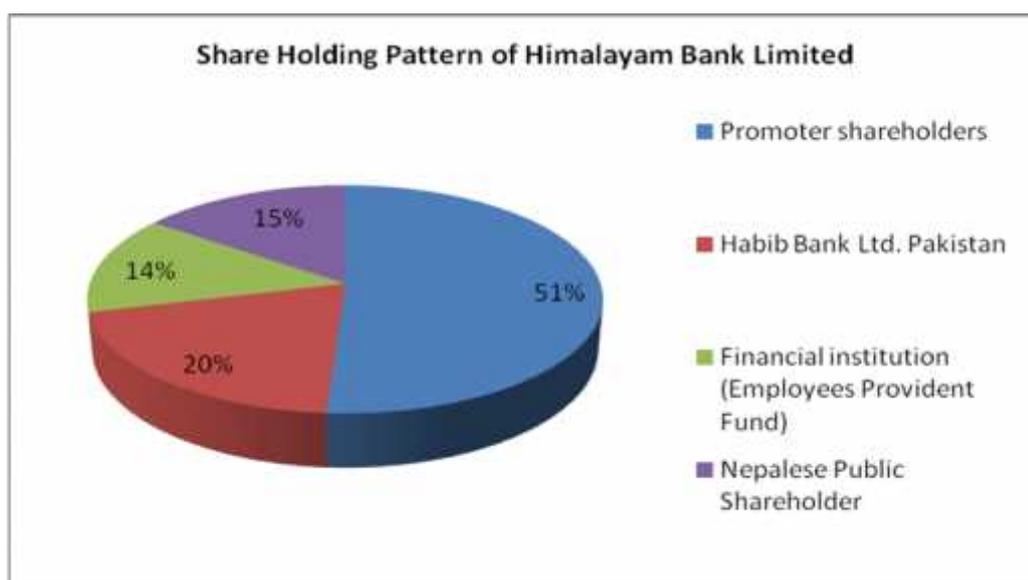
but has also kept it prepared for future adaptation of new technology. Therefore the bank gives a slogan to customers that " Banking with a Difference".

**The share holding pattern is illustrated as follows:**

Promoter shareholders	51%
Habib Bank Ltd. Pakistan	20%
Financial institution (Employees Provident Fund)	14%
Nepalese Public Shareholder	<u>15%</u>
<b>Total</b>	<b>100%</b>

*(Sources: Annual Report: 2063/064)*

**Figure – II**



#### **1.4 Statement of the Problem**

Being the reputed banking institution and having almost same organization structure and objectives, the banks are not earning the same amount of profit, cash flows and not able to meet the return on cash basis on equal term and also the share price of these banks is also differ. May be the limited investment bounding and low banking attitude of customer are quite serious problem of these banks. Government rules and

regulation with competitive attitude and behavior of commercial banks are the barrier to meet their on going operating cost. Misused of loan amount by the borrowers is the main problem of banking sector in these days in the country.

The investment opportunities are declining due to the political uncertainty and economic recession faced by the country. This may be the major reason that commercial banks have been found to be unable in utilizing its fund efficiently. Because of unfavorable situation prevailed in the country these banks are compelled to reduce the interest rate offered to depositors and they are adopting new technique to discourage low scale depositors. Joint venture and other commercial banks are suffering from NPA and low spread rate, which are the major causes to minimize the cash in flow.

Rules and regulation as well as directives imposed by government and NRB provide both opportunity and threat to the commercial banks operating in the country. The main problems of these commercial banks and Insurance Company are mentioned below to find out the real problem of the cash flow of the selected banks and insurance companies following research questions are developed:

- ✓ What does their cash flow indicate? Is the cash managed properly or not? Are there any irregularity regarding cash flow?
- ✓ Why these banks and insurance companies have not same amount of cash flow?
- ✓ How far they have been able to keep the sound status in cash flow of their business success?
- ✓ What are the factors that affect's company's liquidity & solvency?
- ✓ Why the investment opportunities of these banks and insurance companies differ?
- ✓ What is the condition of cash flow with the highest amount of annual operating profit?
- ✓ What is the role of spread to generate positive cash flow from operating activity?

The problem of the commercial banks and insurance companies of the country with special reference to with to Nepal Bank Limited and Rastriya Banijya Banks as

reported by KPMG Barents Group, an International Auditing Company, is their unsatisfactory fund position.

The report by the KPMG Barents Group says "By international standard both RBB and NBL suffer serious critical short falls in all key areas, both are technically insolvent". According to the report of KPMG, RBB and NBL are associated with under mentioned difficult systematic problems of cash flow analysis.

- ✓ Poor bank governance.
- ✓ Lack of rational banking strategies as well as international banking experience
- ✓ Lack of independent and capable supervision.
- ✓ Weak financial and management information.
- ✓ Weak legal and accounting practice.

To solve the above mentioned problem, management of the banks has been taken by Nepal Rastra Bank the central bank of the country and reforms programmed are operating with the help of World Bank through foreign management contract with ICCMT.

## **1.5 Objectives of the Study**

The main objective of this study is to know about the cash flow position of selected banks and insurance companies. This dissertation helps to evaluate and compare cash flow statement of the selected financial institutions. Cash flow statement provides information that enables users to evaluate the change in net assets of an institution, its financial structure its ability to affect the amount of timing of cash flow. This research has the following objectives:

- ✓ To examine and analyze the cash flow statement.
- ✓ To analyze trend of cash flow of the Nepalese Commercial Banks.
- ✓ To evaluate the trend of cash flow from different activities of Banks.
- ✓ To compare the cash flow performance of individual banks
- ✓ To recommend the appropriate suggestions to the concerned financial institutions for future improvement.

## **1.6 Significance of the Study**

Nepalese financial institutions and capital markets are suffered from various cash management problems. Whole Financial sectors are becoming a victim of the same. Shrinking investment opportunities due to recession has put the Nepalese entrepreneurs in a great trouble. This may be the only reason that Nepalese investors are drawing back their hands from the investment sector.

Although the present economic situation is not satisfactory, evaluation of financial institutions, mostly finance companies, are increasing, however under such circumstances the objective finance companies in accordance with finance companies act, 2042 (1985) may not be easily fulfilled. It is because these companies may not properly mobilize, the domestic resources for a sustainable economic growth right this time since most of the Nepalese entrepreneurs are discouraged and they like to prefer idle stay rather than to operate the business by loans from financial institutions due to the lack of opportunities. At present Nepal became a member of WTO family. The world is becoming a single market due to globalization. It creates competitions everywhere. But still, Nepalese Financial sectors are not fully conscious. So activities, especially operating activities, which are the main source, which generates cash in those financial companies, are not enough for the regular flow of cash. Therefore, the study of financial institutions regarding cash flow becomes an in dispensable subject in today's contest.

Regarding the present situation of Nepal there is not properly managing of cash. Still most of the financial institutions are following in a traditional way. They are not maintaining the trend of cash flow in effective way. Due to the crisis of national economy, the investing opportunities are becoming placeless. Therefore I believe that, this study tries to understand how far these institutions are able to sustain in such a quite unfavorable situation. Obviously saying, this study is essential to check the viability of these institutions regarding cash management. The study detects in the companies and efficiencies of these institutions and helps to explore the appropriate and effective measures for the remedy of company's cash management troubles.

## **1.7 Limitations of the Study**

The study is fundamentally based on the data published financial statements, reports through by financial institutions. Therefore there are various limitations to analyze in details. The data, published by the institutions, public accountants certified are believed as true, accuracy and fairness.

The effect of inflation, which is one of the most important factors for the analysis of economic activities, has not been taken into consideration for the purpose of study. As the whole data have been extracted from the published financial statements, it is mainly based on historical financial information.

Since the methods, theories, standards and indicators etc. employed in the study have their own limitation & assumptions, this study, therefore, is within the limitation of all those employed methods.

In order to analyze & compare the financial position consistently, the B/S & P/L A/C of all the selected companies has been taken into consideration since F/Y 2059/60 to 2063/64.

Regarding the above, I have mentioned the following points:

- ✓ The study is mainly confined only on two banks.
- ✓ The study is fundamentally based on the data of published financial statements of banks mention under study.
- ✓ Only five years data from F.Y. 2059/60 to 2063/64 is taken for analysis.
- ✓ Data are base historical accounting rather than on price-level changes.

## **1.8 Organization of Study**

Considering the objectives in mind, the study has been organized into the following five chapters.

## **Chapter 1: Introduction**

This chapter includes background information on the subject matter, focus of the study, profile of sample banks, statement of the problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

## **Chapter 2: Review of Literature**

This chapter includes the relevant previous writing and studies to find the existing gap; review of textbook, dissertation thesis has been included in this chapter.

## **Chapter 3: Research Methodology**

This chapter contains research design, population and sample size, data collection procedure and tools used for analysis.

## **Chapter 4: Data Presentation and Analysis**

This chapter consists of systematic presentation and analysis of financial statement employing financial and statistical tools. It also includes major findings.

## **Chapter 5: Summary, Conclusion and Recommendations**

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

# **Chapter-II**

## **Review of Literature**

### **2. Conceptual Review**

Conceptual Review means the foundation to study any type of research. This is the things, which helps to the researcher for completion of the study. It provides guidelines, ideas and several important data for the research field. Therefore previous studies are most important for completing any type of study because these are the basic guidelines which provide way of doing of the research. Cash flow statement is the latest version in accountancy. Cash flow statement is totally replaced in the modern concept of Funds flow statement. Nepal's company act 2053 made compulsion to submit cash flow statement with financial statement. Cash flow statement is introduced in Nepalese curriculum only from the Bachelor degree level. So, previous studies on this chapter are negligible.

Review of literature is basically a stock taking of available literature in the field of research. The textual matters would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. While conducting the research study previous studies can not be ignored as those instructions would help to check up the change of duplication in the present study. Thus one can find what research studies have been conducted and what remains to go with. A researcher prepares a report or thesis by reviewing of related thesis, articles & books defined as a review of literature. Like wise other books and thesis, journal and annual report are selected commercial banks are studied while preparing this thesis report.

#### **2.1 Introduction to the Studied Subject Matter**

"Cash is the lifeblood of business enterprises. It is the fuel that keeps a business alive". "Cash flow simply refers to the flow of cash into and out of a business over a period of time." If the funds are in form of working capital then funds flow statement

should be prepared. But when cash are assumed as fund then cash flow statement should be made to inform the stake-holder about the cash flow position of the enterprise/company. Cash flow statement is the key financial statement that should be prepared by company to submit the report on AGM and BOD. It describes the sources and usage of cash from different items and activities. Cash flow statement is the receipt and payment of cash within an accounting period. According to the Institute of cost and work accountants of India cash flow statement is “a statement setting out the flow of cash under distinct head of sources of funds.”

## **2.2 Funds Flow Analysis**

The efficiency of the firm is reflected in the inflow and outflow of funds in the business. To understand the operational efficiency of the business concern, it is necessary to have an analysis of the dynamic aspects of the flow of funds. And such an analysis made through funds flow analysis by preparing a statement is called a statement of change in financial position or funds flow statement. The funds flow statement is a statement which shows the movement of funds. In the words of Anthony "the funds flow statement describes the sources from which additional funds were described and the use to which these resources were put." (Shukla, Gupta & Grewal, 2006: 23) Therefore, the main purpose of funds flow analysis is to get clear information about the financial transactions that brings changes in the company's resources. It is a kind of financial tools which answers the following questions:

- a) From which source fund received?
- b) How many funds received?
- c) For what purpose the fund is used?
- d) Whether the business is solvent or not?
- e) How can a profitable business be running on low cash and working capital?

(Shukla, Gupta & Grewal, 2006: 23)

## **2.3 Cash Flow Analysis**

Cash is the lifeblood of business organization. Without cash no any business transactions can be imagined to be done. It is the fuel that keeps a business alive. Without cash no activities can take place. A business must have an adequate amount of cash to operate. So, analysis of liquidity position is an important aspect of modern business organization. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position company is termed as cash flow analysis. (Munankarmi, 2003: 259)

## **2.4 Profits and Cash Flow**

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices, Profits of the firm depend on many factors such as method of depreciation, non operating gains incomes expenses and losses. Cash flow analysis not only recognize the profit but it goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flows are not the profits that determine the wealth.

## **2.5 Cash Flow Statement**

Cash flow statement is the systematic and analytical presentation of cash flow from different sources within an accounting period. It is the reconciliation of opening and closing cash. It shows the actual view of business on cash basis. The FASB no 95 "statement of cash flow" issued reconciliation of opening and closing cash. It shows the actual view of business on cash basis. The FASB no 95 "statement of cash flow" issued in 1987 has classified the cash flow into operating, Investing and financing activities. Similarly Nepal accounting standard (NAS-03) issued by NASB (2003), "cash flow statement should report cash flow during the period classified by operating, investing and financing activities." (Wagle & Dahal, 2004:11) The IAS has also replaced FFS and asked its entire member to present cash flow statement along

with the balance sheet and income statement. As such enterprises should prepare a cash flow statement along with the balance-sheet and income statement since 1992. Nepal company act 2053 B.S. also made mandatory to present cash flow statement along with balance sheet and income statement. NAS says "The cash flow statement is the part of the complete set of financial statement including balance sheet, income statement and accounting policies and extraordinary notes." Recognizing the importance and usefulness of cash flows analysis, the Financial Accounting Standard Board (FASB) issued statement of financial statement standard no. 95 "statement of cash flow" in November 1987. This standard requires business to include a statement of cash flows in all financial reports that contain balance sheet and income statement. This statement supersedes opinion no. 19 "statement of change in financial position" The IAS has also replaced FFS and asked its entire member to present cash flows statement along with the balance sheet and income statement. As such an enterprise should prepare a cash flow statement along with the balance sheet and income statement since 1992. Nepal Company Act 2053 B.S. also made mandatory to present cash flow statement along with the balance sheet and income statement. As such an enterprise should prepare a cash flow statement and should present it as an integral part of its financial statement for each period for which financial statement are presented. ([www.fasb.org](http://www.fasb.org))

## **2.6 Importance of Cash Flow Analysis**

Enterprises need cash to conduct their operation, to pay their obligation and to provide returns to their investors. Users of an enterprise financial statement are interested in how the enterprise generates and uses cash and cash equivalents. It helps the user of financial statement evaluate a company's ability to have sufficient cash both in short term and long term basis. For this reason, the statement of cash flow is useful to virtually everyone interested in the company's financial health. Cash flow statement is important to provide information about inflows and outflows of cash and cash equivalents. It provides useful information to the users of the statement in the following ways.

- a) It helps to evaluate financial polices & cash positions
- b) It helps to inform about the availability of cash. So that management can determine policies regarding financial management i.e. raising utilities of funds.
- c) Assess a company's ability to generate positive future cash flows.
- d) Assess a company's ability to meet its obligation, its ability to pay dividends and its need for external financing.
- e) Assess the reason for difference between income and associated cash receipts and payments.
- f) Assess both the cash and non-cash aspects of a company's investment and financial transactions.

In other words cash flow statement may helps to answer the following:

- a) If a company operates at profit why is it continually short of cash?
- b) How can a company operate at a loss and still generate huge inflows of cash from operations?
- c) How was the company's growth and expansion financed?
- d) Did the company acquire any long term investment or other income producing assets?
- e) Was financing obtained during the period through issuance of debt or equity securities? If so what were the amount of cash obtained?
- f) Did the company use cash to retire any long term debt or equity securities during the period?
- g) Are the company's incomes producing activities using more than they are generating?
- h) Do operating activities consistently generate enough cash to assure prompt payment of operating expenses maturing liabilities interest obligation and dividends? (Munankarmi, 2003: 13.02)

## **2.7 Objectives of Cash Flow Statement**

The objective of cash flow statement is to highlight the major activities of the business that have provided cash for the business and have used during a period. Similarly, it

also shows the resulting effect on the overall cash balance. The objectives of cash flow statement should be assets users:

- a) To assess the company's ability to generate positive cash flow in the future.
- b) To assess its ability to meet its obligations to service loans, pay dividend etc
- c) To assess the reason for differences between reported and related cash flows.
- d) To assess the effects on its finances of major transactions in the year.
- e) To find out the causes of changes in the cash position on two dates.
- f) To evaluate of financial policies can be done with the help cash flow Statement.
- g) To help the management to know and predict its position, it can plan its policy and make decisions regarding the redemption of debentures purchase of fixed assets and so on.

## 2.8 Distinction between Funds Flow and Cash Flow Statement

- a) **Concept:** Funds flow is based on working capital and Cash flow is based on cash.
- b) **Accounting:** Funds flow statement is based on Accrual basis of accounting and Cash flow statement is based on cash basis of accounting.
- c) **Preparation:** Fund flow statement reveals the sources and application of funds and any difference represents net increase or decrease of working capital whereas cash flow statement reveals the inflow and outflows of cash and difference represents the closing cash balance.
- d) **Purpose:** Funds flow statement shows the causes changes in working capital position of a firms between two balance sheets dates whereas cash flow statement shows the causes of changes in cash position of a firm between two balance dates.
- e) **Usefulness:** Funds flow statement is useful in planning intermediate and long term financing, cash flow statement is more useful for short term analysis and cash planning of business.
- f) **Schedule of changes in working capital:** To get information about current assets and liabilities it is necessary to prepare the schedule of changes in working capital before preparing funds flow statement whereas in cash flow statement it is not necessary to prepare the schedule of changes in working capital.

## **2.9 Preparation of Cash Flow Statement**

The cash flow statement is prepared on the basis of cash basis of accounting. While calculating operating profits for cash flow statement, adjustment for prepaid and outstanding expenses and incomes are made to convert the data from accrual basis to cash basis. The statement is prepared by taking the opening balance cash, adding to this all the inflows of cash and deducting all outflows of cash from the total. The statement is more useful for short-term analysis and cash planning of the business. Cash flow statement shows the sources and application of cash. Sources are the inflows of the cash and uses are the outflows of the cash.

### **Cash Flows**

Cash flow simply refers to the flow of a cash into or out of a business over a period of time. Watching the cash inflows and outflows is one of the major management tasks.

### **Sources of Cash**

If the cash is coming into the business through by different activities, this is called cash inflows. The following are the cash inflows:

- ) Opening cash & cash equivalents
- ) Cash from operation
- ) Cash from issue of shares
- ) Cash from issue of debentures
- ) Cash from long term loan
- ) Cash from share premium
- ) Cash from sales of fixed assets
- ) Cash from sales of investment.

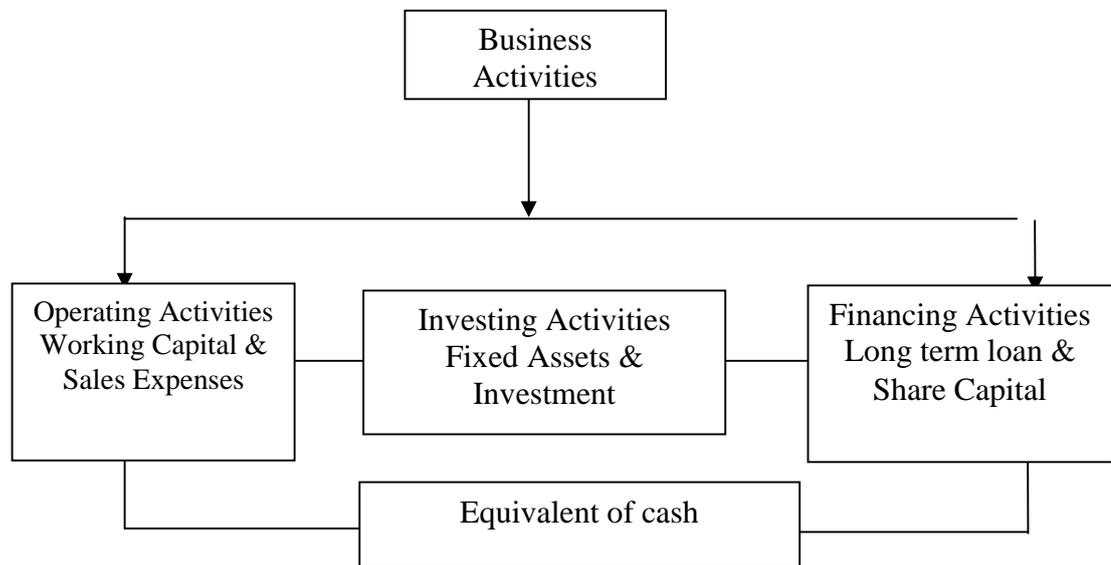
## Uses of Cash

If the cash is going out from the business for different purpose, this is called cash outflows. The following are the cash outflows:

- ) Cash depleted from operation
- ) Cash purchase of fixed assets
- ) Cash purchase of investment
- ) Redemption of debenture
- ) Repayment of long-term loan
- ) Dividend paid
- ) Income tax paid
- ) Closing cash & cash equivalent (Munankarmi, 2003: 13)

### Component of Cash Flow

Figure – 2.1



*Source: Wagle & Dahal, 2004:11*

As per the financial Accounting Standard Board's statement no. 9 the cash flows statement, should be presented under informative approach in activity format. Under informative approach the cash flow statement may be presented using:

## **Methods of Cash Flow Statements**

1. Indirect Method
2. Direct Method

### **1. Indirect Method to Cash Flow Statement**

Under this method, the cash from operating activities could be derived by preparing funds from operation, as have been done in case of fund flow analysis. This from operation could be converted in to cash from operation by adjusting change in short term assets and liabilities excluding cash. Cash from investing activities are generated internally from non operating activities like fixed assets and long term investment. Similarly cash from financing activities are the presentation of cash from or to lenders, investors and shareholders that affect cash.

### **Operating Activities**

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to repay loans, maintain the operating capability of the enterprise, paying dividends and make new investments without resources to external sources of financing. It relates to a company's primary revenue generating activities. It is the single major continuing sources of cash. Operating activities are always within the management control and they provide base for management estimation of fund needed to rise from available sources. Cash flow from operating activities is generally the cash effects of transactions and economic events included in the determination of income.

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

- a) Changes during the period in inventories and operating receivables and

payables.

- b) Non- cash items such as depreciation, provision, deferred taxes and unrealized gains or losses.
- c) All other items for which the cash effects are investing or financing cash flows.
- d) Cash receipts and payments from contracts help for dealing or trading purpose.

Alternatively the net cash flows from operating activities under indirect method may be present showing operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes in inventories and operating receivables and payables during the period. Example of operating activities:

- a) Non-cash and non operating gains/losses/expenses.
- b) Depreciation/loss on sales of assets provision for taxes.
- c) Gain on sales of fixed assets.
- d) Operating profit before working capital changes.
- e) Increase/decrease in current assets and current liabilities.

(Munankarmi, 2003:13)

## **Investing Activities**

All the cash flows (either outflows or inflows) from investing activities can be determined by the long term assets and investment of two accounting periods. Any increase in assets shall be considered as having purchased and cash paid for it unless any information contrary to the same is provided. At the same time, decrease in assets accounts represents the sale of those assets and cash inflows unless information opposing to that is provided. The gain or loss on sale need to be adjusted to calculate the exact amount cash received. Investing activities are:

- a) Cash payment to acquire the fixed assets.
- b) Cash receipts from disposal of fixed assets.
- c) Cash payments to acquire shares, warrants or debt instrument of other companies.

- d) Cash advances and loan made to other parties.
- e) Cash receipts from the repayment of advances and loans made to third parties. (Munankarmi, 2003:13)

## **Financing Activities**

Cash flows from financing activities are calculated by analyzing the liabilities side of the balance sheet. The amounts of secured loans, unsecured loans, the amount of share capital and retained earnings accounts are analyzed to calculate the inflows and outflows from financing activities. The increase in these amounts can be taken as inflows either with the name of more borrowing or issuance of shares. Similarly, the decrease in these amounts can be taken as outflows with the name of redemption of debts or preference shares. Besides the capital and loan amounts, another financing activity is dividend paid or drawings by the owners. Dividend may be in the form of cash dividend or stock dividends do not use any cash. Hence, they should not be considered for cash flow statement.

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:

- a) Cash proceeds from issuing shares or others equity instruments.
- b) Cash payments to owners to acquired or redeemed the enterprises shares.
- c) Cash proceeds from issuing debentures, loans, notes, bonds and mortgages and other short or long term borrowings.
- d) Cash repayments of amounts borrowed.
- e) Cash payment by a lessee for the reduction of the outstanding liability relating to a finance lease.

*Source: [International accounting standard 7 (Revised 1992)]*

## Format of Cash Flow Statement under Indirect Method

Figure -2.2

<b><u>A. Cash from Operating Activities (CFOA)</u></b>	
Provision for dividend of this year (dividend payable) Interim dividend Profit transfer to Balance Sheet (This year-Last year) <ul style="list-style-type: none"> <li>) Profit and loss a/c</li> <li>) General reserve</li> <li>) Retained Earnings</li> <li>) Funds etc.</li> </ul>	
<b>Net Profit after tax / Profit for the year</b>	
<b>Add : <u>Non Cash and non operating items</u></b>	
Depreciation of tangible assets Amortization of intangible fixed assets (i.e. goodwill, patent, copyright, trademark etc.) Amortization of fictitious assets (i.e. preliminary expenses, P&L Dr. Balance, discount on share/ debenture)	
Loss on revaluation or sales of fixed assets or investment Premium on redemption of preference shares or debentures Discount on issue of shares or debentures	
<b>Less: <u>Non Operating incomes of Gains</u></b>	
Gain on revaluation or sales of fixed assets or investment Discount on redemption of preference share and debenture Premium on issue of Preference share and debenture Tax refund Interest/ dividend received on other investment Extra income (If any)	
<b>Funds From Operation (FFO)</b>	
<b>Add: Decrease in Working Capital except cash (item wise)</b>	
(i.e. decrease in current assets and increase in current liabilities)	
<b>Less: Increase in Working Capital except cash (item wise)</b>	

(i.e. increase in current assets and decrease in current liabilities) <b>Cash from Operating Activities (CFOA)</b>	
<b><u>B. Cash from Investing Activities (CFIA)</u></b>	
Purchase of fixed assets (Individual as per ledger) Purchase of Investment ( as per ledger if any) Sales of fixed assets (individually) Dividend or interest received from other investment if any <b>Cash from Investing Activities (CFIA)</b>	
<b><u>C. Cash from Financing Activities (CFFA)</u></b>	
Issue of share/debenture with premium or discount Redemption of Preference Share/debenture at premium or discount Payment of dividend (Provision of dividend last year) Interim dividend (if any) <b>Cash from Financing Activities (CFFA)</b>	
<b>Net cash increase/decrease (A+B+C)</b> (+) Opening Cash/Bank Balance	
<b>Closing Cash/Bank Balance</b>	

*Source: Munankarmi, 2003: 13*

## 2. Direct Method

International accounting standard committee (IAS) has encouraged preparing cash flow statement only on direct method. Therefore as far as possible we need to follow direct method. When the direct method is used the cash flow statement does not begin with net income, rather, it shows cash collected from customer and deducted cash used for various expenses. That is, major of class of gross cash receipt and gross cash payments are disclosed. (Munankarmi, 2003: 13)

### Operating Activities

Operating activity only include transaction that return to the calculation of net income. It involves the purchase and the sales of goods and services to customers. Cash flow from operating activities includes all cash flows from transaction that are not defined as

financing and investing activities. The cash flow from operating activities is primarily derived from the principal revenue - producing activity of the enterprise. Examples of cash flow from operating activities are:

- a) Cash receipts from the sales of goods and services.
- b) Cash receipts from royalties fees, commission and other revenue.
- c) Cash payment to suppliers of goods and services.
- d) Cash payments to and on behalf of employees.
- e) Cash receipts and cash payments of an insurance company for premium and claims, and other policy benefits.
- f) Cash payments refund of income taxes.

The direct provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method information about the major classes of gross receipts and gross cash payments may be obtained either.

- a) From the accounting records of the firms or
- b) By adjusting sales, cost of sales and other items in the statement of profits and loss for:
- c) Changes during the period in inventories and operating receivables and payables
- d) Other non- cash items and
- e) Other items for which the cash effects are investing or financing cash flows.

## **Investing Activities**

Determinations of cash flows from investing activities require analyzing the non operating incomes and expenses in income statement relating to:

- a) Productive assets.
- b) Investment in share and debentures.
- c) Intangible assets.
- d) Short term investment other than cash equivalents. (Munankarmi, 2003:13)

## Financing Activities

A company's transaction with its owners and long term creditors are typically called financing activities also it includes borrowing of cash on short term basis for determination of cash flow from financing activities items relating to:

- a) Share capital (Equity)
- b) Share premium
- c) Debenture
- d) Dividend proposed

Comparative balance sheets should be analyzed by preparing necessary accounts.

### Format of Cash Flow Statement under Direct Method

Figure -2.3

<b>A. Cash from Operating Activities (CFOA)</b>	
<u>a. Cash Sales and collection from customers:</u>	
Total Net Sales (less sales return)	
(+) Decrease in debtors (sundry debtors, A/R and B/R)	
(-) Increase in debtors (sundry debtors, A/R and B/R)	
(+) Decrease in bad debt provision (Bad debt recover)	
(-) Increase in bad debt provision	
(-) Bad debt written off	
<u>b. Cash Purchase and payment to creditors:</u>	
Total cost of goods sold (COGS)	
(+) Increase in Inventory	
(-) Decrease in Inventory	
(+) Decrease in creditors (sundry creditors, A/P and B/P)	
(-) Increase in creditors (sundry creditors, A/P and B/P)	
<u>c. Cash operating expenses and other warranty services:</u>	
Total cash operating expenses (selling, distribution, Adm. etc)	
(+) Decrease in outstanding expenses	
(-) Increase in outstanding expenses	

<p>(+) Increase in prepaid expenses</p> <p>(-) Decrease in prepaid expenses</p> <p><b>d. Interest expenses:</b></p> <p>Interest expenses</p> <p>(+) Decrease in interest payable</p> <p>(-) Increase in interest payable</p> <p>(+) Increase in prepaid interest</p> <p>(-) Decrease in prepaid interest</p> <p><b>e. Income tax payments:</b></p> <p>Tax paid (or, provision for taxation as per P&amp;L a/c)</p> <p>(+) Decrease in provision for tax or tax payable</p> <p>(-) Increase in provision for tax or tax payable</p> <p>(+) Increase in prepaid tax</p> <p>(-) Decrease in prepaid tax</p> <p><b>Cash from Operating Activities before extra ordinary items (a-b-c-d-e)</b></p> <p><b><u>Extra ordinary items:</u></b></p> <p>(+) Increase in bank overdraft</p> <p>(-) Decrease in bank overdraft</p> <p>(+) Decrease in marketable securities</p> <p>(-) Increase in marketable securities</p> <p style="text-align: center;"><b>Cash From Operating Activities (CFOA)</b></p>	
<b><u>B. Cash from Investing Activities (CFIA)</u></b>	
<p>Purchase of fixed assets (Individual as per ledger)</p> <p>Purchase of Investment ( as per ledger if any)</p> <p>Sales of fixed assets (individually)</p> <p>Dividend or interest received from other investment if any</p> <p style="text-align: center;"><b>Cash from Investing Activities (CFIA)</b></p>	
<b><u>C. Cash from Financing Activities (CFFA)</u></b>	
<p>Issue of share/debenture with premium or discount</p> <p>Redemption of Preference Share/debenture at premium or discount</p> <p>Payment of dividend (Provision of dividend last year)</p> <p>Interim dividend (if any)</p>	

<b>Cash from Financing Activities (CFFA)</b>	
<b>Net cash increase/decrease (A+B+C)</b>	
(+) Opening Cash/Bank Balance	
<b>Closing Cash/Bank Balance</b>	

*Source: Munankarmi, 2003: 13*

## 2.10 Group Cash Flow Statement

Group cash flow statement deals both cash and accrual based figure, whereas group cash flow statement attempts to report only cash movement. Group cash flow statement is prepared from the consolidated accounts. After the completion of consolidated profit and loss account and consolidated balance sheet, the holding company can prepare this statement.

The format of group cash flow statement is similar to basic cash flow statement. It can be prepared by applying either direct or indirect method. For the preparation of group cash flow statement, the activity of business concern is divided in the following three categories:

- a) Operating Activities
- b) Investing Activities
- c) Financing Activities

These three activities are similar to basic cash flow statement. According to the IAS-7 states: " the aggregate cash flows arising from acquisition and from disposal of subsidiaries or other business unit should be presented separately and classified as investing activities."- (Dangol, 2063: 447)

International Accounting Standard: "An enterprises should be disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following: (Dangol, 2063: 447)

- a) The total purchase or disposal consideration
- b) The portion of the purchase or disposal consideration discharged by means of

cash and cash equivalents.

- c) The amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of: and
- d) The amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarized by each major category."

Non cash transaction related to investing and financing activities should not be included in the cash flow statement. According to IAS-7, Para- 43 "Investing and financing transaction that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transaction should be disclosed elsewhere in the financial statement in a way that provides all the relevant information about the investing and financial transactions activities." Examples of non-cash transactions are as follows:

- a) The acquisitions of assets either by assuming directly related liabilities or by means of a finance lease;
- b) The acquisition of an enterprise by means of an equity issue
- c) The conversion of debt to equity (Dangol, 2063: 456)

While preparing a group cash flow statement, the net value of subsidiary purchase has to be determined for the calculation of cash flow from investing activities. It is determined as follows:

## Calculation of Net Value of Assets

**Figure -2.4**

Particulars	Details	Amount
Fixed assets of subsidiary company		xxx
Current Assets of Subsidiary company other than cash		xxx
<b>Total Assets Acquired</b>		xxx
Less: Current Liabilities		(xxx)
Net Worth or Net Assets		xxx
Less: Receivable from Holding Company		(xxx)
Add: Payable to Holding Company		xxx
<b>Net assets acquired</b>		xxx
Less: Minority Interest	xxx	
Capital Reserve	(xxx)	
or Goodwill	xxx	
Value of share in Holding Company (If share are issued on Acquisition)	xxx	
Reserve of Holding Company	xxx	xxx
<b>Net Value of Subsidiary Purchase</b>		xxx

*Source: Munankarmi, 2003: 13*

### 2.11 Cash flow Statement for Financial Institution

Financial enterprises like banks, finance companies, co-operatives etc. represents the institution that deals on financial transaction. Such enterprise also needs to prepare financial statement including cash flows statement. The cash flows statement of financial enterprise under method is prepaid in following format:

## Cash Flow Statement for Financial Institution:

**Figure -2.5**

<p><b>A. Cash Flow from Operating Activities:</b></p> <ul style="list-style-type: none"> <li>Interest and commission receipts</li> <li>Interest payments</li> <li>Recoveries on loans previously</li> <li>Cash payment to employees and suppliers</li> <li>Short term fund-increase</li> <li>Deposits held for regulatory or monetary control purpose</li> <li>Funds advanced to customers</li> <li>Net increase in credit card receivable</li> <li>Increase other short term securities</li> <li>Deposits from customers</li> <li>Certificate of deposits</li> <li>Net cash from operating activities before income tax</li> <li>Income tax paid</li> <li><b>Net cash from Operating Activities</b></li> </ul>	
<p><b>B. Cash flow from Investing Activities:</b></p> <ul style="list-style-type: none"> <li>Dividend received</li> <li>Interest received</li> <li>Purchase of permanent investment</li> <li>Purchase of fixed assets</li> <li><b>Net Cash from Investing Activities</b></li> </ul>	
<p><b>C. Cash flow from Financing Activities:</b></p> <ul style="list-style-type: none"> <li>Issue of shares</li> <li>Share premium</li> <li>Repayment of long term borrowing</li> <li>Net decreased in other borrowing</li> <li>Dividend paid</li> <li><b>Net Cash from Financing Activities</b></li> </ul>	
<ul style="list-style-type: none"> <li>Net increase/decrease in cash and cash equivalents</li> <li>Cash and cash equivalent at the beginning of the period</li> </ul>	
<ul style="list-style-type: none"> <li>Cash and cash equivalent at the end of the period</li> </ul>	

*Source: Munankarmi, 2003: 13*

### 2.12 Cash Flow Statement under N.R.B. Directives

Following is the cash flow statement for the Financial Institution, the specimen provided by the N.R.B. directives in accordance with which the cash flow statement of the finance institutions have been prepared for the study of the cash flow analysis. (Report of the C.A, Of the Office of Auditor General)

**Figure -2.6**

.....company

**Cash Flow Statement for the F/Y.....**

Particulars	Amount (in Rs.)	Current Year (in Rs.)
<b>(A) Cash Flow From Operations</b>		.....
1. Cash receipt		.....
1.1 Interest Incomes	.....	
1.2 Commission and discount income	.....	
1.3 Exchange gain	.....	
1.4 Non-Operating income	.....	
1.5 Other income	.....	
2. Cash payment		.....
2.1 Interest expenses	.....	
2.2 Staff expenses	.....	
2.3 Office operating expenses	.....	
2.4 Exchange loss	.....	
2.5 Non-operating expenses	.....	
2.6 Other expenses	.....	
<b>(B) Cash Flow From Investing Activities</b>		.....
1 Change in balance with bank	.....	
2 Change in money at call and short notice	.....	
3 Change in Investments	.....	
4 Change in loans advance and bill purchased	.....	
5 Change in fixed assets	.....	
6 Change in other assets	.....	
<b>(C) Cash Flow From Financing Activities</b>		.....
1 Change in borrowing	.....	
2 Change in deposits	.....	
3 Change in bills payable	.....	
4 Change in other liabilities	.....	
<b>(D) Net Cash Flow for the year</b>		.....
<b>(E) Opening Cash Balance</b>		.....
<b>(F) Closing Cash Balance</b>		.....

Source: Munankarmi, 2003: 13

## **2.13 Review of Books and Articles**

### **2.13.1 Review of Books:**

In this topic, reviews of books relating to cash management have been considered. Cash is the basic and common needs of every organization. It is the foundation and target point. It is the most important aspect of working capital cash is the basic input needed to keep the business running on continuous basis so the cash should be managed efficiently in order to keep the firm sufficient liquid and to use excess cash in some profitable way. The firm should hold sufficient cash neither more nor less. Cash storage will disrupt the firm's operation while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, the major function of a financial manager is to maintain a sound cash position.

Corporates must adopt such a policy that makes optimum cash management possible for improving the efficiency of cash management. Effective collection and disbursement should be adopted. However, in a developing country, a corporation has given not so much attention in assessing the time value of money so certain methods of efficient cash management practiced by corporations in developed countries may not be viable in the view of either the deficiency of knowledge or lack of consciousness among corporate managers of developing countries for calculating the interest lost or fund loss. It is notifying that cash is maintained correctly.

In any type of firm, financial managers should not only attend towards the aspect of profitability but he should also turn towards ensuring the liquidity of the corporation. Since every business is constantly debtors and enterprises borrow funds from financial institutions and purchase merchandise on credit there is less obligation to the government. Thus every enterprise owns liabilities unless the payment is made at the maturity of the particular debt the reputation of the firm is tarnished at worst the creditors may force the firm to terminate its business.

It was analyzed that the goal of working capital is to manage each of the firm

current assets efficiently in order to maintain the forms liquidity while not keeping any assets as to high level. Cash is one of the most liquid assets, if the common denominator all can be reduced because the major liquid assets get eventually converted into cash.

Budget is the planning before doing of the particular task. A cash budget shows the cash planning which planned cash in flows, out flows and ending position by interim period for a specific time span. Most companies should develop both long term plans about their cash flows. The short term cash budget is included in the annual profit plan. A cash budget basically includes two part cash receipts and cash disbursement, planning cash inflow and outflow will include need for financing probable cash deficit of the need for investment planning put excess cash to probable use.

As such whatever cash a corporation has must be utilize efficiently to meet obligation of interest payment if cash is obtained from borrowing and its is received through issues of shares the corporation has responsibility to owners in assuring them to pay favorable rate of return since cash is not easy to obtain, the available cash must be prudently spent without incurring loss, although it is impossible to formulate a set of assets management policy of universal applicability, one policy or rules that appears to formulate a set of assets management policy of universal applicability, one policy of rules that appears to be unanimously accepted is that cash must be conserved.

The cash management of corporation is significant enough to have the best use of idle cash balances and to take advantage from the opportunity interest in cash velocity determined by sales volume and turnover of assets. Corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement. As per the Nepal accounting standard the cash flow statement is the part of the complete set of financial statement includes balance sheet, income statement and accounting policies and extra ordinary notes.

### 2.13.2 Review of Articles

Associate Prof. S.P. Munankarmi in his article “**Component of Cash Flow Analysis**” defined about cash flow analysis. It is an integral part of financial planning stated the importance of cash in organization by calling as the lifeblood of business enterprise. According to him it is the fuel that keeps a business alive. So a business must have adequate amount of cash to operate and decision makers should pay attention to the firm's cash position and events and transaction that affects the cash position of the company is termed as cash flow analysis.

Due to the increasing importance of cash flow analysis FASB stated that financial statements should include information about how a business obtains and spends cash about its borrowing and repayment activities, about the sales and repurchase of its ownership securities, about dividend payments and other distribution to its owners and about others factors that affect a company's liquidity and solvency.

According to the articles profits are accounting measures that may be not reflect the economic conditions of the firms that means profit can be manipulated and increasing profit will not always result in higher stock prices. Cash flow analysis not only recognizes profit but also goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment growth.

As the article stated further that recognizing the importance of the cash flow analysis FASB issued financial statement standards no.95 and statements of cash flows in November 1987. This standard requires business to include a statement of cash flows in all financial reports that contains balance sheets and income statements. The IAS has also replaced FFS and asked its entire member to present cash flow statement along with the balance sheet and income statement since 1992.

As the article suggest following are importance of cash flow statement:

- ❖ A company's ability to generate positive future cash flows
- ❖ A company's ability to meet it's obligations it's ability to pay dividends and it's need for external financing

- ❖ The reasons for differences between income and associated cash receipts and payments
- ❖ Both the cash and non cash aspects of a company's investment and finance transaction
- ❖ A company's quality of earning refers to how closely income is correlated with cash flow the higher the correlation the higher the earning quality
- ❖ A company's solvency liquidity and financial flexibility. Solvency is the ability of a company to pay its debt as they mature. The liquidity is the ability to generate adequate amount of cash and it also refer assets and liabilities. Financial flexibility refers to adaptation during the period of financial adversity to obtain financing to liquidate non operating assets for cash.
- ❖ Net cash provided or used by operating activities.

Investment activities as the article stated include the lending money (investment) and collecting on loans buying and selling securities not classified as cash equivalent are defined as short term highly liquid investment that are readily convertible to known amounts of cash and must be sufficiently close to its maturity date. Determinations of cash flow from investing activities, the analysis of non-operating incomes and expenses, statement relating to assets, investment in shares and debenture short term investment other than cash equivalent.

Net cash from financing activities are determined by the flow of short term loans and over drafts. There may be some non cash investing and financing payments and such payments are not reported in the statement of cash flows. The FASB concluded that non cash portions of investing and financing activities should not reported in the statement of cash flow. However the board recognizes that non cash investing and financing activities are important events and so they should be disclosed by preparing a separate schedule for such activities.

As per the format of cash flow statement the article stated further that section seven of Nepal company act 2053 B.S. mentions the company's books of accounts and accounting system to be adopted by the company. Article 83 of the act is related to annual financial reporting statements which includes balance sheets

income statement and cash flow statement, and article 84 of the act mentioned that the balance sheet and profit and loss account should be prepared in the prescribed format, but the cash flow statement is not prescribed as such it should in the author's opinion be presented in the format as prescribed by the FASB.

The article concluded that an accurate cash flow projection being an integral part of financing plan help to avoid cash flow problems and also helps to keep borrowing costs as low as possible.

## **2.14 Review of Previous related Thesis**

Thesis related with cash management and working capital has been considered in this section.

**Pradhan, Dr. Radhe Shyam** (1986) has published a book on management of working capital (New Delhi; National books organization:1986) in Nepalese public enterprises .This book is based on the study of nine manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982 A. D. He has aimed to provide useful insight into the existing and forth coming corporation on working capital behavior. In this study, he has dealt with various issues viz; type of working capital policy followed by those PEs, liquidity position, structure of working capital and its various components with changes of volumes of sales in those PEs,. In the study he reveals that most of the selected enterprises achieved a traded off between risk and return there by following neither an aggressive nor a conservative approach. Almost all the selected PEs has the positive net working capital at deflated prices has been much lower. The liquidity measure shows a poor liquidity position in majority of MPEs. It has been noticed that the enterprises had either negative cash flow or earning before tax, or they had excessive net current debts, which could not be paid within a year.

Of the current assets, this is on an average, half of the assets in PEs. The shares inventories is the largest followed by receivables and cash. There had been improvement in utilizing of current assets in the majority of PEs.

He also noticed that the adjusted speed of actual to desire balance had been observed as highest for cash followed by inventories. However the speed do adjusted was much slower in all these cases. The results were, therefore, surprising, as the adjustment of even cash holding was not immediate. Further inclusive of capacity utilization in the

models did not seem to have contributed much to the demand function of working capital and its various components. Thus, Capacity utilization as significant variable affecting these demand function was doubtful. This book, thus, provide an extensive and comprehensive survey on the overall liquidity position, working capital policy, Working capital utilization and demand function of current assets.

**Pradhan** in his aims examining the various aspects of management of working capital in selected manufacturing public enterprises of Nepal. The specific objectives undertaken in his study are;

- To conduct risk return analysis of liquidity of working capital position.
- To assess the short – term financial liquidity position of the enterprises.
- To asses the structure and utilization of working capital and
- To estimate the transaction demand function of working capital and its various components.

His study has mentioned the following finding:

- It has found that the most selected enterprises have been activating a trade off between risk and return there by following neither aggressive nor a conservation approach.
- It has showed a poor liquidity position of the enterprises. This poor liquidity position has been noticed as the enterprises have either negative cash flows or negative earning before tax or they have excess net current debts which cannot be paid within a year.
- The Nepalese manufacturing public enterprises have, on an average, half of their total assets in the form of current assets. Of all the different components of current assets, the share of inventories in total assets on an average, is largest followed by receivables, and cash in most of the selected enterprises.
- The economics of scale have been highest for inventories followed by cash and gross working capital, receivables and net working capital.
- The regression result also show that the level of working capital and its components and enterprises desires to hold depend not only sales but on holding costs also.

His study is concerned with interrelationships that exist between managing current assets and liabilities. The study manages to focus on net working capital concepts. The study has ratio analysis, discriminate analysis and econometric models for its analysis'

From the review of above mentioned bunch of research works it is clear that there is a sort of research work on study of working capital management of Rastriya Banijya Bank. This study of working capital management of Rastriya Banijya Bank is different from other previous research works.

**Bajracharya Subarna Lal** (1990) conducted the study entitled "*Cash Management in Nepalese Public enterprises*" by using eleven years data from 1977 to 1987. The objectives of his study are as follows.

- To critically review cash management techniques practiced by Nepalese public enterprise.
- To examine the demand for cash in the case of Nepalese public enterprises.
- To suggest appropriate cash management policy for the future.

Out of different objectives is to "critically review the cash management techniques practiced by Nepalese public enterprises" was main objectives of the study.

The findings which may be drawing on the basis of this study are as follows.

- Cash management in the public enterprises of Nepal is primarily based on the traditional practices, lacking in a scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting in many of the enterprises do have the practice forecasting cash requirements on a formal basis.
- Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangement to connection with collection at receivables have been virtually ignored in many enterprises.
- His survey revealed that majority of the enterprises didn't face any serious liquidity problem. However, this wasn't because of the effectiveness of cash planning and budgeting the problem of liquidity actually did not arise due to the coincidence of delay in receivables collection being matched by delayed payment to creditors.

- There has been wide variations overtime in the state of financial health of the enterprises in term of the composition of current assets and current liabilities as revealed by the relevant financial ratios.

Thus for the public enterprises in Nepal, it is necessary to highlight the importance of developing appropriate strategies for cash management in respect of,

- Cash planning and cash budgeting on a formal basis so as to project cash surplus on cash deficit for a period not exceeding one year and broken up in to shorter interval.
- Managing the cash flow so as to accelerate the in flow and as for as possible to decelerate out flow
- Optimizing the level of cash balance by matching the cost of holding excess cash and the danger of cash deficiency.
- Investing idle cash balance taking in to account the cost of administering investment in marketing securities.

The review clearly pointed out that cash management is the major problem in Nepalese enterprises. But success and failure of an enterprise is greatly dependent up on the efficient management of cash.

**Mr. K.C., Niraj (2000)** in his thesis entitled "*Comparative study of Working Capital Management of NBL and NABIL* ", aims to examine the management of working capital in NBL and NABIL. The specific objectives undertaken in his study are:

- To study the current assets and current Liabilities and their impact and relationship to each other of NBL and NABIL
- To analyze the comparative study of working capital of management of NBL and NABIL.
- Recommendation & Suggestions for the improvement of working capital Management NBL & NABIL in the future.

In his study he has mentioned the following findings.

- The average cash & Bank balance and loan & advance are higher on NNBIL than NBL. Management of loan and advances is more problematic in NBL than NABIL.

- Interest income of NBL is better than NABIL.
- Liquidity management policy of these two banks are significantly different
- NABIL has the better utilization of deposits in income generating activity than NBL. it also shows that NABIL has better investment efficiency in loan and advances.
- Due to more conservative working capital policy, risk of insolvency is lesser but cost of fund is higher on NBL than NABIL.
- Profitability position of NABIL is far better although, NBL earned higher interest than NABIL.

**Anupuma Shrestha (2006) *Working Capital Management of Selected Manufacturing Companies listed in NEPSE*.** The main objective of the studying is to analyze the working capital of listed manufacturing NLT, NCO & BOT and the relationship between working capital & profit for the companies. It also helps to analyze financial strength and weakness of the manicuring companies.

The main objectives of the study are as follows:

1. To analyze the composition of working capital of selected manufacturing company's i.e. NLC, NLO and BTL.
2. To analyze the relationship of working capital or net profit & sales of selected companies.
3. To examine future strategies, policies and practices adopted for working capital management.

The major finds are as follows:

1. The analysis shows that the correlation coefficient between net working capital and sales is negative it means increase in working capital brings decrease in sales and vice versa. It means organizations should maintain their working capital to increase their sales.
2. There is highly positive relationship between net profit and net working capital. It means increase working capital helps to increase the net profit and vice versa. The above result shows that the positive net working capital management of Nepalese manufacturing company finds to some extend good.

The review, clearly pointed out that the cash management is the common and major problem in Nepalese enterprises. But the success and failure of an organization is greatly depends upon the efficient management of cash.

The objective of the statement of cash flow is to provide information about the inflow and outflow of enterprises cash during the particular period. The cash flow statement provides information to financial statement users with insight about the change in cash and cash equivalents during and accounting period. This also provide the information about cash receipt, cash payment, company's operating, investing, financing activities, cash position, financial policies, liquidity position, reason for variation in cash position and short term cash planning of the company.

## **2.15 Research Gap**

Above studies has provide us a little but more knowledge for our research purpose. Similarly, reviewing various books, journals, thesis and other independent studies by different authors related to the topic, it could be concluded that all those works performed and related to the study of cash flow management. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There have been lots of articles published related to cash flow management of Nepalese enterprises.

There are various researches conducted on cash flow management and policy of commercial banks. Impact and implementation of NRB guideline in commercial banks. While reviewing other studies on cash flow management analysis related to single bank, the researcher found that the ratios aren't properly analyzed. What actually the ratios indicate is not clear. So, this study has tried on analyzing the different ratios in order to make fruitful analysis on the cash flow management of Nepalese commercial banks.

So, this study will be fruitful to those interested person, parties, scholars, students, businessman, and government for academically as well as policy perspective. Hope this study will help to other in future in the related field.

# **Chapter-III**

## **Research Methodology**

### **3. Introduction**

This chapter is mainly associated with Research Design, sample design, period of study, sources of data & data collection procedures. Data processing & terms methods, tools techniques, theories employed in the analysis & interpretation.

#### **3.1 Research Design**

In order to fulfill the objectives of the study as much as possible, an adequate attention has been paid in the process of research design. The research is carried out on the basis of secondary data. All the required data and essential information is collected from the concerned commercial bank and chartered accountants firm. In the study, the researcher has followed the descriptive cum analytical research design to analyses the financial performance of the selected finance companies various financial parameters and an effective research technique are employed to especially identify the weaknesses of these institutions. On the ground of observed in ferities and inefficiencies, an attempt will lie made to suggest the reasonable and useful recommendations to the concerned authorities.

##### **3.1.1 Total Population of Selected Organizations**

Total Population of Commercial Banks in Nepal.

<b>S.N.</b>	<b>Name of Bank</b>
1.	Nepal Bank Limited
2.	Rastriya Banijya Bank
3.	Nepal Arab Bank Limited
4.	Standard Chartered Bank Nepal Limited
5.	Nepal Investment Bank Limited
6.	Nepal Bangladesh Bank Limited

7.	Himalayan Bank Limited
8.	Everest Bank Limited
9.	Nepal SBI Bank Limited
10.	Bank of Kathmandu Limited
11.	Nepal Credit & Commercial Bank Limited
12.	Lumbini Bank Limited
13.	Nepal Industrial & Commercial Bank Limited
14.	Kumari bank Limited.
15.	Machhapuchre Bank Limited.
16.	Laxmi Bank Limited.
17.	Sidhartha Bank Limited.
18	Agriculture Development Bank Limited.
19	Global Bank Limited.
20	Citizens Bank International Limited.
21	Prime Bank Limited.
22	Sunrise Bank Limited..
23	Bank of Asia Nepal Limited.
24	Mero Bank Limited.
25	Development Credit Bank Limited.

*Source : www.nrb.org.np*

Now a day a number of commercial banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Currently there are 25 (17 listed in NEPSE) commercial banks in Nepal. In the study, all the commercial banks are population of study. Out of 25 commercial banks only 2 banks are chosen for study, financial statements of last five years from 2059/060 to 2063/64 have been taken as sample data for the comparative study of cash flow.

Among 25 (17 listed in NEPSE) commercial banks only two commercial banks have been taken into analysis. They are,

- Nabil Bank Limited (NABIL)
- Himalayan Bank Limited (HBL)

### **3.1.2 Period of Study**

The study is based on previous 5 years data covering the F/Y 2059/60 to F/Y 2063/64.

### **3.2 Sources of Data & Data Collection Procedures**

The data employed in the study derived is from secondary sources. The audited Balance Sheet, profit & loss A/C and related schedules of the concerned commercial banks were collected. Besides these, other essential data and information were collected from some published and unpublished documents.

So Far as the data collection procedure is concerned, annual reports of selected organization were collected by making an access to the commercial banks and the Chartered Accountants firm. In addition, answers on certain queries made to the staff's of concerned organization also assists in data collection procedure. The researcher has also consulted the library to gather necessary data and information during the course of study.

Annual report of the bank and internet are the most important source of the data they are taken into consideration while collecting the data.

First of all, the audited accounts of different years of all the concerned commercial banks presented in two different separate sheets each for balance sheet & profit/loss account in order to depict the over all picture of different years of such bank. Thereafter, cash flow statement has been prepared by comparing the 5 consecutive fiscal year balance sheets. After preparing the cash flow statements the data are analyzed by observing all the financial statement.

### **3.3 Terms, Tools, Methods & Techniques of Analysis**

While conducting the analysis the researcher use trend of cash flow through chart of cash flow and other important method of analysis is ratio or percentage.

### **3.3.1 Cash Flow Analysis**

Cash is the lifeblood of business enterprises. It is the fuel that keeps a business alive. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

### **3.3.2 Importance of Cash Flow Analysis**

Information about cash flow is useful in many ways. It can also influence the decision makers in many ways. Decision makers may be,

- Investors
- Creditors
- Management

Investor have to decide whether to invest or not in a given company. Investor will value higher to the company whose regular operating cash flow in more than uses.

Creditors have to decide whether to provide credit facility or not to the given company. Information about cash flow can help creditors decide whether a company will have enough cash to pay the debts as they mature.

Management has to evaluate whether the company has ability to meet unexpected obligations and ability to take advantage of new business opportunities that may arise, and for this the management has to use cash flow analysis. Cash flow analysis could be done by either using cash budget of Cash flow Statement.

### **3.3.3 Cash Budget**

Cash budget is not a financial statement and such used only by decision makers within the organization. A cash budget is always prepared for expected results for future

period's cash transaction. The cash budget usually broken into monthly segments showing in detail the cash flows expected from each department. It emphasizes on the financial pattern to meet seasonal to temporary cash needs. (Munankarmi, 2003: 13.03) In thesis work cash flow statement is used to cash flow analysis which is based on historical cost basis.

### **3.3.4 Cash Flow Statement**

An important activity-oriented financial statement is the statement of cash flows. This Statement provides information not otherwise available in either an income statement of balance sheet; it presents the Sources and the uses of the enterprise's funds by operating activities, investing activities, and financing activities. The statement identifies the cash generated or used by operations; the cash exchanged to buy and sell plant and equipment; the cash proceeds from stock issuances and long term borrowings; and the cash used to pay dividends, to Purchase tile company's outstanding shares of its own stock, and to pay off debts. ([www.cashflow.com](http://www.cashflow.com))

#### **Introduction**

Cash is the lifeblood of a business enterprise. It is the fuel that keeps a business alive. Without cash no activities can take place, so a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

#### **Cash Flow Statement as per the International Accounting Standard 7**

- The cash flow statement should report cash flows during tile period classified by operating, investing and financing activities.
- An enterprise presents its cash flow from operating investing and financing activities in a manner which 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 equivalent. This information may also be used to evaluate the relationship among those activities.

- A single transaction may include cash flows that are classified differently. For example when the cash repayment of a loan includes both interest and capital the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

## **Operating Activity**

- The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprises have generated sufficient cash flows to repay loans. Maintain the operating capability of the enterprise, pay dividends and make new investments without resource 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 of the enterprise. Therefore they generally result from the transactions and other events that enter into the determination of net profit or loss.

Examples of cash flows from operating activities are,

- Cash receipts from the sale of goods and the rendering of services
- Cash receipts from royalties, fees, commissions and other revenue;
- Cash payments to suppliers for goods and services
- Cash payments to and on behalf of employee
- Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits.
- Cash payments of refunds of income taxes unless they can be specifically identified with financing and investing activities; and
- Cash receipts and payments from contracts held for dealing or trading purposes.

Some transaction, 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 transaction are cash flows from investing activities.

- An enterprise may hold securities and loans for dealing of trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore cash flows arising from the purchase and sales of 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 the enterprise.

### **Investing Activity**

- The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditure has 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 property plant and equipment intangible and others long term assets. These payments include those relating to capitalized development costs and self constructed property plant and equipment.
- Cash receipts from sales of property plant and equipment intangible and other long term assets.
- Cash payments to acquire equity or debt instrument of other enterprises and interest in joint venture.
- Cash receipts from sales of equity or debt instrument of other enterprises and interest in joint venture.
- Cash advances and loans made to other parties.
- Cash receipts from the repayment of advances and loans made to other parties.
- Cash payments for futures contracts forward contracts option contract and swap contracts except when the contracts are held for dealing of trading purposes of the payment are classified as financing activities. and
- Cash receipts from future contracts, forward contracts option contract and

swap contracts except when the contract are held for dealing of trading purposes of the receipts are Classified as financing activities.

## **Financing Activity**

The separate disclosure of cash flows 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 shares
- Cash proceeds from issuing debentures loans notes bonds mortgage and other short or long term borrowings.
- Cash repayments of amounts borrowed and,
- Cash repayments by a lessee for the reduction of the outstanding liability relating to a finance lease.

## **3.4 Financial Statement**

Financial statements are organized summaries of detailed financial information. The financial statements employed in this study are as follows;

### **3.5 Balance Sheet**

Balance sheet is a financial statement, which reveals information about the financial position of a company at a particular point of time. It contains information in respect of capital & liabilities, assets & equities.

### **3.6 Income Statement / P/L a/c**

It is the financial statement or an accounting report that summaries the revenue and the expense items along with their difference during the accounting period of time.

### **3.7 Comparative Balance Sheet**

The balance sheets of selected commercial banks over the study period are presented in five separate sheets each for an institution to see the comparative changes in items of liabilities & assets during that particular time.

### **3.8 Trend Analysis**

The trend analyses are performed to check whether the cash position of the concerned organizations are improving or deteriorating over the study period. In this study, an attempt has been made to observe the financial trends maintained by selected Banks on the basis of computed data derived from the annual report.

### **3.9 Statistical Tool**

Ratio is the tools to analyze cash flow statement. Also the tools bar is used for cash flow analysis.

### **3.10 Assumptions of the Study**

The following assumptions arte made in this these to draw valid and reliable conclusions;

- Short term liability like bills payable are assume as financing source.
- The numbers of working days are assumed as 360 in a year
- The fixed assets which are in balance sheet are kept by deducting depreciation.
- Annex presented by the banks on annual report are reliable.

## **Chapter-IV**

### **Presentation and Analysis of Data**

In this chapter, the researcher analyzes five year's data of selected Commercial Bank and Insurance Company according to research methodology as mentioned in previous chapter. Cash flow statement is the reconciliation of opening and closing cash balance. Just the balance sheet, income statement and shareholder's equity do not answer the question raised by the users of financial statement. For such queries, cash flow Statement answers those questions by analyzing and comparing through informative accounting system. For this purpose two banks and two insurance companies are taken into analysis. Before starting the presentation and analysis of the data let's have a short look at the main items included in the cash flow statement.

#### **A. Cash Flow from Operating Activities**

Operating activities relate to a company's primary revenue generating activities. Operating activity is the main part of cash flow statement as well as main activity for any company/enterprises. It is the single major continuing source of cash. Operating activities are always with in the management control and they provide basic for estimation of fund needed to rise from available sources. It is the principle revenue producing activity of the enterprises. The following are the activities related with operating activities according to the IAS 7.

- a) Cash receipt from the sale of good and rendering service.
- b) Cash receipt from royalties, fees, commissions and other revenue.
- c) Cash payment to supplies for goods and services.
- d) Cash payment to staff and on behalf of employees.
- e) Cash receipt and cash payment to insurance.
- f) Cash receipt and payment for insurance premium and claims, and other policy benefit.
- g) Cash payment or refund of income tax.
- h) Cash receipt and payment from contract held for dealing or trading purpose.

This chapter deals with cash flow analysis with reference to selected Commercial bank. So under the NRB directive following are the items of operating cash flow.

- a) Interest income
- b) Commission and discount income
- c) Exchange gain
- d) Non-operating income
- e) Other income related with main business
- f) Interest expenses
- g) Exchange loss
- h) Non-operating expenses
- i) other expenses

According to NAS-03 (Sec. 14) cash flow from operating activities items are identified same as international accounting standard.

## **B. Cash Flow from Investing Activities**

This activity includes purchase and sale of fixed assets. Banks are the purchaser or seller of the cash. So loans, advance and bills purchase are the main source of investing activities. This is the main revenue generating sector by interest income. Investing activities include all of those investments made or sold inside or outside of the company. Sale of these securities as well as investment on land and building is the investing activities.

It is better to generate cash by selling fixed assets or investment than increasing investment to the fixed assets. Higher cash in inflow shows the cash conversion ability of fixed assets. But investment on government securities and bonds is the requirement of the banks and insurance company due to the liquid and short time investment. Loans and advance should have negative cash flow in order to maintain business alive. Therefore if the cash inflow is higher than the cash outflow than the situation would be favorable because the company is able to invest more it is considered to be able to expand. According to IAS the following items should be

included under investing activities.

- a) Cash payment to acquire fixed assets, tangible or intangible as well as long term assets. These payments include those relating to capitalized development cost and self constructed property plant and equipment.
- b) Cash receipt from sale of fixed assets.
- c) Cash payment to acquire debt, share or warrant of other companies.
- d) Cash advance and loans made to other parties
- e) Cash receipt from the repayment of advance and loan made to third parties.

As far as the commercial banks and insurance company investing activities include.

- a) Change in balance with bank and insurance company.
- b) Change in money at call and short notice.
- c) Change in investment.
- d) Change in loans, advance and bills purchase.
- e) Change in fixed assets.
- f) Change in other assets.

According to the Nepal Accounting Standard (NAS) investing activities includes,

- a) Cash payment to acquire property, plant and equipment, intangible and other long term assets
- b) Cash payment to acquire equity or debt instrument of other companies
- c) Cash advance and loans made to other parties
- d) Cash receipt and payment for future contracts, forward contracts, option contract and swap contract
- e) Cash receipt from sale of property
- f) Cash from sale of equity or debt instrument of other company
- g) Cash receipt from the repayment of advances and loans made to other parties.

### **C. Cash Flow from Financing Activities**

This activity is the main source to raising long term fund. In order to increase total capital of the organization the company can issue share and debenture and internal financing source like retained earning. These activities include borrowing money from creditors and obtaining resource from owner's capital. Deposits receive from the customer and the excess pending amount on bills payable are the main sources of financing cash flow. For the commercial banks and insurance company cash from this source should be excess especially non interest bearing deposit. Repayment of borrowed amount and payment of dividend as well as withdrawal of the deposits are the main cash outflow source under financing activities. According to IAS financing activities are:

- a) Cash receipt from issuing share or other equity instrument.
- b) Cash payment to owner to acquire or redeem enterprises share.
- c) Cash proceed from issuing debt loan, bond, mortgage and other short term borrowing.
- d) Cash payment of amount borrowed.
- e) Cash repayment by a lessee for the reduction of the outstanding liability to a finance lease.

Similarly under the directive of NRB these are the financing activities for commercial bank.

- a) Change in borrowing.
- b) Change in deposit.
- c) Change in bills payable.
- d) Change in other liability.

### **D. Cash Equivalent**

It is the main part of cash flow statement which describes cash position of the organization from different activities. Cash equivalent define as short term, highly

liquid investment that are readily convertible to amount of cash and must be sufficiently close to its maturity. Treasury bill and commercial paper are the example of cash equivalent.

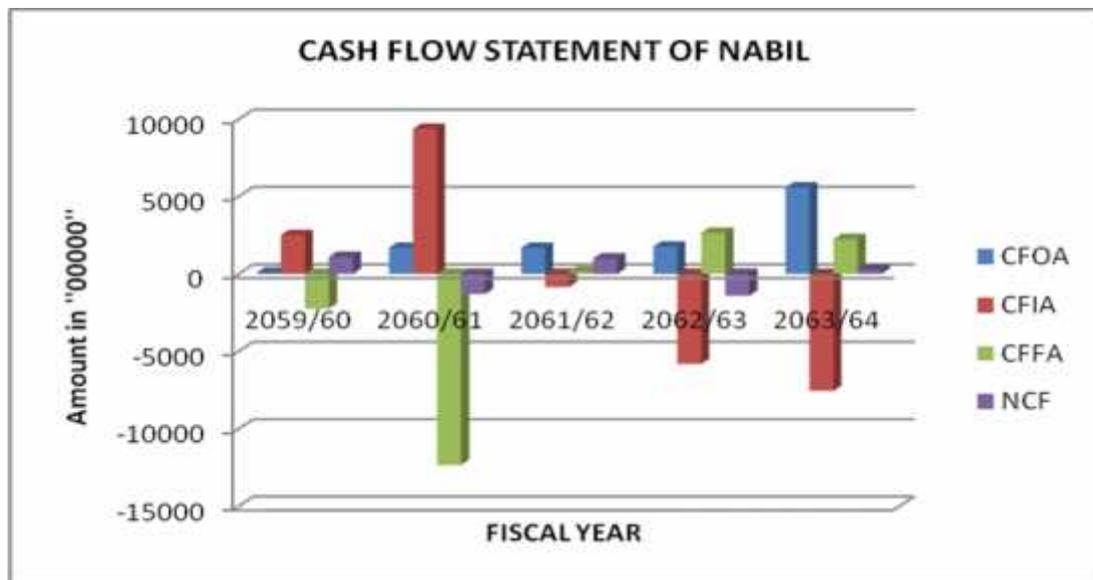
Now, it is necessary to present cash flow statement of selected sample commercial bank their analyses. Analysis of the data is done on the following way.

- Comparison with five year data individually.
- Comparison with every year data between selected sample commercial banks.
- Showing graphic and diagrammatic representation through trend analysis.

The Cash Flow Statement of all selected commercial banks from the F/Y 2059/60 to 2063/64 is as follows.

#### 4.1 NABIL BANK LIMITED

Figure – III



#### Cash Flow from Operating Activities

From the above diagram, CFOA of NABIL Bank Limited is Rs. 83581640, Rs. 167759162, Rs. 167494847, Rs. 175956005 and Rs. 557903964 respectively from the

year 2059/60 to 2063/64. All Cash from Operating Activities are positive. It has increased higher rate in the year 2063/64. It is increased by 100.71%, 100.40%, 110.52% and 567.50% in the year 2060/61, 2061/62, 2062/63 and 2063/64 respectively with compared to the year 2059/60. CFOA are higher than cash payment. Cash receipts from operation are Rs. 1639115286, Rs. 1427450324, Rs. 1460810157, Rs. 1512162566 and Rs. 1572877673 respectively from the year 2059/60 to 2063/64.

Cash receipt includes interest income and other income. Interest income is Rs. 1120184120, Rs. 1017872280, Rs. 1001616901, Rs. 1068746769 and Rs. 1092644431 respectively from the year 2059/60 to 2063/64. It is in decreasing rate in year 2060/61 and 2061/62 and in increasing rate in year 2062/63 and 2063/64 on the basis of based year 2059/60. But the interest income of bank is higher in year 2059/60 than respective five years period. The sources of interest income are loan, overdraft and investment. If the investment, overdraft of loan decreases then interest income also decreases and vice-versa. The interest income shows the reducing investment trends.

Other important part of cash receipt from operation is commission and discount income. Commission and discount comes from bills purchase and discount, letter of credit, guarantee, collection fees, remittance fees and credit card. Cash flow from commission and discount are Rs. 114336964, Rs. 144405701, Rs. 138574406, Rs. 128883480 and Rs. 138293913 from the year 2059/60 to year 2063/64. This is the income of agency function. Cash flow from commission and discount are increasing than the based year 2059/60. It is the positive sign for bank or is the positive situation for bank. Cash receipt from commission and discount are increased by 26.30%, 21.20%, 12.72% and 20.95% from the year 2060/61 to 2063/64 on the basis of based year 2059/60.

Cash receipt from currency exchange gain is Rs. 154219389, Rs. 144075171, Rs. 157324299, Rs. 184878868 and Rs. 185483662 from the year 2059/60 to 2063/64 respectively. Cash flow is in decreasing and increasing trend in exchange gain. Exchange gain includes revaluation gain and trading gain including exchange fees. Non-operating incomes are the factor of operating cash receipt. They are Rs. 0, Rs. 86946330, Rs. 92780639, Rs. 72241283 and Rs. 73557805 in the five year

2059/60 to 2063/64 respectively. It is increasing and decreasing trend in this respective five year on the based year 2059/60.

Cash receipt from other income is Rs. 250374804, Rs. 34150842, Rs. 70513912, Rs. 57412166 and Rs. 82897862 respectively from the year 2059/60 to 2063/64. Other income includes rental of safe deposit lockers, issue and renewal of credit cards and ATM cards, telex/TT etc. Cash from Other income are positive. It is good sign for banks.

Cash payments of bank for operating activities are Rs. 1555533646, Rs. 1259691162, Rs. 1293315310, Rs. 1336206561 and Rs. 1014973709 respectively in the year 2059/60 to 2063/64. Cash Payment in year 2060/61 and 2061/62 is lower than the base year 2059/60. But it is higher in the year 2062/63 than previous two years. And it is again decrease in the year 2063/64 than previous years.

Out of the total cash payments Interest payment are Rs. 462078587, Rs. 317348258, Rs. 282947633, Rs. 243544611 and Rs. 357090465 respectively in the relevant five years. Interest expenses are in decreasing trend. It reflects the decreasing trend of withdrawal of deposit or increased in non-interest bearing deposit. Interest expenses are decreased by 31.32%, 38.77, 42.29% and 22.72% respectively from 2060/61 to 2063/64 as comparing to the year 2059/60. Interest expenses are 0.41, 0.31, 0.28, 0.22 and 0.32 times of interest income. It shows the well spread rate of interest.

Staffs are the key factor to generate positive cash flow. In order to motivate them salary and extra benefit like fringe benefit should be given. Total cash payment under staff expenses are Rs. 144883074, Rs. 210582937, Rs. 180840420, Rs. 199516217 and Rs. 219780853 respectively from the year 2059/60 to 2063/64. Staff expenses are in increasing and decreasing trend. Staff expenses include salary, allowance, bonus and contribution to provident fund etc. Office overhead costs are increasing and decreasing trend. The bank is operating new branch with new technology and new management. As a result office overhead costs are high for bank.

Non-operating expenses is negligible i.e. Rs. 50239 exist in the starting of five years period or in year 2059/60. Non-operating expenses is nil in other years. Exchange loss

is totally zero in relevant five years period. But other expenses are operating very high ratio. Other expenses are Rs. 811648394, Rs. 565559807, Rs. 676152259, Rs. 702846263 and Rs 318115851 respectively in the five years which are taken into analysis. Other expenses plays vital role to increase total cash payment under operating activities. Other expenses are 52.19%, 44.90%, 52.28%, 52.60% and 31.34% of total cash payment from the year 2059/60 to 2063/64 respectively.

### **Cash Flow from Investing Activities**

From the above diagram CFIA of NABIL bank is Rs. 251075116, Rs. 936245595, Rs. (83752439), Rs. (581377845) and Rs. (755522849) respectively from the year 2059/60 to 2063/64. Cash flow is in volatile trend which shows that investment is in decreasing and increasing trend. Due to the decreased in investment interest income is also decreased. On the year 2061/62, 2062/63 and 2063/64 CFIA is decreasing in a high rate with comparing previous years. In other words the bank is being able to invest sufficient amount of cash in investment sectors. Cash inflow from bank balance is Rs. (129237286), Rs. (223329439), Rs. 273390147, Rs. 270572262 and Rs. 617699778 respectively from the year 2059/60 to 2063/64. The bank has deposited its money in different bank like central bank, local bank and foreign bank. Cash flow from money at short call notice is Rs. 491182000, Rs. (638836297), Rs. (248529103), Rs. 50305093 and Rs. (866473636) respectively from the year 2059/60 to 2063/64.

The Bank made investment for treasury bills, development bond, national saving bond, share/debenture and other securities. Cash flow from investment is in increasing trend. It is Rs. (495208883), Rs. 2168339266, Rs. 195227049, Rs. 1568715620 and Rs. 1916306027 respectively form the year 2059/60 to 2063/64. The bank was able to invest huge amount in the year 2059/60. But in the other year the bank sold its investment of Treasury bill and investment of foreign banks. Due to these reason cash flow is highly positive.

Cash flow from loans, advances and bill purchased are Rs. 294741826, Rs. (318057309), Rs. (434040866), Rs. (2396177151) and Rs. (2379529909)

respectively from the year 2059/60 to 2063/64. Collecting and financing of loan is satisfactory. This situation shows the high percentage of volatility on cash flow from loans, advances and bill purchased. Change in fixed assets for cash flow purpose is positive in first year and negative in other relevant years. Similarly other asset is positive in year 2059/60 and 2061/62 and negative in other three years.

### **Cash Flow from Financing Activities**

From the above diagram CFFA of NABIL Bank is Rs. (224980531), Rs. (1234386562), Rs. 15366799, Rs. 264888173 and Rs. 224414163 respectively from the year 2059/60 to 2063/64. It is found decreasing and increasing trend. Cash flow decreased by 448.66% in year 2060/61 on the basis of based year 2059/60. But it is increased by 106.83%, 217.73% and 199.74% respectively in the year 2061/62 to 2063/64 on the basis of based year 2059/60. The main cause of decreasing in CFFA is withdrawal of deposits. Cash flow borrowings are Rs. 417298060, Rs. 544163093, Rs. (731801153), Rs. (212597320) and Rs. (156139030) respectively from year 2059/60 to 2063/64. It is also increasing and decreasing trend. Cash flow from deposits in relevant five years is Rs. (332579568), Rs. (2058767151), Rs. 671371051, Rs. 467576592 and Rs. 476079733 respectively from year 2059/60 to 2063/64. Collection of deposits is the goodwill of institutions. NABIL Bank is a reputed bank even deposit is in declining trends. Bills payable of the bank exist both in Nepalese and foreign currency. Cash flow from other liabilities under financing activities is Rs. (307755094), Rs. 239026804, Rs. 11241165, Rs. 63655150 and Rs. (32079938) respectively from the year 2059/60 to 2063/64. Other liability represents current liabilities. It shows that it is impossible to sketch trend of the cash flow from other liabilities. In other words it is in volatile trend.

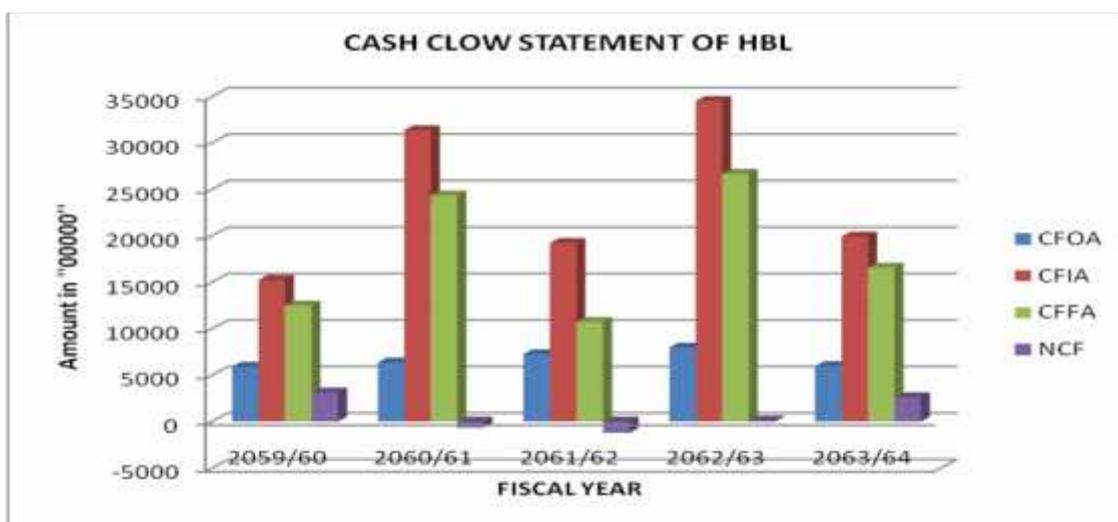
### **Net Cash Flow for the year**

From the above diagram Net cash flow of NABIL Bank is Rs. 109676225, Rs. (130381805), Rs. 99109207, Rs. (140533667) and Rs. 26795278 respectively from the year 2059/60 to 2063/64. Positive and negative cash flow represents the increase and decrease of overall cash flow. It is found volatile trend. High negative cash flow

from financing activities is the main cause to create negative overall cash flow. There was highly negative cash flow in investing activities to generate negative cash flow.

## 4.2 HIMALAYAN BANK LIMITED

Figure - IV



### Cash Flow from Operating Activities

From the above diagram CFOA of Himalayan Bank Limited is Rs. 589742318, Rs. 636561358, Rs. 725692002, Rs. 796894668 and Rs. 596488926 respectively from the year 2059/60 to 2063/64. All Cash from Operating Activities are positive. It has increased higher rate in the year 2062/63. It is increased by 7.93%, 23.05%, 35.135 and 1.14% in the year 2060/61, 2061/62, 2062/63 and 2063/64 respectively with compared to the year 2059/60. CFOA are higher than cash payment. Cash receipts from operation are Rs. 1389792048, Rs. 1454306833, Rs. 1519618639, Rs. 17606802111 and Rs. 1903646896 respectively from the year 2059/60 to 2063/64.

Cash receipt includes interest income and other income. Interest income is Rs. 1148998431, Rs. 1201233722, Rs. 1245895020, Rs. 1446468083 and Rs. 1419900506 respectively from the year 2059/60 to 2063/64. It is in increasing rate on the basis of based year 2059/60. But the interest income of bank is higher in year 2062/63 than respective five years period. The sources of interest income are loan,

overdraft and investment. If the investment, overdraft of loan decreases then interest income also decreases and vice-versa. The interest income shows the reducing investment trends.

Other important part of cash receipt from operation is commission and discount income. Commission and discount comes from bills purchase and discount, letter of credit, guarantee, collection fees, remittance fees and credit card. Cash flow from commission and discount are Rs. 101704124, Rs. 102560741, Rs. 123928995, Rs. 132815882 and Rs. 165447872 from the year 2059/60 to year 2063/64. This is the income of agency function. Cash flow from commission and discount are increasing than the based year 2059/60. It is the positive sign for bank or is the positive situation for bank. Cash receipt from commission and discount are increased by 0.84%, 21.85%, 30.59% and 62.68% from the year 2060/61 to 2063/64 on the basis of based year 2059/60.

Cash receipt from currency exchange gain is Rs. 104601011, Rs. 109599294, Rs. 112419406, Rs. 137300987 and Rs. 198130134 from the year 2059/60 to 2063/64 respectively. Cash flow is in increasing trend in exchange gain. Exchange gain includes revaluation gain and trading gain including exchange fees. Non-operating incomes are the factor of operating cash receipt. They are Rs. 2450951, Rs. 10759557, Rs. 3299067, Rs. 2794642 and Rs. 2978325 in the five year 2059/60 to 2063/64 respectively. It is in increasing trend in this respective five year on the based year 2059/60.

Cash receipt from other income is Rs. 32037501, Rs. 30153519, Rs. 34076151, Rs. 41300617 and Rs. 117190059 respectively from the year 2059/60 to 2063/64. Other income includes rental of safe deposit lockers, issue and renewal of credit cards and ATM cards, telex/TT etc. Cash from Other income are positive. It is good sign for banks.

Cash payments of bank for operating activities are Rs. 800049730, Rs. 817745475, Rs. 793926637, Rs. 963785543 and Rs. 1307157970 respectively in the year 2059/60 to 2063/64. Cash Payment in year 2060/61 is lower than the base year 2059/60. But it is higher in the year 2060/61, 2062/63 and 2063/64 than based year 2059/60.

Out of the total cash payments Interest payment are Rs. 578133464, Rs. 554128248, Rs. 491543353, Rs. 561963770 and Rs. 648841818 respectively in the relevant five years. Interest expenses are in decreasing up to fiscal year 2062/63 and are increasing in last year. It reflects the decreasing trend of withdrawal of deposit or increased in non-interest bearing deposit. Interest expenses are decreased by 4.15%, 14.98%, and 2.80% respectively from 2060/61 to 2062/63 as comparing to the year 2059/60 and increased by 12.23% in 2063/64 as comparing to the based year 2059/60. Interest expenses are 0.50, 0.46, 0.39, 0.39 and 0.46 times of interest income. It shows the well spread rate of interest.

Staffs are the key factor to generate positive cash flow. In order to motivate them salary and extra benefit like fringe benefit should be given. Total cash payment under staff expenses are Rs. 101537710, Rs. 120146464, Rs. 152508886, Rs. 178589357 and Rs. 191638231 respectively from the year 2059/60 to 2063/64. Staff expenses are in increasing trend. Staff expenses include salary, allowance, bonus and contribution to provident fund etc. Office overhead costs are increasing trend. The bank is operating new branch with new technology and new management. As a result office overhead costs are high for bank.

Non-operating expenses are nil for HBL in respective five years period. Exchange loss is totally zero in relevant five years period. Other expenses of Bank is Rs. 230798830 in year 2063/64 out off relevant five years period.

### **Cash Flow from Investing Activities**

From the above diagram CFIA of Himalayan Bank is Rs. 1524219516, Rs. 3134273263, Rs. 1921645410, Rs. 3450675636 and Rs. 1989936390 respectively from the year 2059/60 to 2063/64. Cash flow is in volatile trend which shows that investment is in decreasing and increasing trend. Due to the decreased in investment interest income is also decreased. On the year 2061/62 and 2063/64 CFIA is decreasing in a high rate with comparing previous years. In other words the bank is being able to invest sufficient amount of cash in investment sectors. Cash inflow from

bank balance is Rs. (483321115), Rs. 780124606, Rs. 144929213, Rs. 992130 and Rs. 28763148 respectively from the year 2059/60 to 2063/64. The bank has deposited its money in different bank like central bank, local bank and foreign bank. Cash flow from money at short call notice is Rs. (3705304500), Rs. (202250000), Rs. 18800000, Rs. 72180900 and Rs. 564199100 respectively from the year 2059/60 to 2063/64.

The Bank made investment for treasury bills, development bond, national saving bond, share/debenture and other securities. Cash flow from investment is in increasing trend. It is Rs. 5073946670, Rs. 1018328361, Rs. (883332507), Rs. 2400239049 and Rs. (801968750) respectively from the year 2059/60 to 2063/64. The bank was able to invest huge amount in the year 2061/62 and 2063/64. But in the other year the bank sold its investment of Treasury bill and investment of foreign banks. Due to these reason cash flow is highly positive.

Cash flow from loans, advances and bill purchased are Rs. 376057481, Rs. 1088124619, Rs. 2126276935, Rs. 619790462 and Rs. 2318893556 respectively from the year 2059/60 to 2063/64. Collecting and financing of loan is satisfactory. This situation shows the high percentage of volatility on cash flow from loans, advances and bill purchased. Change in fixed assets and other assets also presented in cash flow statement.

### **Cash Flow from Financing Activities**

From the above diagram CFFA of Himalayan Bank is Rs. 1247295312, Rs. 2432124497, Rs. 1072999419, Rs. 2666075574 and Rs. 1655951578 respectively from the year 2059/560 to 2063/64. It is found decreasing and increasing trend. Cash flow decreased by 13.97% in year 2061/62 on the basis of based year 2059/60. But it is increased by 94.99%, 113.75% and 32.76% respectively in the year 2060/61, 2062/63 and 2063/64 on the basis of based year 2059/60. The main cause of decreasing in CFFA is withdrawal of deposits. Cash flow borrowings are Rs. 454485573, Rs. 111826692, Rs. 50873423, Rs. (152957595) and Rs. 1423389 respectively from year 2059/60 to 2063/64. It is also increasing and decreasing trend. Cash flow from deposits in relevant five years is Rs. 982528261, Rs. 2388004411, Rs.

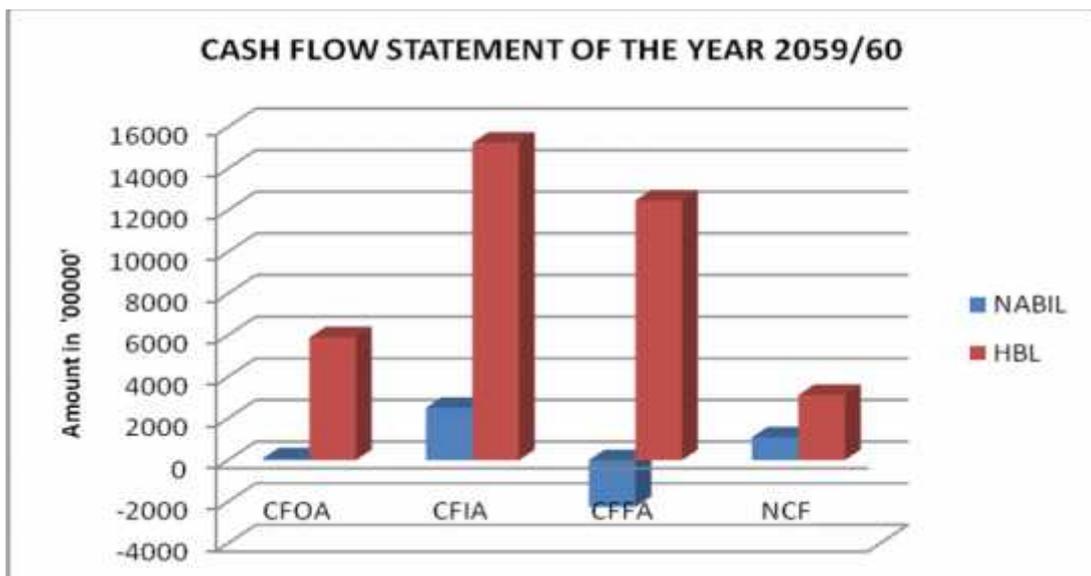
965246244, Rs. 2803679000 and Rs. 1676839656 respectively from year 2059/60 to 2063/64. Collection of deposits is the goodwill of institutions. Himalayan Bank is a reputed bank even deposit is in fluctuating trends. Bills payable of the bank exist both in Nepalese and foreign currency. Cash flow from other liabilities under financing activities is Rs. (219375920), Rs. (58857684), Rs. 39225294, Rs. 11336643 and Rs. (26529803) respectively from the year 2059/60 to 2063/64. Other liability represents current liabilities. It shows that it is impossible to sketch trend of the cash flow from other liabilities.

### Net Cash Flow for the year

From the above diagram Net cash flow of Himalayan Bank is Rs. 312818114, Rs. (65587408), Rs. (122953989), Rs. 12294604 and Rs. 262504114 respectively from the year 2059/60 to 2063/64. Positive and negative cash flow represents the increase and decrease of overall cash flow. It is found volatile trend. High negative cash flow from financing activities is the main cause to create negative overall cash flow.

### 4.3 Fiscal Year 2059/60

Figure - V



## **Cash Flow from Operating Activities**

From the above diagram the amount of total cash flow from operation in the year 2059/60 was Rs. 83581640 and Rs. 589742318 respectively of NABIL and HBL. HBL was in the highest position than NABIL where, NABIL is in the lowest position from the view point of operating cash flow. Cash flow from operating activities involves various activities which are presented in the table. Cash receipt from operation was Rs. 1639115286 and Rs. 1389792048 respectively as the above financial institutions. Similarly cash payment was Rs.1555533646 and Rs. 800049730, respectively as the above banks in the year 2059/60.

CFOA with respect to cash receipt from operation are 54.12% and 45.88%, respectively as the NABIL and HBL banks. Surplus ration is highest for NABIL and lowest for HBL. Cash receipts include interest income, commission and discount, exchange gain, non-operating income and other income. Similarly cash payment includes interest expenses, staff expenses, office overhead expenses, exchange loss, non-operating expenses, income tax paid and other expenses. The determination of cash receipt and cash payment is the summation of these included items which is detail in the comparative sheet. This analysis reflects the very weak condition of NABIL in its high expenditure for operating activities. Highest positive deviation with cash receipt and payment from activities reflects the good position of the company. According to the total amount deviation with cash receipt and payment HBL is in strong position.

The amount of CFOA is higher in HBL; it is because of generating high amount of interest income. Although the interest income of NABIL is also high rank but its expenditure is also high. Therefore CFOA is the net flow between cash receipts and cash payments which is determination of all related factors. So based on these financial ratio analyses HBL is in better position than other companies from the view point of cash flow from operating activities.

## **Cash Flow from Investing Activities**

From the above diagram the amount of Cash Flow from Investing Activities, in the

year 2059/60 is Rs. 251075116, and Rs. 1524219516, respectively of NABIL and HBL. In this activities various other activities are included which are presented in the comparative cash flow statement. CFIA of the HBL is in the top position than NABIL. Positive cash flow from investing activities is not a sign of good investment. Due to the various political and economic situations the entire company decreased their investment and loan, but it is very good signing from the view point of cash flow.

### **Cash Flow from Financing Activities**

From the above diagram the amounts of cash flow from financing activities are Rs. (224980531) and Rs. 1247295312 of NABIL and HBL respectively. CFFA of HBL is the highest positive than NABIL. It is calculated from the various activities which are described in the cash flow statement analysis of individual banks and also presented in comparative cash flow statement. Amount of change in deposit is found negative in NABIL which is the main causes to be negative cash flow in the financing activities. Deposits are the key point in the financial activities. Therefore collection of large amount of deposit is the goodwill of the company. The main reason for increasing cash in flow is deposit liability. Himalayan Bank collects the highest deposit liability so it pays high amount of interest than other banks. This analysis reflects the importance of deposit to financial cash flow.

Cash flow from bills payable is negative and positive in the year 2059/60. The negative flow means payment of bill amount. It doesn't appear in big volume but it is most important non-interest bearing liability for banks and insurance companies.

Cash flow from other liabilities positively highest changed of HBL and negative changed is found of NABIL. Shareholders equity is also a major source of financing activities. It is found of HBL in year 2059/60.

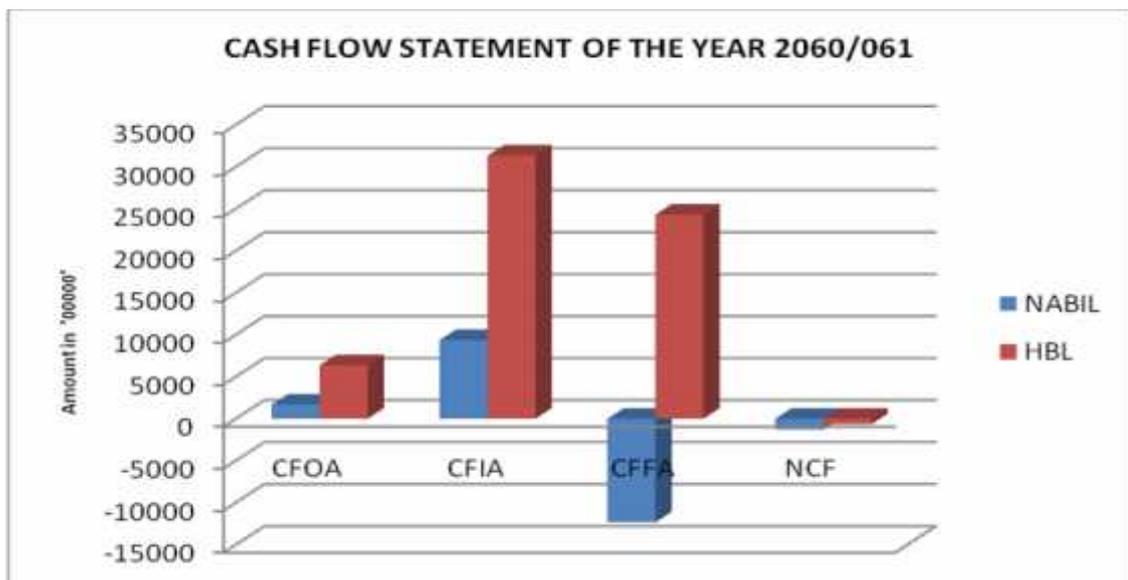
### **Net Cash Flow for the year**

From the above diagram Net cash flow for the year 2059/60 is Rs. 109676225 and Rs.

312818114 of NABIL and HBL respectively. Net cash flow of HBL is in the highest position than NABIL. Net cash flow is the total of operating, investing and financing cash flow. Overall cash flow of the bank will be positive due to the positive operating and financing activities.

#### 4.4 Fiscal Year 2060/61

Figure – VI



#### Cash Flow from Operating Activities

From the above diagram the amount of total Cash Flow from Operation in the year 2060/61 was Rs. 167759162 and Rs. 636561358 respectively of NABIL and HBL. HBL was in the highest position where NABIL is in the lowest position from the view point of operating cash flow. Cash flow from operating activities involves various activities which are presented in the table. Cash receipt from operation was Rs. 1427450324 and Rs. 1454306833 respectively as the above banks. Similarly cash payment was Rs. 1259691162 and Rs. 817745475 respectively as the above companies in the year 2060/61.

CFOA with respect to cash receipt from operation are 49.53% and 50.47% respectively as the NABIL and HBL banks. Surplus ration is highest for HBL and

lowest for NABIL Bank. Cash receipts include interest income, commission and discount, exchange gain, non-operating income and other income. Similarly cash payment includes interest expenses, staff expenses, office overhead expenses, exchange loss, non-operating expenses, income tax paid and other expenses. The determination of cash receipt and cash payment is the summation of these included items which is detail in the comparative sheet. This analysis reflects the very weak condition of NABIL in its high expenditure for operating activities. Highest positive deviation with cash receipt and payment from activities reflects the good position of bank. According to the total amount deviation with cash receipt and payment HBL is in strong position.

The amount of CFOA is higher in HBL; it is because of generating high amount of interest income. Although the interest income of NABIL is also high rank but its expenditure is also high. Therefore CFOA is the net flow between cash receipts and cash payments which is determination of all related factors. So based on these financial ratio analyses HBL is in better position than other banks from the view point of cash flow from operating activities.

### **Cash Flow from Investing Activities**

From the above diagram the amount of Cash Flow from Investing Activities, in the year 2060/61 is Rs. 936245595 and Rs. 3134273263 respectively of NABIL and HBL. In this activities various other activities are included which are presented in the comparative cash flow statement. CFIA of the HBL is in the top position than NABIL. The outflow is highest than inflow of cash in HBL and NABIL. Positive cash flow from investing activities is not a sign of good investment. Due to the various political and economic situations the entire company decreased their investment and loan, but it is very good signing from the view point of cash flow.

### **Cash Flow from Financing Activities**

From the above diagram the amounts of cash flow from financing activities are Rs. (1234386562) and Rs. 2432124497 of NABIL and HBL respectively. CFFA of HBL

is the highest positive than NABIL. It is calculated from the various activities which are described in the cash flow statement analysis of individual and also presented in comparative cash flow statement. Amount of change in borrowing is found negative in NABIL. Amount of change in deposit is found negative in NABIL which is the main causes to be negative cash flow in the financing activities. Deposits are the key point in the financial activities. Therefore collection of large amount of deposit is the goodwill of the bank and insurance companies. The main reason for increasing cash in flow is deposit liability. Himalayan Bank collects the highest deposit liability so it pays high amount of interest than other companies. This analysis reflects the importance of deposit to financial cash flow.

Cash flow from bills payable is negative and positive in the year 2060/61. The negative flow means payment of bill amount. It doesn't appear in big volume but it is most important non-interest bearing liability for banks and insurance companies.

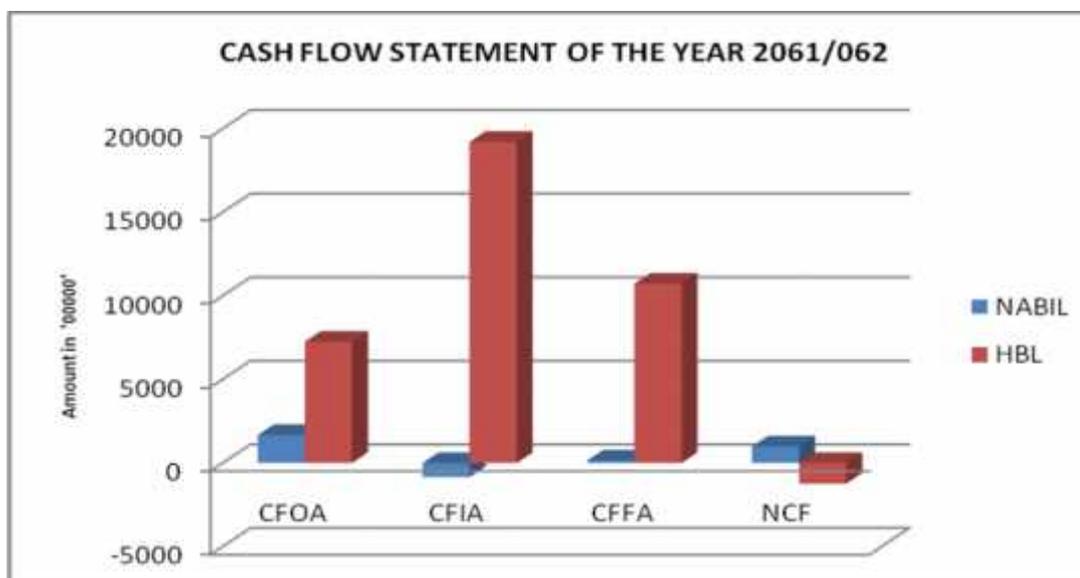
Cash flow from other liabilities positively highest changed of NABIL and negative changed is found of HBL. Shareholders equity is also a major source of financing activities in year 2060/61.

### **Net Cash Flow for the year**

From the above diagram Net cash flow for the year 2060/61 is Rs. (130381805) and Rs. (65587408), of NABIL and HBL respectively. Net cash flow of HBL is in the highest position than NABIL. Net cash flow is the total of operating, investing and financing cash flow. Overall cash flow of the HBL will be positive due to the positive operating and financing activities.

## 4.5 Fiscal Year 2061/62

Figure - VII



### Cash Flow from Operating Activities

From the above diagram the amount of total cash flow from operation in the year 2061/62 was Rs. 167494847 and Rs. 725692002 respectively of NABIL and HBL. HBL was in the highest position where NABIL is in the lowest position from the view point of operating cash flow. Cash flow from operating activities involves various activities which are presented in the table. Cash receipt from operation was Rs. 1460810157 and Rs. 1519618639 respectively. Similarly, cash payment was Rs. 1293315310 and Rs. 793926637 respectively as the above banks in the year 2061/62.

CFOA with respect to cash receipt from operation are 49.02% and 50.98%, respectively as the NABIL and HBL banks. Surplus ration is highest for HBL and lowest for NABIL Bank. Cash receipts include interest income, commission and discount, exchange gain, non-operating income and other income. Similarly cash payment includes interest expenses, staff expenses, office overhead expenses, exchange loss, non-operating expenses, income tax paid and other expenses. The determination of cash receipt and cash payment is the summation of these included

items which is detail in the comparative sheet. This analysis reflects the very weak condition of NABIL in its high expenditure for operating activities. Highest positive deviation with cash receipt and payment from activities reflects the good position of bank. According to the total amount deviation with cash receipt and payment HBL is in strong position.

The amount of CFOA is higher in HBL; it is because of generating high amount of interest income. Although the interest income of NABIL is also high rank but its expenditure is also high. Therefore CFOA is the net flow between cash receipts and cash payments which is determination of all related factors. So based on these financial ratio analyses HBL is in better position than NABIL bank from the view point of cash flow from operating activities.

### **Cash Flow from Investing Activities**

From the above diagram the amount of Cash Flow from Investing Activities, in the year 2061/62 is Rs. (83752439) and Rs. 1921645410 respectively of NABIL and HBL. In this activities various other activities are included which are presented in the comparative cash flow statement. CFIA of the HBL is in the top position than NABIL. This is found in negative which represents that NABIL has invested heavy amount. The outflow is highest than inflow of cash in NABIL. Positive cash flow from investing activities is not a sign of good investment. Due to the various political and economic situations the entire company decreased their investment and loan, but it is very good signing from the view point of cash flow.

### **Cash Flow from Financing Activities**

From the above diagram the amounts of cash flow from financing activities are Rs. 15366799 and Rs. 1072999419 of NABIL and HBL respectively. CFFA of HBL is the highest positive than NABIL. It is calculated from the various activities which are described in the cash flow statement analysis of individual banks and also presented in comparative cash flow statement. Amount of change in borrowing is found negative in NABIL. Deposits are the key point in the financial activities. Therefore

collection of large amount of deposit is the goodwill of the company. The main reason for increasing cash in flow is deposit liability. HBL collects the highest deposit liability and pays high amount of interest than NABIL bank. This analysis reflects the importance of deposit to financial cash flow.

Cash flow from bills payable is positive in the year 2061/62. The negative flow means payment of bill amount. It doesn't appear in big volume but it is most important non-interest bearing liability for banks and insurance companies.

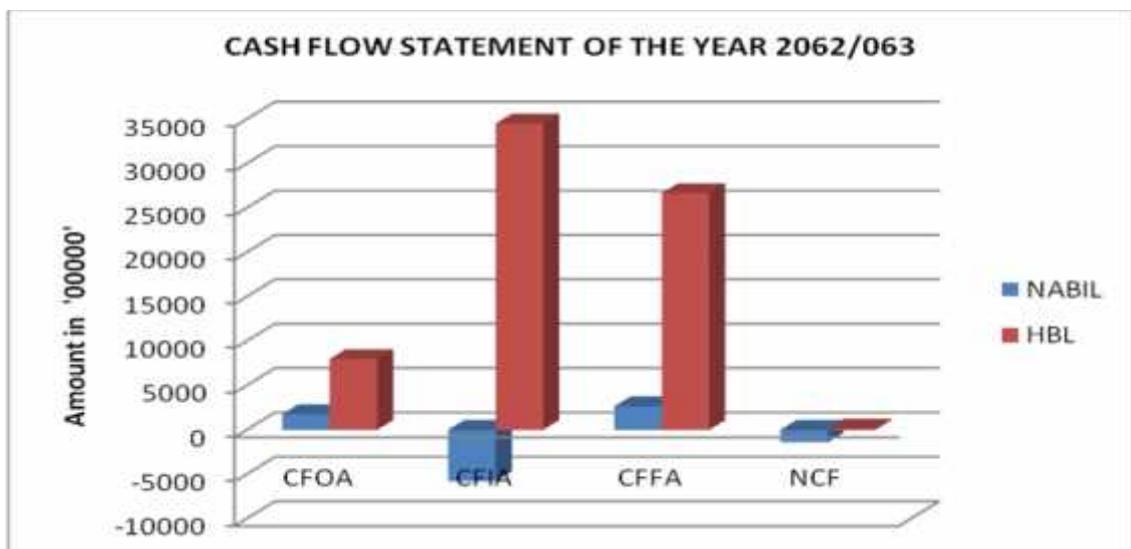
Cash flow from other liabilities positively highest changed of HBL and negative changed is found of NABIL. Shareholders equity is also a major source of financing activities. It is found of HBL in year 2061/62.

### Net Cash Flow for the year

From the above diagram Net cash flow for the year 2061/62 is Rs. 99109207 and Rs. (122953989) of NABIL and HBL respectively. Net cash flow of NABIL is in the highest position than HBL. Net cash flow is the total of operating, investing and financing cash flow. Overall cash flow of the bank will be positive due to the positive operating and financing activities.

### 4.6 Fiscal Year 2062/63

Figure - VIII



## **Cash Flow from Operating Activities**

From the above diagram the amount of total cash flow from operation in the year 2062/63 was Rs. 175956005 and Rs. 796894668 respectively of NABIL and HBL. HBL was in the highest position where NABIL is in the lowest position from the view point of operating cash flow. Cash flow from operating activities involves various activities which are presented in the table. Cash receipt from operation was Rs. 1512162566 and Rs. 1760680211 respectively as the above bank. Similarly cash payment was Rs. 1336206561 and Rs. 963785543, respectively as the above ones in the year 2062/63.

CFOA with respect to cash receipt from operation are 46.20% and 53.80% respectively as the NABIL and HBL banks. Surplus ration is highest for HBL and lowest for NABIL Bank. Cash receipts include interest income, commission and discount, exchange gain, non-operating income and other income. Similarly cash payment includes interest expenses, staff expenses, office overhead expenses, exchange loss, non-operating expenses, income tax paid and other expenses. The determination of cash receipt and cash payment is the summation of these included items which is detail in the comparative sheet. This analysis reflects the very weak condition of NABIL in its high expenditure for operating activities. Highest positive deviation with cash receipt and payment from activities reflects the good position of bank. According to the total amount deviation with cash receipt and payment HBL is in strong position.

The amount of CFOA is higher in HBL; it is because of generating high amount of interest income. Although the interest income of NABIL is also high rank but its expenditure is also high. Therefore CFOA is the net flow between cash receipts and cash payments which is determination of all related factors. So based on these financial ratio analyses HBL is in better position than other institutions from the view point of cash flow from operating activities.

## **Cash Flow from Investing Activities**

From the above diagram the amount of Cash Flow from Investing Activities, in the

year 2062/63 is Rs. (581377845) and Rs. 3450675636 respectively of NABIL and HBL. In this activities various other activities are included which are presented in the comparative cash flow statement. CFIA of the HBL is in the top position than NABIL. NABIL is found in negative and has invested heavy amount. The outflow is highest than inflow of cash in NABIL. Positive cash flow from investing activities is not a sign of good investment. Due to the various political and economic situations the entire company decreased their investment and loan, but it is very good signing from the view point of cash flow.

### **Cash Flow from Financing Activities**

From the above diagram the amounts of cash flow from financing activities are Rs. 264888173 and Rs. 2666075574 of NABIL and HBL respectively. CFFA of HBL is the highest positive than NABIL. It is calculated from the various activities which are described in the cash flow statement analysis of individual and also presented in comparative cash flow statement. Amount of change in borrowing is found negative in NABIL. Deposits are the key point in the financial activities. Therefore collection of large amount of deposit is the goodwill of the company. The main reason for increasing cash in flow is deposit liability. HBL collects the highest deposit liability so it pays high amount of interest than other ones. This analysis reflects the importance of deposit to financial cash flow.

Cash flow from bills payable is negative and positive in the year 2062/63. The negative flow means payment of bill amount. It doesn't appear in big volume but it is most important non-interest bearing liability for banks and insurance companies.

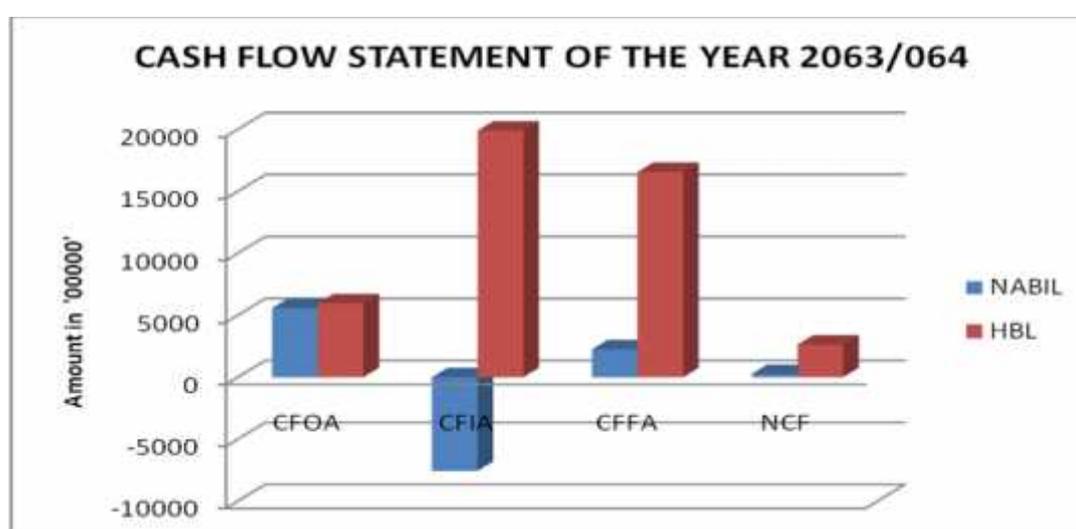
Cash flow from other liabilities positively highest changed of NABIL. Shareholders equity is also a major source of financing activities. But it is not found in year 2062/63. Change in reserve fund is also main part of financing activities; it is not found of NABIL and HBL in that year.

## Net Cash Flow for the year

From the above diagram Net cash flow for the year 2062/63 is Rs. (140533667) and Rs. 12294606 of NABIL and HBL respectively. Net cash flow of HBL is in the highest position than others. Net cash flow is the total of operating, investing and financing cash flow. Overall cash flow of the company will be positive due to the positive operating and financing activities.

### 4.7 Fiscal Year 2063/64

Figure – IX



### Cash Flow from Operating Activities

From the above diagram the amount of total cash flow from operation in the year 2063/64 was Rs. 557903964 and Rs. 596488926 respectively of NABIL and HBL. HBL was in the highest position where NABIL is in the lowest position from the view point of operating cash flow. Cash flow from operating activities involves various activities which are presented in the table. Cash receipt from operation was Rs. 1572877673 and Rs. 1903646896 respectively as the above companies. Similarly cash payment was Rs. 1014973709 and Rs. 1307157970 respectively as the above companies in the year 2063/64.

CFOA with respect to cash receipt from operation are 45.24% and 54.76%

respectively as the NABIL and HBL banks. Surplus ration is highest for HBL and lowest for NABIL. Ratio shows that NABIL is able to minimize its operating cost than HBL. Cash receipts include interest income, commission and discount, exchange gain, non-operating income and other income. Similarly cash payment includes interest expenses, staff expenses, office overhead expenses, exchange loss, non-operating expenses, income tax paid and other expenses. The determination of cash receipt and cash payment is the summation of these included items which is detail in the comparative sheet. This analysis reflects the very weak condition of NABIL in its high expenditure for operating activities. Highest positive deviation with cash receipt and payment from activities reflects the good position of company. According to the total amount deviation with cash receipt and payment NABIL is in strong position.

The amount of CFOA is higher in NABIL; it is because of generating high amount of interest income. Although the interest income of HBL is also high rank but its expenditure is also high. Therefore CFOA is the net flow between cash receipts and cash payments which is determination of all related factors. So based on these financial ratio analyses NABIL is in better position than other ones from the view point of cash flow from operating activities.

### **Cash Flow from Investing Activities**

From the above diagram the amount of Cash Flow from Investing Activities, in the year 2063/64 is Rs. (755522849) and Rs. 1989936390 respectively of NABIL and HBL. In this activities various other activities are included which are presented in the comparative cash flow statement. CFIA of the HBL is in the top position than other NABIL bank, NABIL is found in negative which represents that HBL has invested heavy amount. The outflow is highest than inflow of cash in NABIL. Positive cash flow from investing activities is not a sign of good investment. Due to the various political and economic situations the entire company decreased their investment and loan, but it is very good signing from the view point of cash flow.

## **Cash Flow from Financing Activities**

From the above diagram the amounts of cash flow from financing activities are Rs. 224414163 and Rs. 1655951578 of NABIL and HBL respectively. CFFA of HBL is the highest positive than NABIL. It is calculated from the various activities which are described in the cash flow statement analysis of individual banks and also presented in comparative cash flow statement. Amount of change in borrowing is found negative in both banks. Deposits are the key point in the financial activities. Therefore collection of large amount of deposit is the goodwill of the company. The main reason for increasing cash in flow is deposit liability. HBL collects the highest deposit liability so it pays high amount of interest than other organizations. This analysis reflects the importance of deposit to financial cash flow.

Cash flow from bills payable is negative and positive in the year 2063/64. The negative flow means payment of bill amount. It doesn't appear in big volume but it is most important non-interest bearing liability for the companies.

Cash flow from other liabilities negatively changed of HBL and NABIL. Shareholders equity is also a major source of financing activities in year 2063/64.

## **Net Cash Flow for the year**

From the above diagram Net cash flow for the year 2063/64 is Rs. 26795278 and Rs. 262504114 of NABIL and HBL respectively. Net cash flow of HBL is in the highest position than others. Net cash flow is the total of operating, investing and financing cash flow. Overall cash flow of the company will be positive due to the positive operating and financing activities.

## **4.8 Major Findings**

### **4.8.1 NABIL Bank Limited.**

#### **Cash Flow from Operating Activities (CFOA)**

1. Cash Flow from Operating Activities (CFOA) is positive during the whole years. It is found decreasing and increasing trend
2. CFOA is found lowest in the year 2059/60.
3. Cash received from other income is highest in the year 2059/60.
4. Total cash receipt from operation is highest in the year 2059/60.
5. Total cash payment is highest in the year 2059/60. As a result Cash Flow from Operating Activities is lowest.
6. In the year 2060/61 interest expenses is highest because the bank has granted highest amount of loan.
7. Commission and discount income is found increasing and decreasing trend. It is found highest in year 2060/61.
8. Cash received from exchange gain plays significant role in total operating cash flow.
9. Staff and operating expenses is found highest in the year 2060/61 and 2063/64 respectively.
10. Other expense is found highest in the year 2059/60.

#### **Cash Flow from Investing Activities (CFIA)**

1. Cash flow from Investing Activities is in the fluctuation trend.
2. The bank has no strong investment scheme.
3. The Bank has the excess liquidity that can be found as depository fund.
4. Change in loans advance and bill purchased is found negative during the whole year except in the year 2059/60. This is the satisfactory condition for bank.
5. Fixed assets sold out in the year 2059/60 but purchased in other four years.
6. Cash flow from current and non banking assets are in increasing and decreasing trend.

## **Cash Flow from Financing Activities (CFFA)**

1. CFFA of NABIL Bank is found in the fluctuation trend.
2. Highest amount of borrowing decreased in the 2061/62 as a result cash flow from financing activities is also decreased.
3. Cash flow from bills payable and other liabilities are in increasing and decreasing trend.
4. Cash flow from other liabilities is found negative in starting and ending year of relevant five year period and is positive in other years.

## **Net cash flow for the year**

- Overall cash flow is found positive in the year 2059/60, 2061/62 and 2063/64 which are contributed by cash flow from investing activities. Similarly overall cash flow is negative in the year 2060/61 and 2062/63 due to the highest cash outflow from investing activities.

### **4.8.2 Himalayan Bank Limited**

## **Cash Flow from Operating Activities (CFOA)**

1. Cash Flow from Operating Activities (CFOA) is positive during the whole years. It is found increasing up to year 2062/63 and found decreasing in year 2063/64 than previous year.
2. CFOA is found lowest in the year 2059/60.
3. Cash received from other income is highest in the year 2063/64.
4. Total cash receipt from operation is highest in the year 2063/64.
5. Total cash payment is highest in the year 2063/64. As a result Cash Flow from Operating Activities is also lower than previous year.
6. In the year 2063/64 interest expenses is highest because the bank has granted highest amount of loan.
7. Commission and discount income is found increasing trend. It is found highest in year 2063/64.

8. Cash received from exchange gain plays significant role in total operating cash flow.
9. Staff and operating expenses is found highest in the year 2063/64.
10. Other expense is found in the year 2063/64.

### **Cash Flow from Investing Activities (CFIA)**

1. Cash Flow from Investing Activities is positive during whole period and it higher in the year 2062/63 and lowest in the year 2059/60. But Cash flow from Investing Activities is in the fluctuation trend.
2. The Bank has the excess liquidity that can be found as depository fund.
3. Change in loans advance and bill purchased is found positive during the whole year. This is the satisfactory condition for bank.
4. Fixed assets sold out in the year 2059/60 and 2061/62 but purchased in other remaining years.
5. Cash Flow from other assets is found positive during the period.

### **Cash Flow from Financing Activities (CFFA)**

1. CFFA of Himalayan Bank is found in the fluctuation trend.
2. Highest amount of borrowing decreased in the 2062/63.
3. Cash flow from bills payable and other liabilities are in increasing and decreasing trend.
4. Cash flow from other liabilities is found negative in year 2059/60, 2060/61 and 2063/64, found positive in year 2061/62 and 2062/63.

### **Net cash flow for the year**

- Overall cash flow is found positive in the year 2059/60, 2062/63 and 2063/64 which are contributed by cash flow from investing activities. Similarly overall cash flow is negative in the year 2060/61 and 2061/62 due to the highest cash outflow from investing activities.

# **Chapter-V**

## **Summary, Conclusion and Recommendations**

### **5.1 Summary**

The researcher used trend of cash flow to study with analytical and comparative of the cash flow position of the selected Nepalese Commercial Banks. For this purpose I have taken into analysis of the following Commercial Banks. They are:

- NABIL Bank Limited,
- Himalayan Bank Limited,

For studying and preparing this thesis I have used cash flow statement, annual report of the all sampled commercial banks and their annex are studied. Basically profit and loss A/C, Balance sheet and cash flow statement presented by the banks are viewed for the analysis purpose. Directives of Nepal Rastra Bank, Nepal Accounting Standard, Company Act and N.R.B. Act are studied through out the period of research. Articles and Reports related with cash flow written and produced by Nepalese as well as foreign writers are also the major sources to prepare this thesis. Several websites ([www.cashflow.com](http://www.cashflow.com)) related with cash flow are visited. The researcher analyzes and compares about five fiscal years cash flow position of all sampled commercial banks with showing the details view of different activities. Five years means started from 2059/60 to 2063/64. Previous thesis and articles related to the subject matter are also studied for the research purpose. Based on the chart and trend analysis, summary of the study are as follows:

### **Cash Flow from Operating Activities (CFOA)**

1. Total cash flow from operating activities of HBL is in volatile nature but in case of NABIL is in increasing trend. Cash flow from operating activities is positive of HBL than of NABIL in year 2059/60. Cash Flow from Operating Activities of HBL is also in increasing trend up to year 2061/62 but it is in

decreasing rate in year 2063/64.

2. These banks' surplus fund to invest as loans and advance, fixed assets as well as investment on government securities from operating cash flow.
3. Himalayan Bank Ltd. has excess positive cash flow from operating activities than NABIL bank due to the highest commission and discount income.
4. Himalayan Bank Limited have strong international network to do agency work to earn commission and discount income.
5. NABIL have highest interest income but lowest total operating cash flow due to high expenditure rate.
6. Total cash payment for NABIL and HBL under operating activities is in volatile nature.
7. Operating expenses and staff expenses are in increasing trend for HBL. Similarly it is in increasing and decreasing nature for NABIL.
8. Significant amount of cash receipt from exchange gain of HBL. But NABIL have the highest amount of exchange gain due to the highest amount of foreign currency transaction.

In an aggregate analysis cash flow from operating activities is the main source to operate banks. Open market policy of the companies to charge interest rate is being reason to reduce spread rate. Interest income is the main sources of revenue for financial institutions. But due to the various factors like peace and security are being determinant to reduce interest income so heavy amount of cash receiving from agency work like commission and discount income.

### **Cash Flow from Investing Activities (CFIA)**

1. Cash flows from investing activities are in increasing and decreasing trend.
2. Himalayan Bank Limited has positive cash flow from investing activities in whole year due to the lowest amount of investment, loan and advance.
3. NABIL have negative and positive cash flow from investing activities in whole year.
4. Only fixed assets are not major parts of the investing activities because they are very small with compare to the total investing cash flow.

5. Due to the safety of deposits and lack of improper credit product, NABIL have invested in heavily during the period of study on government treasury bills and development bond. But HBL and NABIL bank sold out its investment on the period of study.
6. HBL has highest amount of investment on fixed assets than NABIL.
7. Cash flow from other assets is positive for HBL. Similarly it is volatile in nature for NABIL.
8. Only operating cash flow are not sufficient to make investment so cash should be taken from financing activities.

### **Cash Flow from Financing Activities (CFFA)**

1. Total cash flows from financing activities are in fluctuation trend for all commercial banks.
2. NABIL is in decreasing trend for cash flow from financing activities up to the year 2060/61 but it is in increasing rapidly in the recent years.
3. Borrowings are the key points of financial activities. It generates favorable situation for the institutions.
4. Bills are the sources of cash that is receipt from remittance money.
5. Cash flow from other liabilities is decreasing at the beginning year but it is found positive in the recent years for these commercial banks.
6. Receiving deposit is the main function of commercial banks it is also main source of cash in flow. If the source of investment are available then cash should be taken from deposit, collection of deposit are also volatile in nature. They are decreasing and increasing form.

### **Net Cash Flow of the Year**

Trend of the accumulate cash flow received from different activities are in rising and falling trend. In other words they are volatile in nature.

## **5.2 Conclusion and Recommendations**

Both banks (NABIL and HBL) are the main institutions of financial market. They are operating in high amount of operating profit. They are paying tax revenue to the government and facilitating people by providing new and latest services. They are playing very important role in the society as well the nation. Profit and Loss A/C and Balance Sheet of these banks and insurance companies are strong.

But now a day's cash flow statement is being mandatory to submit for annual report. Cash flow is being the key of financial indicator to analyze the strength and weakness of the firm. Only profit making on accrual basis does not provide the real figure of the firm so income should be treated on cash basis according to the NRB directives for financial institution. If profit is negative but cash flow is positive then stakeholder believe for us now a day's. So cash flow analysis is necessary. By analyzing the five year cash flow statements following points are mentioned as conclusion and recommendations which are as follows:

### **5.2.1 Conclusion**

On the basis of Cash Flow Statements, the researcher has drawn the following conclusions. They are listed as follows:

#### **NABIL Bank Ltd.**

The overall performance of the bank is very good. It has been operating at the satisfactory level. The following conclusions are mentioned as follows:

1. CFOA of the bank is positive during the whole period. Positive cash flow indicates high cash inflow with compare to the cash outflow.
2. In the year 2059/60 interest expenses is highest because the bank was granted highest amount of loan.
3. Cash received from exchange gain plays significant role in total operating cash flow.

4. CFIA of the bank is in the fluctuation trend but its overall performance is not so bad.
5. The bank has not any strong investment scheme.
6. Borrowing is in increasing and decreasing trend.
7. Bank is able to invest from its internal sources.

### **Himalayan Bank Ltd.**

The performance of Himalayan Bank is highly satisfactory. The bank is in the top ranking position among of the sampled commercial banks. Its earning ratio is very high than others. Some of the points are mentioned as the conclusion, which are as follows:

1. CFOA of the bank is found positive during the whole period which is used in analysis. It is in the increasing trend up to 2062/63 and decreased in the year 2063/64 than previous year.
2. Cash receipt ratio is higher than cash payment ratio.
3. Cash received from exchange gain plays significant role in the total operating cash flow.
4. CFIA of the bank is in a volatile nature but it is satisfactory.
5. The bank has excess liquidity that can be found as depository fund.
6. Change in loans advance and bill purchased is found positive during the period. This is the satisfactory conditions.
7. Borrowing is in the decreasing trend.
8. The bank invests from its internal sources.
9. The bank has gained more public trust and support.

### **5.2.2 Recommendations**

#### **NABIL Bank Ltd. (NBL)**

1. Cash flow from operation is positive but not in satisfactory level based on banks reputation and network so, the bank should try to make it higher positive by reducing cash payment as well as other operating expenses.

2. The bank should concentrate on increasing the deposit collection/ mobilization activity because this is the main item which contributes mainly to the total cash inflow from operating activities.
3. The bank should increase its cash receipt ratio. It is in poor condition for reputed commercial bank like NABIL.
4. Interest income is in significant level but not sufficient so it should be increase by lending loan and advance.
5. The bank is suffering from over staffing problem therefore it should be minimized as possible.
6. Commission and discount income are in good position but lower than HBL so agency work should be done properly.
7. Investing cash out flow is decreasing which is the serious problem. So consumer and retail banking should be enhancing.
8. Deposits were in decreasing trend. Now days they are good due to the new management plan so this plan should be enhance and develop. New saving policy should be lunch.
9. The bank is the pioneer joint venture bank of Nepal so; it should able to merge other banks to make its capital sufficient for competitions and further development of bank.

### **Himalayan Bank Ltd. (HBL)**

1. Cash flow from operation is positive but not in satisfactory level based on banks reputation and network so, the bank should try to make it higher positive by reducing cash payment as well as other operating expenses.
2. The hank is excessively collecting the deposit to contribute to increase the total cash flow from operating activities. It is not considered good. So, the bank should collect deposit as it can utilize it.
3. The Bank should be less dependent to the creditors to flow cash inside the Company.
4. The bank should provide loan and advances to the clients should be in the appropriate ration to the deposit collection otherwise there will not be sufficient cash flow from operating activities.

5. The bank should invest as per the availability of the cash from operating activities otherwise it has to borrow from outsider to make investment.
6. The bank should reduce the staff expenses as well as operating expenses.
7. Operating cash flow is positive, financial cash flow is also positive to some extent. In this vital situation the bank has to make investment and should be enhance branch and find out new potential market.

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