

**A COMPARATIVE STUDY ON WORKING  
CAPITAL MANAGEMENT OF UNILEVER NEPAL  
LTD. AND BOTTLERS NEPAL LTD.**

**A THESIS**

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# RECOMMENDATION

This is to certify that the thesis  
Submitted by  
**Grishma Regmi**

Entitled

## **A COMPARATIVE STUDY ON WORKING CAPITAL MANAGEMENT OF UNILEVER NEPAL LTD. AND BOTTLERS NEPAL LTD.**

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A comparative Study on Working Capital Management of Unilever Nepal Limited and Bottlers Nepal Limited, and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement of Master of Business Studies (MBS)

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## **DECLARATION**

I hereby declare that the research work reported in this thesis entitled to “A Comparative study on Working Capital Management of Unilever Nepal Limited and Bottlers Nepal Limited” and submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfillment of the requirement of the Degree of master of Business Studies under the supervision of Dr. Bihari Binod Pokharel and Umesh Kumar Koirala, Nepal Commerce Campus, kathmandu.

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## LIST OF ABBREVIATIONS

|          |  |
|----------|--|
| AR:      | Account Receivable.                      |
| B.N.Ltd: | Bottlers Nepal Limited.                  |
| CA:      | Current Assets.                          |
| CL:      | Current Liabilities.                     |
| CR:      | Current Ratio.                           |
| DSO:     | Days Sales Outstanding.                  |
| Eg:      | For Example.                             |
| Eqn:     | Equation.                                |
| F/Y:     | Fiscal Year.                             |
| GP:      | Gross Profit.                            |
| GPM:     | Gross Profit Margin.                     |
| HMG/N:   | His Majesty Government of Nepal.         |
| Misc:    | Miscellaneous.                           |
| NIDC:    | Nepal Industrial Development Corporation |
| NP:      | Net Profit.                              |
| NPM:     | Net Profit Margin.                       |
| P.E:     | Probable Error.                          |
| QR:      | Quick Ratio.                             |
| STF:     | Short Term Financing.                    |
| TA:      | Total Ratio.                             |
| TF:      | Total Financing.                         |
| U.L.Ltd: | Unilever Nepal Limited.                  |
| Viz:     | Namely.                                  |
| WC:      | Working Capital.                         |

# Chapter 1

## INTRODUCTION

### 1.1 Background of the Study

Industrialization plays a crucial role in the process of economic development and its importance is as a means of achieving economic growth and prosperity within the country. Hence industrialization is universally accepted as a strategy of economic development as well as fundamental goals.<sup>1</sup>

It is believed that in order to achieve security stability and high standard of living the country must become industrialized. The most important reason for embarking on a performance of industrialization is to increase the national income.<sup>2</sup> Industrialization is the major tool with the aid of which the various circle of backwardness and poverty can be broken.<sup>3</sup> The manufacturing sectors have to face various problems which have acted as constraints in growth of manufacturing industries. Such problems are arises due to land locked and underdeveloped situation of the country, lack trained and skilled manpower, financial resources, inconvenience in transport and communication network, non-availability of assured energy at reasonable rates, shortage of capital, small size of the market unawareness of the industrial potential,<sup>4</sup> higher cost of production, low productivity of inputs, technology, instabilities in government policies etc.

Development plans of Nepal have been emphasizing the development of industries both in the public and private sector. In every plan the world industrialization has been mentioned too frequently. It is stated that private sector hasn't been able to come forward in industrial investment despite the several facilities provided by the government. The policy of the government is to encourage industrialization in the private sector includes financial through

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<sup>1</sup> R.S Pradhan, (1994) "Industrialization in Nepal" New Delhi: NBO Publishers distributor, P.35

<sup>2</sup> Munny D. Baryle, (1969) "Industrial Development: A Guide For Accelerating Economic Growth", New York: Mc. Grow Book Company (pg. 3)

<sup>3</sup> Syoggy Cuker, (1974) "strategies for industrialization in developing countries". London, Hums Co. P. 9

<sup>4</sup> R.S Pradhan, (1984) "Industrialization in Nepal" New Delhi: NBU Publishers distributor, P.40

financial institution, tax concession and so on. But there is also another view in this regard. It is mentioned that it is not a private sector. Which has not come forward to stabilize industry, but it is the concerned authorities that didn't allow the private sector, an appropriate type of clear policy and practicable programs based in reality would be required. The development planners have felt that lack of long term industrial development strategy in Nepal has posed a crucial problem in designing and industrial program which in most cases has been a mere listing of the projects in the country development plans.<sup>5</sup>

Developing countries economy is primarily based on agriculture. The manufacturing sector does not contribute properly to develop the country. The available resources are not used properly and optimally.

According to history of Nepal, there was development of industries some thirteen or fourteen hundred years ago. At that period, especially cottage and small industries were established and operated. At that time local people made the handicraft goods, statues and arts and they were famous around the world.

The "Udyog Parisad" was constituted to develop industrial and commercial activities within the country in early 1935. The company act was formed in 1936 and the various small, medium and large scale industries were established in the private sectors. In the same year Biratnagar Jute Mill was established as a first joint stock enterprises with an authorized capital of Rs 1.6 million and paid-up-capital of Rs 0.8 million.

So, the history of public limited company began with Biratnagar Jute Mill limited. The establishment of this enterprise can be considered as a landmark in the history of industrial development in Nepal. After the establishment of this, other industries were also established and up to 1945 some 20 joint stock companies manufacturing handmade paper, soap, ceramic, furniture, matches, textile, cigarette, etc were incorporated. In between 1936-1951, it is stated that altogether 65 companies were established.<sup>6</sup>

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<sup>5</sup> Bed Raj Panta, (2030) Arthik Bikashma Sangathanamak Prabhaab Kehi Ghatana, Ek Bibechana", Kathmandu. P. 45

<sup>6</sup> Hari Prasad Giri, (2033) "Audyogikaranma Niji Chhetra ko Den Paper Presented at the fourth industrial conference", Katmandu, NIDC P. 42

During the period of third plan (1965-1970) and industrial promotion and productivity CENTER, joint project of NIDC and HMG/N were established to act as an agency for providing for the country.<sup>7</sup> In the beginning of fourth plan (1970-1975) it was felt that the private sector could not setup all basic and feasible industries, capable of making special contribution to industrial development of the country.<sup>8</sup> The government attempts to establish some industries with the aim of gradually selling them to the private sector within the period of this plan. The new industrial policy 1974 was also announced by HMG/N.<sup>9</sup> In 1981 a new industrial policy was declared and the main feature of this policy was that all industries were kept open to the private sector except for the defense industry. In 1992, industrial policy was declared and this policy is very liberal in respect of registration and other official procedures. The private sector is investment as well as foreign investment is invested in all most all areas of industries.

The government has to play a very crucial role to develop the industrialization. The government has to play attention on the economic liberalization and privatization, tax rebate, developing infrastructure and other facilities.

## **1.2 Introduction of Companies under Study**

### **Brief overview of U.L Ltd.**

Unilever Nepal Limited Company was formed as subsidiary company of Hindustan Lever Limited, India. The factory's registered office is situated at Basamadi. V.D.C.-5 of makawanpur district which is about six kilometer far from Hetauda Municipality and its corporate office is situated at Heritage plaza, Kamaladi, Kathmandu, Nepal. Unilever Nepal Limited was established in 1994 as joint venture Company between Hindustan Lever Limited, India and Nepali promoters. Under the Company act 2021. It is the subsidiary company of foreign investment and technology transformation. The main purpose of the

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<sup>7</sup> Ministry of Industry and commerce. (Sept. 1976) "Economic Hand Book of Nepal" Kathmandu. Dept of Industry HMG/N P. 47

<sup>8</sup> NPC, (1972) "The Fourth Plan (1970-74)" Kathmandu HMG/N P.198

<sup>9</sup> Ministry of Industry and commerce, (1974) "Industrial Policy1974", Kathmandu, HMG/N

company is to meet the everyday needs of people everywhere to anticipate the aspirations of consumer and customers and to respond creatively and competitively with branded products and services, which raise the quality of life.

The main products of the company are soaps, detergents, cosmetics, toiletries, oleaginous, saponaceous, unguents and other chemical products. They are marketed in and outside the country under the brand name of the products of Hindustan Lever Limited. The success of this industry will attract the foreign investment and technology transformation in the country and also encourage the private sector in the country.

U.L Ltd. is the first subsidiary company of Hindustan Liver Ltd outside of India with holding 80% ownership and invested Rs.73.7 million in equity. The authorized capital of the company is Rs.30,00,00,000/- (Thirty Cores) and Issued and Paid-Up-Capital of Rs. 9,20,70,000/-. Percentage of share holding is as follows:-<sup>10</sup>

| Name of shareholders                | % of shares |
|-------------------------------------|-------------|
| Hindustan Liver Ltd                 | 80%         |
| Sibkrim land and Ind. Co. Pvt. Ltd. | 5%          |
| Public shareholders                 | 15%         |

Hindustan Lever Limited holds the 80% shares of U.L. Ltd. which was formed as a subsidiary company of Unilever Group of Company of England, with 51% share. It was started nearly 1940 in India. The head office is situated in Mumbai, India.

## **Management & Directors**

The managing directors under the supervision and control of the Board of Directors manage company. The Board of directors appoints the managing directors. The company's Board of Director at present is comprised of 7 members. The present Chairman of the Board of Director is Mr. Dhaval Buch. The other members of Directors are Kamran Bakr, as Managing Director and R.B. Shrestha, Shambhu Prasad Poudyal, Bharat Bahadur Thapa, Ashok Gupta, Shrijeet Mishra as Directors.

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<sup>10</sup> Source <http://www.nepalstock.com>

## **Brief overview of B.N Ltd.**

Bottlers Nepal Limited (“company”) is public limited company listed in the Nepal Stock Exchange Ltd. incorporated under the companies Act of Nepal. The registered office of the company and principal place of business are located at Balaju Industrial District, Kathmandu, Nepal. The products of company are coca-cola, fanta and sprite which are heavily consumed in the kingdom.

Bottlers Nepal Limited is a licensed bottlers, marketed and distributor of non alcoholic beverages products of the Coco-cola company. The company’s parent company Coco-Cola Sabco (Asia) Ltd. since 14 may 2004 {previously the F&N Coca-Cola (Pte) Ltd} is incorporated in Dubai, U.A.E. Its parent company holds 96.16 percentage share of Bottlers Nepal Ltd.<sup>11</sup>

### **Management & Directors**

Directors nominated by Coca Cola Sabco (Asia) Ltd. and elected among Nepalese share holders combine manages company. There are six member in Board of Directors, Mr. Kadir Gunduz, Mr. Ian Garnett, Mr. Brian Horn are Directors and Chairperson of the company and Mr. Soumindra Bhattacharya is Managing Director and other member of Board of Directors are Mr. N.N Singh and C.P Khetan.

### **1.3 Focus of the study**

As we know working capital is the lifeblood of an organization, without it no business can run. The firm required current asset as well as fixed assets. The current assets are required to meet day to day expenses and the short term obligation. The working capital management refers to manage the appropriate level of current asset and current liability in the company. U.L Ltd and B.N Ltd both are manufacturing companies which are rendering service to their customers by producing different types of commodities which satisfy their customers. Working capital is the major factor, which directly affects to the operation of the company.

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<sup>11</sup> Source <http://www.nepalstock.com>

The appropriate level of working capital leads the company in growing direction. But the high and the minimum level of working capital may lead the company in liquidation. Thus this study will assess whether the size, liquidity, efficiency and profitability provide the suggestions for sound working capital position and maximize profitability of U.L Ltd. and B.N Ltd. Thus the research will be focused on analysis of the working capital management of U.L Ltd. and B.N Ltd.

## **1.4 Statement of Problem**

Working capital is the crucial capital, which is compared as lifeblood of the human beings for the organization. In most enterprises the management of working capital has been misunderstood as the management of money rather than its efficient utilization. Regarding the management of working capital sources, most of public enterprises have never thought of seriously. They are usually found to depend on HMG even for overcoming the shortages of working capital in spite some of public enterprises have used depreciation founded utilize surplus to over come the poverty of working capital. If a firm wants to maintain sound financial position, it should maintain optimum level of working capital is the crux of the problem of every business organization. It is strongly related to the trade off between risk and return.

Most of the Nepalese industries are still facing the problem of working capital management due to the unprofessional manpower. Managers' still focuses their attention on the procurement aspect of working capital but not on the efficient utilization of funds defined in term of working capital. Every investor wants to earn return in their investment. Therefore, every organization should make profit for its owners. Profit is not only one indicator of proper management of working capital. There are several indicator of working capital so basically has tried to find out the issue of working capital of Unilever Nepal Ltd. & Bottlers Nepal Ltd. The study has tried to figure out the problem facing by the Unilever Nepal Ltd. and Bottlers Nepal Ltd by analyzing following.

1. Which of the current assets are more problematic in U.L Ltd & B.N Ltd.?
2. What primary factors affect the management of working capital in U.L Ltd. and B.N Ltd.?

3. What is about the use of debt, capital by the respective companies?
4. Which component of working capital affects the operating income of U.L Ltd. & B.N Ltd.?
5. What steps have the firm taken to raise the required funds and have the funds used the funds properly & productively?

## **1.5 Objectives of Study**

Working capital generally refers the current asset and net working capital refers the difference between current assets and current liabilities. The balanced working capital is most important for every organization. The excess and inadequate working capital is very harmful. The success and failure of organization depends upon the amount of working capital. The working capital management refers the managing of balanced working capital.

The main objective of the study is to examine the working capital management of U.L Ltd. and B.N Ltd. the specific objectives are as follows:-

1. To examine the influence of working capital on profitability.
2. To study the position of working capital in U.L Ltd. and B.N Ltd.
3. To analyze the comparative working capital management of U.L Ltd. and B.N Ltd.
4. To provide the valuable recommendations and suggestions for the management of related companies on the basis of analysis.

## **1.6 Significance of Study**

This research study may provide important information for the policy makers. It carries a special significance to the finance managers or executive of an organization to take better financing policy for the smooth operation of an

organization. It may help various government officials in the formulation of policies regarding working capital for manufacturing companies.

Specially, this study will be supportive to the respective companies' management to examine the condition of their working capital management policy in comparison to the productivity of their funds in each of these companies and also helps them beware about the liquidity and profitability of their companies.

The shareholders can identify the better company to deal with. They can find out secured company and it will be easier them to find out the relative worth of stocks of each company. Due to all these, the comparative study of working capital management of U.L Ltd. & B.N Ltd. can be considered to be much significant.

## **1.7 Limitations of Study**

Limitations exist everywhere and this study is also not an exception of it.

Most of private companies, financial data may be invalid in Nepalese context. In other words, financial statements may not disclose the true financial data and information. In the case of companies set up in private sectors, access to internal information for outsiders is not possible; preparation of multiple financial statements is open secret and common practice in private sector. So the conclusions based on the available financial statements might not be correct in reality. The study or working capital management of U.L Ltd. & B.N Ltd. is not free from the following limitations:

1. Most of the analysis depends upon secondary data.
2. Analyzing only the working capital management which could not give the overall situation.
3. We are taking only the data of U.L Ltd. & B.N Ltd. for analysis.
4. Five years samples from year 060/61 to 064/65 are taken for analysis.

## 1.8 **Organization of the study**

This study has been divided into five chapters. They are as follows:

Chapter one is the “introductory” which deals with background of the study, Brief overview of U.L Ltd. & B.N Ltd, statement of problems, objectives of study, significance of the study & limitations of study.

The second chapter “literature review” deals with the review of related literatures and available studies written and conducted by different experts and researches in the fields of working capital.

The third chapter “research methodology” presents the methodology used in this study. It deals with research design, sources of data, procedures employed and financial and statistical tools used for the study.

The fourth chapter “presentation and analysis of data” fulfills the objective of study by presenting the data and analyzing them with the help of various statistical tools followed by methodology. In it explanation of the interview and the major findings of the whole study has been presented.

The fifth chapter “summary, conclusion and recommendations” summarize the whole study. Moreover, it draws the conclusions and forwards the recommendation for the improvement of working capital management of U.L Ltd. and B.N Ltd.

At last, appendix has been included according to the text of relationship in between various variables of working capital and bibliography cards have also been included according to literatures reviewed.

# Chapter II

## REVIEW OF LITERATURE

The main purpose of this chapter is to review the available literature on working capital management in the context of Nepalese enterprises. It also provides insight into the findings of earlier studies through the review of books, publications and previous studies.

### 2.1 Conceptual Framework

Every manufacturing firm needs various types of assets in order to carry out its functions without any interruption. They are fixed and current asset. Fixed assets are those assets, which remain for a long time in the firm. The fixed assets can be categorized into two types. They are tangible fixed assets and intangible fixed assets. Some fixed assets have physical existence and are required to produce goods and services over long period. This type of fixed assets is called tangible fixed assets. These types of fixed assets are plant and machinery, furniture and so on. Intangible fixed assets are those assets; they do not generate goods and services directly. However, it reflects the right of the firm. They are patents, copyrights, trademark and goodwill.

Current assets refer those assets, which can be easily converted into cash within a year. Such as cash, marketable securities, account receivable, sundry debtors and investors. The current assets can be also defined as short term assets. To run the daily operation of the company, current assets is the major component. The current assets can be required for payment to labor, purchasing of raw materials and other some for day to-day expenses and short-term obligations.

Current liabilities are those claims, which are expecting to be matured within one year. It consists of sundry creditors, account payable, short-term bank loan and outstanding expenses.

Working capital management is the functional area of finance that covers all the current accounts of a firm. It is concerned with the adequacy of current assets as well as the level of risk posed by current liabilities. It is a discipline that seeks proper policies for managing current assets by current liabilities and

practical techniques for maximizing the benefits from managing working capital.

Working capital management is the crucial aspect of the financial management. It is the life-blood and controlling nerve center for any types of business organization because without the proper control upon it no business can run smoothly. The management of current assets and liabilities is necessary for day to-day operations of any organizations. Thus, it plays the crucial role in the success and failure of an organization as it deals with the part of the assets, which are transformed from one form to another form during the course of manufacturing cycle. Therefore, the role of working capital management is more significant for every business organization irrespective to their nature. There have been done a numbers of studies on working capital management from different experts in various enterprises, which covers all the current assets and liabilities of a firm.

## **2.2 Concept of the Working Capital**

There are two concept of the working capital:

- i. Gross working capital.
- ii. Net working capital.

### **i. Gross working Capital**

Gross working capital concept refers the working capital includes total current assets. Current assets are those assets, which can be converted into cash within one year such as cash, sundry debtors, bill receivable, inventory etc. This concept ignores the current liabilities.

“The goods of the merchant yield him no revenue in profit-till he sells them for money and money yields him a little till it is again exchange for goods. His capital is continuously going from him in one shape and returning him in another and it’s only by means of such circulation’s or successive exchange that can yield very him any profit. Such capital therefore may properly be called circulating capital.”<sup>12</sup>

“If all the expenses need to run the day to day operation of business such as amount to be invested in the form of cash, finished goods, receivables etc.

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<sup>12</sup> Adam Smith, (1973) “The Wealth of Nations Modern Lib.” Inc, New York, P. 262-263

are put together, it is called working capital. This working capital and total current assets are synonyms.”<sup>13</sup> According to I.M. Pandey “the gross working capital simply called as working capital refers to the firms’ investment in current assets. Current assets are those assets which can be converted into cash within an accounting year and include cash, short term securities, debtors, bill receivables, inventories and prepaid expenses.”<sup>14</sup>

Gross Working Capital=Total Current Assets

## ii. Net Working Capital

Net working capital is defined as difference between current assets and current liabilities. So in this concept working capital is the excess of current assets over current liabilities. “Working capital is a measure of liquidity, which is defined as the adequacy of near-term cash to meet the firm’s obligations.”<sup>15</sup> “The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year includes creditors, bill payable, bank overdraft and outstanding expenses or accrued income.” Net working capital can be positive or negative. A positive net working capital arises when current assets exceed current liabilities and negative working capital occurs when current liabilities are in excess of current assets.” Working capital is fluctuating in nature. If the operation is increases more the working capital is required.

Net Working Capital= Current Assets- Current Liabilities

## 2.3 Types of Working Capital

The need for the current assets arises because of the operation cycle. The operating cycle is continuous process that is the cause for the need of the current assets constantly. The need of current assets is not always the same.

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<sup>13</sup> R.S Pradhan & K.D Koirala, “Some Reflection on Working Capital Management in Nepalese Corporation management” Vol 3 No. 1

<sup>14</sup> IM Pandey, (1992) “Finanical management” 5<sup>th</sup> Revised edn. New Delhi Vikash Publication House Pvt. Ltd. P. 800

<sup>15</sup> John J Hampton (1992) “Financial Decision Making: Concepts, Problems & Case” New Delhi Prentice Hall of India P.177

It depends upon the operations. The working capital can be classified into two groups:

- i. Permanent Working Capital
- ii. Variable or Temporary Working Capital

### **i. Permanent Working Capital**

Permanent working capital refers to that level of current assets, which is required on a continuous basis over the entire year. The firm maintains the minimum level of current assets, which is continuously required by the firm to carry on its business operations. This minimum level of current assets is referred as a permanent working capital. “Permanent working capital is the same way as the firm’s fixed assets are, depending upon the changes in production and sales, the need for working, over and permanent working capital will fluctuate.”<sup>16</sup>

### **ii. Variable Working Capital**

Variable working capital represents that portion of working capital, which required over permanent working capital. To support the changing production and sales activities, the extra working capital is required, such as raw materials, work in progress and inventory of finished goods. So, the variable working capital is temporary in nature. “The variable working capital is created by the firm to meet liquidity requirements that will last only temporary”<sup>17</sup>

## **2.4 Working Capital Policy**

Working capital policy involves two basic issues (i) What is the appropriate level of current assets, both in total and by specific accounts and (ii) How should the required level of current assets be financed?

Goals of working capital policies are as follows:-<sup>18</sup>

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<sup>16</sup> IM Pandey, (2001) “Financial Management”- 8<sup>th</sup> edn., New Delhi, Vikash Publication put Ltd. P. 814

<sup>17</sup> IM Pandey, (2001) “Financial Management”- 8<sup>th</sup> edn., New Delhi, Vikash Publication put Ltd. P. 814

<sup>18</sup> John J Hampton (1992) “Financial Decision Making: Concepts, Problems and Case” New Delhi: Prentice Hall of India P. 179

### **a. Adequate liquidity**

If a firm lacks sufficient cash to pay its bills when due, it will experience continuing problems. The most important goal is to achieve adequate liquidity for the conduct of day to day operations.

### **b. Minimization of risk**

In selecting its sources of financing, payables and other short term liabilities may involve relatively low costs. The firm must ensure that these near term obligations do not become excessive compared to the current assets on hand to pay them. The matching of assets and liabilities among current accounts is a task of minimizing the risk of being unable to pay bills other obligations.

### **c. Contribute to maximizing firm's value**

The firm holds working capital for the same purpose as it holds any other assets that are to maximize the present value of common stock and value of the firm. It should not hold idle current assets any more than idle fixed assets. The investment of excess cash, minimizing of inventories, and speedy collection of receivable and elimination of unnecessary and costly short term financing all contribute to maximizing the value of firm.

In the working capital management the firm has to determine how much funds to invest in working capital in gross concept i.e. in current assets and how much should be financed in working capital through different sources of funds. The funds can be raised from long term sources and short term sources. So, the firm should decide how much of long term and short term funds to be financed in working capital.

#### **2.4.1. Current asset investment policy**

The firm has to carry out the different amount of working capital to support the each level of sales. There are three alternatives current asset investment policy. They are relaxed, moderate, and restricted policy.

### **Relaxed policy**

In this policy the firm holds relatively large amount of current asset such as cash, marketable securities, inventory and receivables to simulate the sales. In this policy the firm provides the liberal credit policy, which results the high level of receivable and creates the longer inventory and cash conversion cycles. This policy provides the lowest return on investment with lower risk.

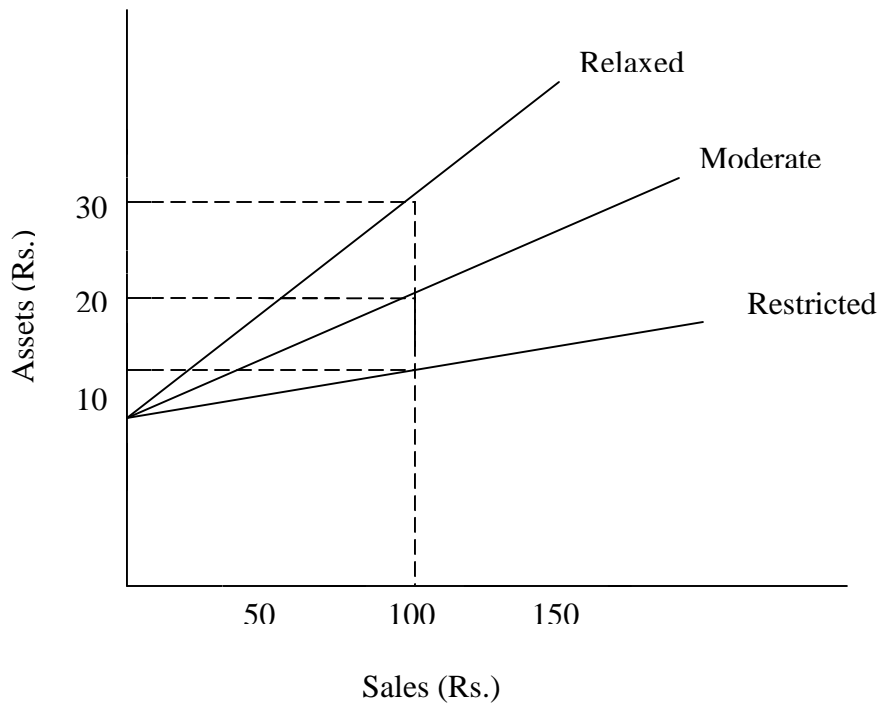
### **Restricted policy**

In this policy the firm holds the minimum amount of cash, securities, inventories and receivable to support a given level of sales. So, it restricts the credit policy and bears the higher risk. This policy tends to reduce the conversion and receivable cycle and the firm follows a tight credit policy and bears the high risk.

### **Moderate policy**

The moderate policy is in between the relaxed and restricted policy. In this policy the firm holds the moderate level of working capital. So, this policy bears the moderate level of risk.

## **Figure 1. Alternative current assets investment policies**



*Adopted from: J Fred Weston & Eugene F Brigham, Essential of Managerial Finance, 9<sup>th</sup> edition P. 408*

## 2.4.2. Current Assets Financing Policy

It is the manner in which the permanent and temporary current assets are financed. The firm can adopt different types of policies to finance in current assets, which they collected from different sources. There are three variants aggressive, conservative and matching policy of current assets financing.

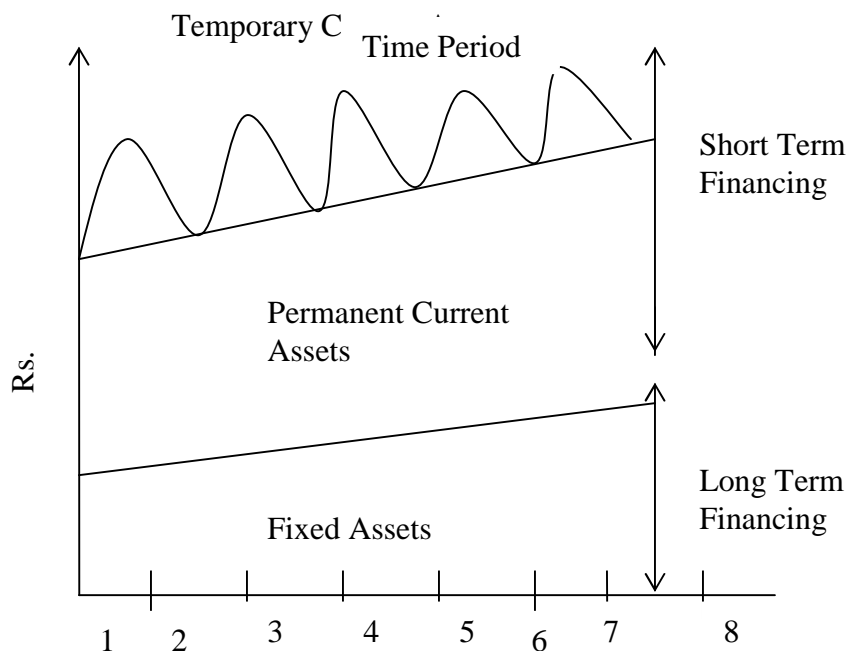
### Aggressive Policy

In aggressive policy, the firm finances all the fixed assets with long term capital but a part of permanent current assets with short term financing. In other words, the firm finances not only temporary current assets but also a part of permanent current asset with short term financing. “Some extremely aggressive firms may even finance a part of their fixed assets with short term financing. The relatively more use of short term financing makes the firm more risky.”<sup>19</sup>

<sup>19</sup> IM Pandey, (2001) “Financial Management”- 8<sup>th</sup> edn., New Delhi, Vikash Publication put Ltd. P. 829

In this position the firm would be much exposed to the danger of raising interest rates as well as to rates renewals problems. “Although short term financing may involve less cost, it is more risky, than long term financing. If the firm uses short term financing to finance current asset, it runs the risk of renewing borrowing again and again.”<sup>20</sup> If the firm finances its permanent current assets with short term funds as debt matures. This continued financing exposes the firms to certain risk.

**Figure 2: Aggressive Financing Policy**



*Adopted from: J Fred Weston & Eugene F Brigham, Essential of Managerial Finance, 9<sup>th</sup> edition P. 410*

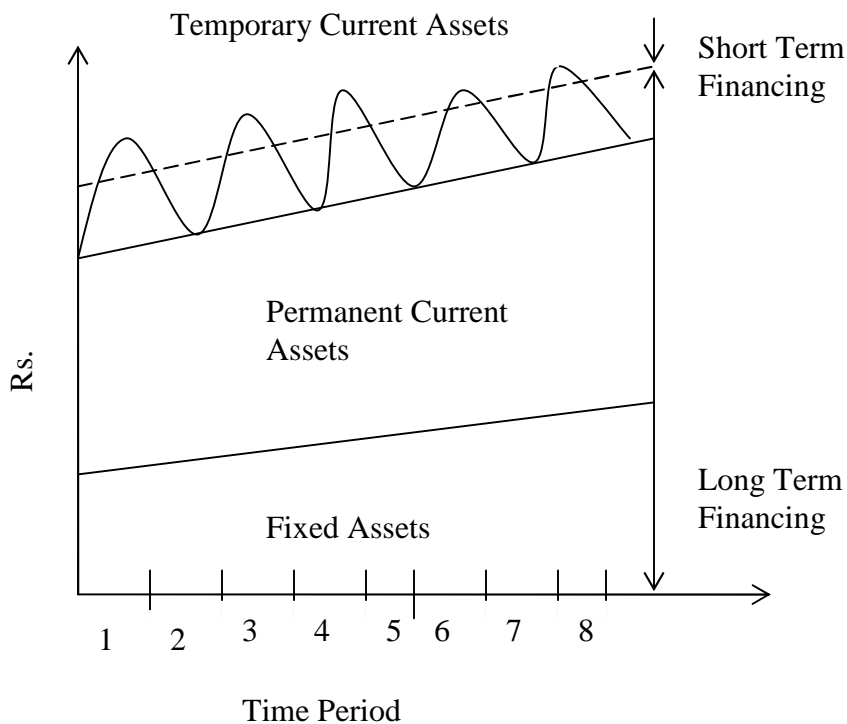
### **Conservative policy**

A firm may adopt a conservative policy in financing its current and fixed assets. In this policy, a firm finances its long term debt not only in fixed and permanent assets but also a part of temporary current assets. So, in this policy

<sup>20</sup> IM Pandey, (2001) “Financial Management” - 8<sup>th</sup> edn., New Delhi, Vikash Publication put Ltd. P. 839

the firm needs more to the long term funds for financing needs. In the period, when the firm has no need for temporary current asset, the idle long term funds can be invested in the tradable securities to conserve liquidity.”<sup>21</sup> In this policy, the firm heavily depends upon the long term financing. So the firm has less risk of financing the shortage of funds. This policy leads higher interest cost, low risk and return. The risk adverse management follows this policy.

**Figure 3: Conservative Financing Policy**



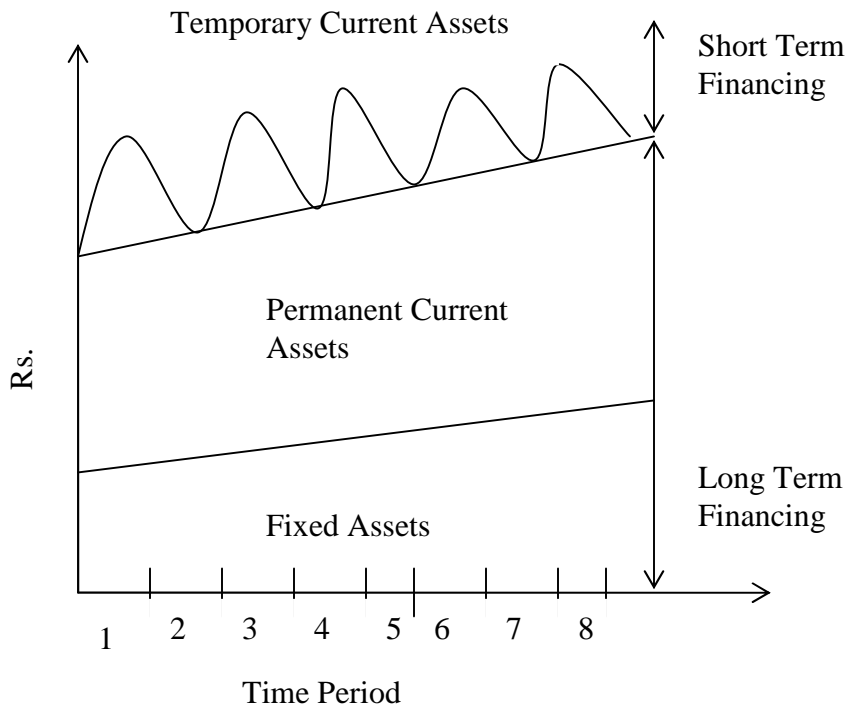
*Adopted from: J Fred Weston & Eugene F Brigham, Essential of Managerial Finance, 9<sup>th</sup> edition P. 410*

### **Maturity Matching Policy**

In this policy, the firm finances the permanent and fixed assets with long term financing and temporary current assets with short term financing. It means that the firm matches the expected life of assets with the expected life of the sources of the assets and liabilities.

<sup>21</sup> IM Pandey, (2001) “Financial Management” - 8<sup>th</sup> edn., New Delhi, Vikash Publication put Ltd. P. 829

**Figure 4: Maturity Matching Financing Policy**



*Adopted from: J Fred Weston & Eugene F Brigham, Essential of Managerial Finance, 9<sup>th</sup> edition P. 410*

## **2.5. Financing of Working Capital**

Every manufacturing concern or industry requires additional assets whether they are in stable or growing conditions. When the growing firm wants to generate sustained normally require fixed capital as well as working capital. Additional portion of working capital is approximately dominated by the same rate as sales. But this portion of capital requirement depends upon the nature of the firm. Therefore, the most important function of financial manager is to determine the level of working capital and to decide how current liabilities should be used to finance current assets. However, a number of financing mixes

are available to the financial manager. He can resort generally three kind of financing,

- a. Long term financing
- b. Short term financing
- c. Spontaneous financing

#### **(a) Long term financing**

The sources of long term financing include ordinary shares, preference share, debenture long term borrowing from financial institutions and reserve and surplus retained earnings.

#### **(b) Short term Financing**

The short term financing is obtained for a period less than one year. It is arranged in advance from bank and other suppliers of short term finance in the money market. Short term financing include working capital funds from banks, public deposits, commercial paper, trade credit.<sup>22</sup>

#### **(c) Spontaneous Financing**

Spontaneous financing refers to the automatic source of short term funds arising in normal course of a business. Trade credit and outstanding expenses are example of spontaneous financing.

## **2.6. Determinants of Capital Working**

The working capital is the crucial factor for any organization. Without it no business can run smoothly. But the need of working capital is dependent upon the different factors. The important of the factors may changes for firm over a time. In general the company wants to hold in balance as small a quantity of working capital as possible so long as un due solvency risks are not imposed on it. The firm should have neither access nor too inadequate working capital. There are various factors, which determine the requirement of working capital. Some factors can be describes as follows:

### **I. Nature of Business**

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<sup>22</sup> James C. Van Horne (1994) "Financial Management and Policy" New Delhi: Prentice Hall of India P.Ltd. P. 471

The requirement of the working capital basically influence by the nature of its business. Trading and financial firms required a very large sum of working capital and they invest the small amount in fixed assets. For e.g. Retail stores must carry large stocks of variety of goods to satisfy the varied and continuous demand of customers. The manufacturing forms require a significant level of working capital and fixed assets. But in public utility or service providing organization, they hold a very limited of working capital because of cash nature of their business and partly of their selling a service instead of a commodity and there is no need of maintaining big inventories.

“In generally speaking, trading and financial firms required relatively large amount of working capital, public utilities comparatively small amount, whereas manufacturing concerns stand between these two extremes, their needs depending upon the character of industry of which they are part.”<sup>23</sup>

## **II. Nature of businessman / Financing Management**

The requirement of working capital is also depends upon the nature of businessman. If the businessman is risk taker, he holds the low amount of working capital and invests the low amount of working capital. If the businessman is not a risk taker he invest large amount in working capital.

## **III. Sales and Demand Condition**

The need of working capital of a firm is related with the sales. It is difficult to determine the relationship between sales and working capital. But in the growing from the need of working capital is high. The firm needs the more working capital to support the enlarge scale of operation. The seasonal demand of the product may affect the working capital requirement. The choice rests between varying output in order to adjust inventories to seasonal requirements and maintaining a steady rate of production and permitting stocks of inventories to build up during off season periods.

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<sup>23</sup> S.C Kuchhal (1990) “Financial Management” An Analytical and Conceptual Approach”. Allahabad: Chaitanya Publication House, P. 163

#### **IV. Manufacturing Policy (Inventory Conversion Period)**

The manufacturing cycle is comprised of the purchase and use of raw materials and the production of finished goods. If conversion period of raw material to work in progress to finished goods is longer and complex, the firm requires the more working capital. The longer manufacturing refers the greater cost, larger inventory tie up i.e. higher amount of working capital.

#### **V. Credit Policy**

The credit policy of a firm affects the need of working capital. The different term of credit policy may grant to the customers. If the firm is liberal in credit policy, then it requires the high working capital. The liberal working capital ensures the fund tie up in debtors. Similarly if the firm is operating tight credit policy, their funds are not tie up in debtors. They can collect their funds quickly. So they don't need to invest more in working capital.

#### **VI. Availability of Credit (Suppliers Credit Policy)**

The requirement of working capital is also affected by the credit terms granted by its creditors. A firm will need less working capital if liberal credit terms are available to it and vice-versa. In other words, the firm can get credit facility easily on favorable conditions. Thus it requires less working capital to run the firm smoothly otherwise more working capital is required to operate the firm smoothly.

#### **VII. Growth and Expansion**

Growth and expansion also affect the working capital requirement of a firm. However it's difficult to precisely determine the relationship between the growth and expansion of the firm and working capital needs. But the other thing being the same growing firm needs more working capital than those static ones.

### **2.7 Need for Working Capital**

Most of the firms aimed at maximizing the wealth of shareholders. The firm should earn sufficient return from its operation. The extent to which profit

can be earned naturally depends upon the magnitude of sales among the other things. For constant operation of business, every firm needs to hold the working capital components, cash receivable, inventory etc. therefore every firm needs working capital to meet following motives:-

**a) Transaction Motive**

According to transaction motive a firm holds cash and inventories to facilitate smooth production and sales operation in regular. Thus firms need the working capital to meet transaction motive.

**b) Precautionary Motive**

Precautionary motive is the need to hold the cash and inventories to guard against the risk of unpredictable change in demand and supply forces and other factors such as strikes, failure of important customers, unexpected slow down in collection of account receivable, cancellation of order for goods and some other unexpected emergency. Thus, the firm needs the working capital to meet any contingency in future.

**c) Speculative Motive**

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

- I. Opportunity of profit making investment.
- II. An opportunity of purchase raw material at the reduced price on payment of immediate cash.
- III. To speculate on interest rate.
- IV. To make purchase at favorable price etc. thus, the firm needs working capital to meet the speculative motive.

## **2.8. Review of Articles/Journals**

An article “Working Capital Management in PEs” was published by Dr. Manohar K. Shrestha. He has studied the working capital management of ten selected PEs. Specially, he has focused on the liquidity, turnover and profitability position of those enterprises. In this analysis, he found that four PEs have maintained adequate liquidity position; two PEs have excessive and the

remaining four PEs has failed to maintain desirable liquidity position. On the turnover side, two PEs had negative working capital turnover, four had adequate turnover, one had higher turnover and the remaining three had not satisfactory turnover on net working capital. He has also found that out of ten PEs; six were operating in losses while only four were getting some percentage of profit. With the reference of his findings he has brought certain policies issues such as lake of suitable financial planning, negligence of working capital management, deviation between liquidity and turnover of assets and inability to show the positive relationship between turn over and return on net working capital. At the end, he had made some suggestive measures to overcome form, the ever policy issues i.e. identification of needed funds, regular check of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short term and long term sources of funds to finance working capital needs.<sup>24</sup>

Dr. R.S pradhan<sup>25</sup> has conducted the studies on “the demand for working capital by Nepalese corporations.” In this studies he has selected nine manufacturing public corporations with twelve years data from 1973-1984 and adopted the regression equation for analysis. The conclusion of the study is:

The earlier studies concerning about the demand for cash and inventories by business firms didn't report unanimous findings. A lot of controversies exists respect to the presence of economics of scale, role capital cost, capacity utilization rates and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression results show the presence of economics scale with respect to the demand for working capital and its various components. The regression result suggests strongly that the demand for working capital and its component is a function of both sales and their capital cost. The estimated result shows that the inclusion of capacity utilization variable in the model seems to have contributed to the demand function cash and net working capital only. The effect of capacity utilization on the demand for inventories, receivables, and gross working capital is doubtful.

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<sup>24</sup> Manohar K. Shrestha “working Capital Management in PEs: A Study on Financial Results and Constraints”, ISDOC Vol. No. 8

<sup>25</sup> R.S Pradhan (1988) “The Demand for Working Capital by Nepalese Corporation” The Nepalese Management Review, Vol 8 No.1

The article by Dr. K. Acharya<sup>26</sup> is based on the findings and conclusion of his Thesis. In the study, he has focused on the working capital management of Nepal Tea Development Corporation (NTDC) for eight years from 1975/76 to 1982/83 A.D. He has also made the comparison of the findings with the other five selected PEs. In the study he found that the net working capital of NTDC was negative due to increase in current liability of current assets, inventory held the largest portion and it was accumulating in the corporation. It had inventories accumulating up to 26 months sales. The size of aggregate receivable of NTDC had also been increasing and it exceeded by 16 times, the liquidity position of NTDC were very poor since current assets were less than current liabilities. While comparing to another selected PEs, he focused that the turnover of inventory, receivables and current assets were below the average there by reflecting high investment in each of them irrespective of sales achieved. The break even and had incurred variable cost sometime even higher than sales price. The suggestions he made on his article are; proper planning of production and sales, new credit policy, action against the delinquent dealers, issue of share and debenture and obtaining loans from any individual or financing institutions.

## **2.9. Review of Thesis**

This part of the study covers a review of past studies conducted by other researchers. The reviews of MBA Dissertation are presented as follows:

Mr. Dipendra Raj Sharma (1999)<sup>27</sup> conducted a study on “Working Capital Management of Nepal Battery Company Limited (NBCL), Nepal” with the objective of:

- ❖ Analysis of the liquidity, composition of working capital, assets utilization and profitability position.
- ❖ Study the relationship between sales and different variables of working capital.
- ❖ Whether the adequacy of working capital depends upon the nature of financing current asset or not.
- ❖ Provide the suggestion to the appropriate management system of working capital.

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<sup>26</sup> K. Acharya (1998) “The Management of Working Capital in the Public Enterprises of Nepal” Nepalese Development Studies, 1988

<sup>27</sup> Deependra Raj Sharma (1999) “Working Capital Management of Nepal Battery Company Limited (NBCL)”, MBA dissertation, TU.

This thesis is conducted through basically secondary data. The data had been collected from financial statements, reports and official records, reports of auditors and other related documents of the company. The information is collected through personal interview and discussion with employees. The various ratio analyses and Karl Pearson's correlation coefficient (r) are used to analyze the data. The major findings are:

- ❖ The working capital is not in fixed nature. It is increasing each year in respect to increase in operation function. The proportion of current assets is more than the fixed asset the correlation is between investment in current asset and total asset is positive.
- ❖ The inventory covers the largest portion of the current assets the positive correlation between inventory and current assets.
- ❖ The sales and working capital has positive correlation and the current assets and a current liability has insignificant relationship.
- ❖ The gross working capital turnover is more fluctuating than net working capital in average. There is significant positive correlation in between gross profit and sales.
- ❖ By using conservative working capital management policy that reduces the risk but also hamper in the profitability position of the company.

Mr. Basudev giri (1996)<sup>28</sup> conducted a study on “Working Capital Management in Birjung Sugar Factory Limited (BSFL), Nepal” with the objectives of:

- ❖ Present the overall picture of BSFL.
- ❖ Analyze the net working capital (CA-CL) of BSFL and their impact and relationship to each other.
- ❖ See the effect of working capital on profitability.
- ❖ Observe the relationship with other operation.

This thesis is conducted through basically secondary data. The data had been collected from financial statements, reports and official records of BSFL, reports of auditors general and research projects and other related document. The primary data have been collected through interviews and distribution of questionnaires to chief executives, members of boards, directors and employees. The various ratio analyses are used to analyze the data.

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<sup>28</sup>Basudev Giri (1996) “Working Capital Management in Birjung Sugar Limited (BSFL)”, MBA Dissertation, TU.

The major findings are:

- ❖ The company holds a large amount of current assets. The average of current assets to total assets is higher than the fixed assets to total assets.
- ❖ Higher current ratio indicates the higher liquidity maintained or lowers risk of insolvency.
- ❖ The current assets are fluctuating year after year. The management of current asset is effected by the operation of the company.
- ❖ Higher portion of current assets indicates lower profitability and sometimes it also bring loss to the company. Large volume of idle cash balances contributed for the lower return on working capital.

Mr. Dhurba Nath Yogi (2000)<sup>29</sup> conducted a study on “A Study on Working Capital Management of Unilever Nepal Limited (U.L. Ltd.), Nepal” with the objective of:

- ❖ Analyze the liquidity, composition of working capital, assets utilization and profitability position.
- ❖ Analyze of optimal level of working capital.
- ❖ Analyze the current assets and current liability policy.
- ❖ Analyze the financing pattern of working capital, liquidity position, and profitability position.
- ❖ Examine the relationship between liquidity and profitability position.

This thesis is conducted through basically secondary data. The data had been collected from annual reports and audited financial statements of the company submitted to Nepal Stock Exchange Company. The data has been directly extracted from the balance sheet and income statement of the company. The primary information has been collected through interview with the officials of U.L. Ltd. various ratio analysis is used to analyses the data and Karl Pearson’s coefficient of correlation ( $r$ ) is used to examine the relationship between liquidity position. The major findings are,

- ❖ The liquidity position of the company is fluctuating year by year.

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<sup>29</sup> Dhurba Nath Yogi (2000) “ A Study on Working Capital Management of Nepal Lever Limited (NLL) “MBA Dissertation, TU.

- ❖ The proportion of current assets is affected by the sales. In other words, the sales affected the management of current assets.
- ❖ The components of current assets and current liabilities are fluctuating in nature.
- ❖ The insignificant relationship between liquidity and profit margin implies that there is not trade off between liquidity and profitability.

Mr. Pradeep Kumar Pathak (1992)<sup>30</sup> conducted a study on “An Evaluation on Working Capital Management of Nepal Lube Oil Ltd. (N.L.O. Ltd).” It is considering five years financial statement (i.e. balance sheet, profit & loss account, income statement etc.) of N.L.O. Ltd; he used ratio analysis, correlation of coefficient and test of hypothesis as tool for the purpose of analyzing working capital management of the same. According to the conclusion of his study, the major findings are:

- ❖ The company had lesser participation of fixed assets in total assets.
- ❖ Cash holds of the company was relatively small portion of total assets and inventory held largest portion indicating unsound inventory management.
- ❖ The company was inefficient in collecting receivables.
- ❖ Receivable were not affected by sales.
- ❖ Current asset did not depend upon the volume of cash and receivables however significance relation between proportion of current assets and total assets, current assets and fixed assets, current assets and current liabilities and quick assets and current liability.

He suggested the N.L.O. Ltd. management to determine certain rate of return on its investment and setup the sales target. He has also suggested minimizing huge amount of inventory adopting proper inventory management policy, avoiding unnecessary increase in the volume of receivable and giving attention on manpower planning as well.

Mr. Niraj K.C (2000)<sup>31</sup> conducted a study on “Comparative Study of Working Capital Management of Nepal Bank Limited (NBL) & Nepal Arab Bank Limited (NABIL) with the objectives of:

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<sup>30</sup> Pradeep Kumar Pathak (1992) “An evaluation of Working Capital Management of Nepal Lube Oil Ltd. (NLOL) MBA Dissertation, TU.

<sup>31</sup> Niraj K.C, (2000) “Comparative Study of Working Capital Management of NBL & NABIC, MBA Dissertation, TU.

- ❖ To review the related literature of recent development in working capital management.
- ❖ 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 management of NBL & NABIL.
- ❖ On the basis of analysis, to provide recommendation and suggestions for the improvement of working capital management of NBL and NABIL in future.

This thesis is conducted through basically secondary data. The data has been collected from financial statements directly from NBL and NABIL. The supplementary data and information obtained from unpublished officials records of concerned banks, booklets, journals, other organization like security exchange centre and Nepal Rastra Bank. Correlation analysis and test hypothesis are used to analyze the data. The major findings are:

- ❖ The company holds the largest portion of current assets. The current assets generating the negative income by the lack of investment opportunities on loan and advances.
- ❖ Current assets not constant for every year it is in the fluctuating nature.
- ❖ Theoretically the higher liquidity means the lower risk as well as lower profit but commercial banks higher liquidity is not always the case of lower profitability.

Mr. Janak Raj Dhungana (2007) conducted a study on “A study on working capital management of Janak Education Material Centre Limited” with the objective of:

The main objective of this study is to examine the overall working capital management of JEMC. To achieve these basic objectives, the following specific objective has been considered in the study:

- ❖ To study the current assets management in relation to total assets level.
- ❖ To point out the need to control investment in each type of current assets over the study period.
- ❖ To see the effect of working capital on profitability.

- ❖ To draw major findings and there by provide suggestions on the basic of the major findings.

This thesis is conducted through basically secondary data. This data has been collected from financial statements directly from JEMC. The primary and supplementary data and information are obtained from unpublished official records, interview with officials of JEMC. Correlation analysis is used to examine the data. The major findings are:

- ❖ Liquidity position is very strong during the study period.
- ❖ There is low proportion of cash and bank balance in the current assets.
- ❖ The inventory occupies significant proportion of current assets.
- ❖ Inventory turnover ratio is worse during the period.
- ❖ Major portion of sales is finance by current assets.
- ❖ There is no correlation between net profit and net working capital.

Mr. Devendra Basnet (2008) conducted a study on “A Comparative Study on Working Capital Management of National Trading Limited and Salt Trading Corporation Limited” with the objective of:

- ❖ To give an overview on the working capital trend of National Trading Limited and Salt Trading Limited.
- ❖ To examine the composition of working capital, liquidity position, turnover, profitability, capital structure and cash conversion cycle of National Trading Limited and Salt Trading Limited.
- ❖ To analyze the relationship among different variables of working capital.

Many research studies have been conducted by different researchers about W.C management. But most of the research works are based on banking & financial institution. In this research work I have tried to show the W.C position of leading manufacturing company of Nepal viz. U.L. Ltd. and B.N. Ltd. Financial statistical tools used by most of the researches were ratio analysis, test of hypothesis, correlation analysis and trend analysis. Regression analysis and primary data are rarely used by many researchers. This research study will include different tools like ratio analysis, correlation analysis, regression analysis and personal interview as a primary tool of analysis. Regression analysis and interview are the specific tools used in this study.

# **Chapter-III**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other word research methodology describes the methods and process applied in the entire aspect of the study. It's a way to systematically solve the research problem. It may be understood as a science of study how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in study his/her research problem along with the logic behind them.<sup>32</sup> Thus this chapter deals with the research design, nature and resources of data, collection of data, data processing and statistical tools used.

### **3.2 Research design**

Research design includes important procedure and techniques for guiding, analyzing and evaluating the study. Primary and secondary data have been used in order to achieve the predetermined objectives of the research. This study is based on description and analytical method. Thus, the time series data of U.L Ltd. and B.N Ltd. for five years have been collected and analyzed as per need of this study.

### **3.3 Population and Sample**

At present there are 29 listed manufacturing companies in Nepal. Among them U.L Ltd. and B.N ltd. are two of them which has been taken as sample for the study. Financial statements of last 5 fiscal years have been taken as sample data for the study of working capital management.

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<sup>32</sup> C.R Kothari, (1984) "Quantitative Techniques" New Delhi: Vikash Publication Pvt. Ltd. P. 10

### **3.4 Nature and Sources of data**

The data used in this study are both primary as well as secondary in nature. The primary data has been collected through discussion and personal interview with the employees of U.L Ltd. and B.N Ltd. The main sources of secondary data are annual reports and audited financial statements of the company submitted to Nepal Stock Exchange Company.

### **3.5 Data Collection Procedure**

In order to collect the supportive data a detail review of the related documents has been carried on and quantitative information has been collected through interview with the officials of related company and a survey was conducted among the lower level employees about their feeling concern to management of working capital. Very close inspection of working capital management from the different level of hierarchy has been included as questionnaires and after the collection of financial statement, master sheet of financial data was prepared and necessary financial data have been extracted and tabulated as per the need of this study. These data were grouped in different tables and charts according to their nature.

### **3.6 Data analysis tool**

After the processing and tabulating of data different tools are used for the purpose of analysis.

#### **3.6.1 Financial tool**

Financial tool includes ratio analysis which includes liquidity ratio, Activity and turnover ratio, Profitability ratio and leverage ratio.

##### **3.6.1.1 Ratio Analysis**

Ratio analysis is essential tool of financial analysis which helps in identifying financial strengths and weakness of any manufacturing concern. The ratio is calculated by dividing one component to other to show their corresponding relationship with each other. Liquidity, activity, leverage and profitability are the main ratios.

## **(a) Liquidity Ratio**

It is the most important part for the company. It shows the ability of the company to pay its current obligations. The liquidity position of U.L. Ltd and B.N. Ltd. are compared by analyzing current ratio and quick ratio.

### **i) Current Ratio**

The current ratio is a ratio of the firm's total current assets to its total current liabilities. A high ratio shows an excessive amount of current assets and the firm is in the liquidity position. A low ratio indicates that a firm may not be able to pay its obligations. In general rules current ratio 2:1 is considered as acceptable or satisfactory. The current ratio can be calculated by:

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

### **ii) Quick Ratio (Acid Test Ratio)**

The quick ratio is ratio of quick assets to current liability. The quick assets include all the current assets except inventories. Inventory is the least liquid asset. A high ratio indicates the firm has high liquid assets, such as cash, bank balances and receivables. Similarly a low ratio indicates the possibilities of difficulties in the prompt payment of future bills. Generally, quick ratio of 1:1 of a firm is considered to be sound position.

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

### **(b) Activity or Turnover Ratio**

The activity ratio indicates the relationship between uses of assets in generating the sales. It traces out that how the firm manages the assets. It is related with measuring the efficiency in assets management as well as the effectiveness of the investment of resources in the business enterprises. With the help of this ratio, we can easily know whether the funds have been used effectively or not. The relationship between sales and various assets of the firm can be defined with the help of activity ratio.

**i) Debtors Turnover / Receivable Turnover**

The receivable turnover ratio between the sizes of the firm's size of the uncollected bills from the customers and sales. The higher ratio indicates the firm's low balance of receivable, which means strict credit policy and aggressive collection procedures. The low ratio indicates the difficulty collecting money and having a large receivables balance. The receivable turnover can be calculated as:

$$\text{Debtors Turnover} = \frac{\text{Sales}}{\text{Debtors}}$$

**ii) Inventory Turnover Ratio**

The inventory turnover ratio shows how rapidly the inventory is turning into receivables through sales. The ratio shows the efficiency of business concerning in an inventory management. Inventory turnover ratio is calculated by the cost of goods sold divided by average inventory. i.e.

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

OR

$$\text{Inventory turnover ratio} = \frac{\text{Sales}}{\text{Closing inventory}}$$

**iii) Total Assets Turnover Ratio**

Total assets turnover ratio indicates how much total assets being used to generate sales. A total asset includes current and fixed assets. The higher ratio indicates lower investment in assets to generate sales and vice-versa. Total assets turnover ratio can be calculated as:

$$\text{Total assets turnover ratio} = \frac{\text{Sales}}{\text{Total assets}}$$

### **(c) Profitability Ratio**

Most of firms aim to maximize profit. The profitability ratio is used to measure the operating performance of the company. The profitability positions of the companies are analyzed with the help of following ratios.

#### **i) Gross Profit Margin**

Gross profit margin ratio shows the percentage of profit after cost of production. High ratio indicates the company is able to produce the product at low cost and lower ratio shows the higher cost of production.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} * 100$$

$$\text{Gross profit} = \text{Sales} - \text{Cost of goods sold}$$

#### **ii) Net Profit Margin**

Net profit margin is calculated by divided the Net Profit by sales. Net profit is obtained by deducting all the tax and operating expenses from gross profit. It shows the firms overall profit.

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Sales}} * 100$$

### **(d) Leverage Ratio**

Leverage ratio or capital structure ratio are also known as long term solvency ratio. Leverage ratios are used to measure the financial risk and to know that how far the firm is using its debt for the benefits of shareholders. Leverage ratio also reflects the proportion of debt in total financing. There are different leverage ratios, which are given below:

#### **i) Debt to Equity Ratio**

Debt to equity ratio shows proportion of debt and equity which is used to raise the funds. The firm raised its required funds from different sources. They can be borrowing of debt or issuing of shares.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

## ii) **Short Term Financing to Total Financing Ratio**

Short term financing to total financing ratio is used to measure the short term financing to total financing. It reflects the amount of short term financing in capital structure and helps in decision making regarding control of short term finance. It is calculated as:

$$\text{Short Term Financing to Total Financing Ratio} = \frac{\text{Short Term Financing}}{\text{Total Financing}}$$

### **3.6.2 Statistical tools**

Statistical tool includes correlation analysis, Regression analysis and trend analysis.

#### **a. Correlation Analysis**

If the two variables are so related that the change the value of one variable is accompanied by the change in the value of the other variable than they are said to have correlation. Correlation analysis is defined as the statistical technique which measures the degree of relationship between the variables. In other words, it helps us to study the co-variance of two or more variables. In this study, this tool has been used to see the relationship among net sales, net working capital and net profit.

#### **b. Regression Analysis**

Regression analysis is the statistical tool with the help of which the unknown value of one variable estimated or predicted from the known value of other variable. Assuming that the two variables are closely related, we can estimate the value of one variable given the value of another. The variable, whose value is given, is called “Independent Variable” and the variable whose value is to be predicted is called “Dependent Variable”. In this study, net WC is regarded as independent

variable and the impact on the dependent variables net sales and net profit created by the change in net WC has been described by using this tool.

Regression Equation of Y on X:  $Y_c = a + bx$

Regression Equation of X on Y:  $X_c = a + by$

### **c. Trend Analysis**

The movement of data over a long period of time is called the trend that is the general tendency of the values to increase or decrease during the long period of time is termed as secular trend. In general, the trend does not show the variation in short period. Trend analysis has been used here to see the fluctuation in different components of C.A and C.L during the study period.

# CHAPTER IV

## PRESENTATION AND ANALYSIS OF DATA

### 4.1 Introduction

The main objective of this study is to examine the working capital management of U.L. Ltd. & B.N. Ltd. In this chapter all the relevant data and information of U.L. Ltd. and B.N. Ltd. are presented and analyzed. In this chapter the data of current assets and current liabilities are presented in tabular & graphical form and analyzed the data using various ratios along with correlation and regression & trend of different variables related to working capital.

### 4.2 Composition of Current Assets:

The business firm requires the different types of assets to run their business. The assets can be fixed assets and current assets. Without current assets no business can run. So, the firm has to maintain the appropriate level of current assets to run their business smoothly. The success and failure of any business firm is depends upon the proper management of current assets. The components of current assets are inventory, sundry debtors, cash and bank balances etc. the proper management of current assets is necessary to achieve the principal objective of any business organization to earn maximum profit and ultimately maximized the shareholder wealth.

A firm needs cash to various purposes such as purchase of raw materials, pay expenses. This is because of not perfect matching between cash inflow and outflow. Cash may also be held to meet future expenses. The stock of raw materials is kept in order to ensure smooth production and to protect the risk of non-available of raw materials. The efficient management of current asset is an integral part of overall part of financial management. So we are presenting the data of current assets of U.L. Ltd. & B.N. Ltd.

Table 4.1

Composition of Current Assets of U.L. Ltd.  
(In Million)

| Particulars          | Fiscal Years |        |        |        |        |
|----------------------|--------------|--------|--------|--------|--------|
|                      | 060/61       | 061/62 | 062/63 | 063/64 | 064/65 |
| Cash & bank balance  | 62.33        | 317.40 | 391.53 | 443.31 | 242.67 |
| Sundry debtors       | 32.16        | 64.78  | 44.25  | 72.22  | 59.89  |
| Inventory            | 144.45       | 126.11 | 184.22 | 229.76 | 256.17 |
| Miscellaneous C.A    | 160.19       | 81.60  | 104.24 | 145.51 | 182.88 |
| Total current assets | 399.13       | 589.89 | 724.24 | 891.41 | 741.61 |

Table 4.2

Percentage Composition of Current Assets of U.L. Ltd.

| Particulars         | Fiscal Years |        |        |        |        | Average |
|---------------------|--------------|--------|--------|--------|--------|---------|
|                     | 060/61       | 061/62 | 062/63 | 063/64 | 064/65 |         |
| Cash & bank balance | 15.62        | 53.81  | 54.06  | 49.73  | 32.73  | 41.19   |
| Sundry Debtors      | 8.06         | 10.98  | 6.11   | 8.10   | 8.08   | 8.27    |
| Inventory           | 36.19        | 21.38  | 25.44  | 25.78  | 34.54  | 28.67   |
| Miscellaneous C.A.  | 40.13        | 13.83  | 14.39  | 16.32  | 24.66  | 21.87   |

The above table no 4.1 shows the composition of current assets and table no. 4.2 shows the percentage composition of current assets for five fiscal year of U.L. Ltd. The components of current assets are cash & bank balance, sundry debtors, inventory and miscellaneous current assets.

Table no. 4.2 shows that cash & bank balance holds the major portion of total current assets. In average it holds 41.19% of total current assets which is highest to compare with other components of current assets. In year 062/63, cash & bank balance holds the highest proportion of total current assets, which is 54.06% and holds the highest amount of cash & bank balance which is Rs.391.53 (in million). During the study period, the proportion of cash & bank balance to the total current assets are 15.62%, 53.81%, 54.06%, 49.73%, & 32.73% which has been fluctuated during the year.

The average amount of sundry debtors for the five years study is Rs.54.66 and the proportion on total current asset is 8.27% which seems low. Sundry debtors holds the least proportion of the current asset in the fiscal year 062/63 i.e. 6.11%

Miscellaneous current assets include other current assets except inventory, sundry debtors, cash and bank balances. It contains prepaid expenses, advances to employees, deposits, investment in government banks and other current assets. The average percentage of miscellaneous current assets is 21.87%.

**Table 4.3**  
**Composition of Current Assets of B.N. Ltd.**  
**(In Million)**

| Particulars          | Fiscal Years |        |        |        |        |
|----------------------|--------------|--------|--------|--------|--------|
|                      | 060/61       | 061/62 | 062/63 | 063/64 | 064/65 |
| Cash & bank balance  | 29.5         | 5.3    | 13.8   | 1.9    | 35.9   |
| Sundry debtors       | 115.2        | 88.0   | 124.2  | 80.9   | 63.7   |
| Inventory            | 185.3        | 226.9  | 185.0  | 224.1  | 176.9  |
| Miscellaneous C.A    | 176.4        | 212.2  | 124.9  | 146.4  | 159.5  |
| Total current assets | 506.4        | 532.4  | 447.8  | 453.2  | 436.1  |

**Table 4.4**  
**Percentage Composition of Current Assets of B.N. Ltd.**

| Particulars         | Fiscal Years |        |        |        |        | Average |
|---------------------|--------------|--------|--------|--------|--------|---------|
|                     | 060/61       | 061/62 | 062/63 | 063/64 | 064/65 |         |
| Cash & bank balance | 5.8          | 1.0    | 3.1    | 0.4    | 8.2    | 3.7     |
| Sundry Debtors      | 22.8         | 16.5   | 27.7   | 17.8   | 14.6   | 19.9    |
| Inventory           | 36.6         | 42.6   | 41.3   | 49.4   | 40.6   | 42.1    |
| Miscellaneous C.A.  | 34.8         | 39.9   | 27.9   | 32.3   | 36.6   | 34.3    |

The above table 4.3 shows the composition of current assets and table no. 4.4 shows the percentage composition of current assets are cash and bank balances, sundry debtors, inventory and miscellaneous current assets.

Table no. 4.4 shows that inventory hold the major portion of total current assets. In average it holds 42.10% of total current asset which is the highest to compare with other components of current assets. In the year 063/64 Inventory holds the highest proportion of current assets which is 49.40% where as in year 061/62 B.N. Ltd. holds the highest amount of Inventory which is Rs. 226.90 (in million). The proportion of inventory has been fluctuated in the entire period of five years.

The above table shows that the miscellaneous C.A holds the second major portion of the current assets. During the study period the proportion of miscellaneous C.A to the total current assets are 34.80%, 39.90%, 27.90%, 32.3% and 36.6% respectively. The average percentage of miscellaneous C.A is 34.30%

The cash & bank balance of B.N. Ltd. which holds the lowest portion in comparison to other all components of current assets. The average percentage is 3.70% of total current assets. It has been fluctuated entire during the year, i.e. 0.40% to 8.20% that is the lowest and highest in 063/64 and 064/65 respectively.

Miscellaneous current assets which include and contains prepaid expenses, advances to employee deposits, investment in government bonds and other current assets. The average percentage of miscellaneous current assets is 34.3%. The proportion of the miscellaneous current assets has been fluctuated from 34.8 % to 36.6% in between 060/61 to 064/65.

#### **4.2.1. Comparison of Cash and Bank Balance Percentage**

The cash bank balance percentages of both companies are fluctuating during the period. The highest percentage of cash and bank balance of U.L. Ltd. is 54.06% in F/Y 062/63 and lowest percentage is 15.62% in F/Y 060/61.

Similarly, the highest percentage of cash & bank balance of B.N. Ltd. is 8.20% in F/Y 064/65 whereas the lowest percentage is 0.4% in F/Y 063/64.

As per calculation of cash and bank balance percentage as per Appendix 2(I), the value of the constants 'a' and 'b' are as follows:

U.L. Ltd.

B.N. Ltd.

$$a = 41.19$$

$$b = 3.01$$

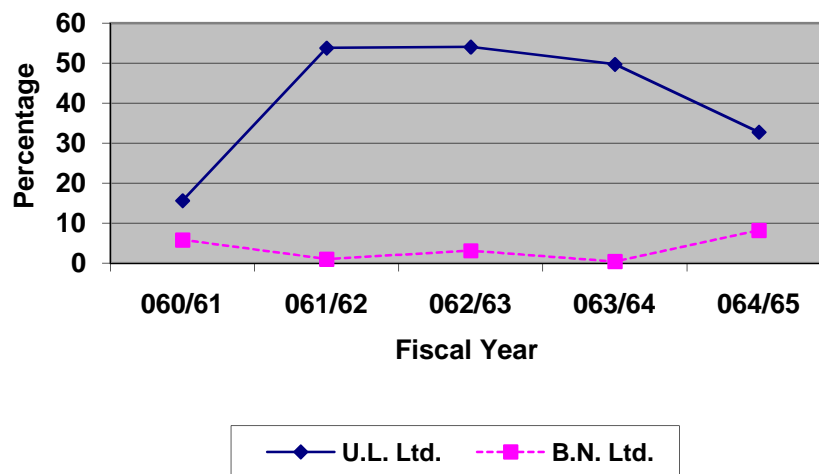
$$a = 3.7$$

$$b = 0.42$$

The average percentage of cash and bank balance of U.L. Ltd. is higher than that of B.N. Ltd. during the period. The rate of change of cash and bank balance in U.L. Ltd. and B.N. Ltd. both are positive.

Graph 1

Actual and Trend Line of Cash and Bank Balance to Current Assets Ratio of U.L. Ltd. and B.N. Ltd.



As above the trend line of cash and bank balance of U.L. Ltd. is higher than its actual trend in F/Y 064/65 so as the trend line of cash and bank balance in B.N. Ltd. is higher in the F/Y 064/65.

From the above table 4.2 we found that average cash and bank balance percentage is higher in U.L. Ltd. than in B.N. Ltd.

#### 4.2.2 Comparison of Sundry Debtors Percentage

The percentage of sundry debtors is fluctuating in U.L. Ltd. The highest percentage of sundry debtors of U.L. Ltd. is 10.98% in F/Y 061/62 and lowest percentage is 6.11% in F/Y 062/63.

Similarly, the highest percentage of sundry debtors of B.N. Ltd. is 27.7% in F/Y 062/63 whereas the lowest percentage is 14.6% in F/Y 064/65.

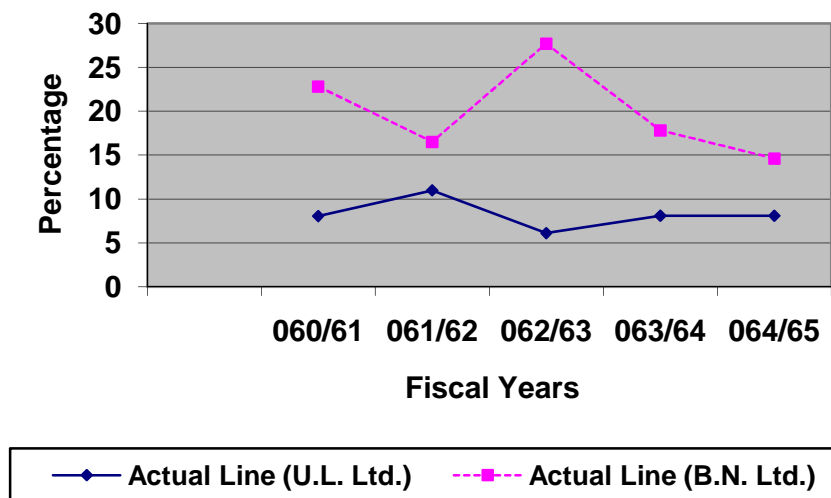
As per the calculation of sundry debtors percentage trend from appendix 2(ii), the value of t the constants 'a' and 'b' are as follows:

$$\begin{array}{l} \text{U.L. Ltd.} \\ a = 8.27 \quad b = -0.28 \end{array}$$

$$\begin{array}{l} \text{B.N. Ltd.} \\ a = 19.88 \quad b = -1.51 \end{array}$$

The rate of change of percentage of sundry debtors in U.L. Ltd. and B.N. Ltd. both are negative which implies that the percentage of sundry debtors in both companies are in decreasing trend. B.N. Ltd. has greater negative value which show rapid decreasing rate of sundry debtors percentage than U.L. Ltd.

**Graph 2**  
**Actual & Trend Line of Sundry Debtors to Current Assets Ratio of U.L. Ltd. & B.N. Ltd.**



As above the trend line of B.N. Ltd. are always higher than that of U.L. Ltd. The trend line of B.N. Ltd. is upward sloping where as the trend line of U.L. Ltd. is downward sloping. Thus it indicates that B.N. Ltd. is facing more problems regarding debt collection than that of U.L. Ltd.

#### 4.2.3. Comparison of Inventory Percentage

The inventory percentage of U.L. Ltd. has been fluctuated in all the year. The higher percentage of inventory of U.L. Ltd. is 36.19% in F/Y 060/61 and lowest percentage is 21.38% in F/Y 061/62. The average in inventory percentage of U.L. Ltd. is 28.67%.

Similarly, the highest percentage of inventory of B.N. Ltd. is 49.4% in F/Y 063/64 and where as the lowest percentage is 36.6% in F/Y 060/61. The average inventory percentage of B.N. Ltd. is 42.1% in which the average percentage of B.N. Ltd. is higher than that of U.L. Ltd.

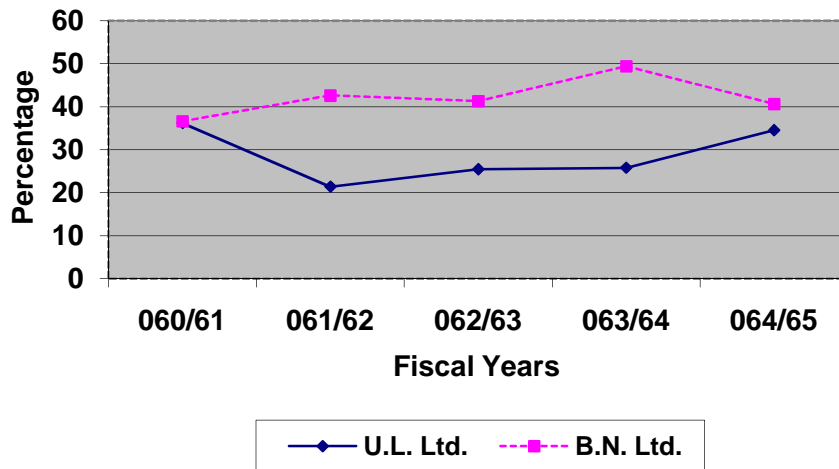
Calculation of inventory percentage trends from Appendix 2(III) the value of the constraints 'a' and 'b' are as follows:

$$\begin{array}{l} \text{U.L. Ltd.} \\ a = 28.67 \quad b = 0.11 \end{array}$$

$$\begin{array}{l} \text{B.N. Ltd.} \\ a = 42.11 \quad b = 1.47 \end{array}$$

The rate of change in inventory percentage in U.L. Ltd. & B.N. Ltd. both have 'b' positive. It implies that both the companies have increasing trend. B.N. Ltd. has greater positive value which show rapid increasing rate of inventory percentage than U.L. Ltd.

**Graph 3**  
**Actual & Trend Line of Inventory to Current Assets Ratio of U.L. Ltd. & B.N. Ltd.**



As above the trend line of B.N. Ltd. is always higher than that of U.L. Ltd. in the entire period. The above analysis helps to conclude that the inventory percentage of B.N. Ltd. is always higher than that of U.L. Ltd. B. N. Ltd. has decreasing and U.L. Ltd. has increasing trend of inventory percentage during the period.

#### 4.2.4. Comparison of Miscellaneous Current Assets Percentage

The C.A. seems to be fluctuating in both U.L. Ltd. and B.N. Ltd. during the period. The highest percentage of Miscellaneous C.A. of U.L. Ltd. is 40.13% in F/Y 060/61 and lowest percentage is 13.83% in F/Y 061/62. The average Miscellaneous C.A. percentage is 21.87%.

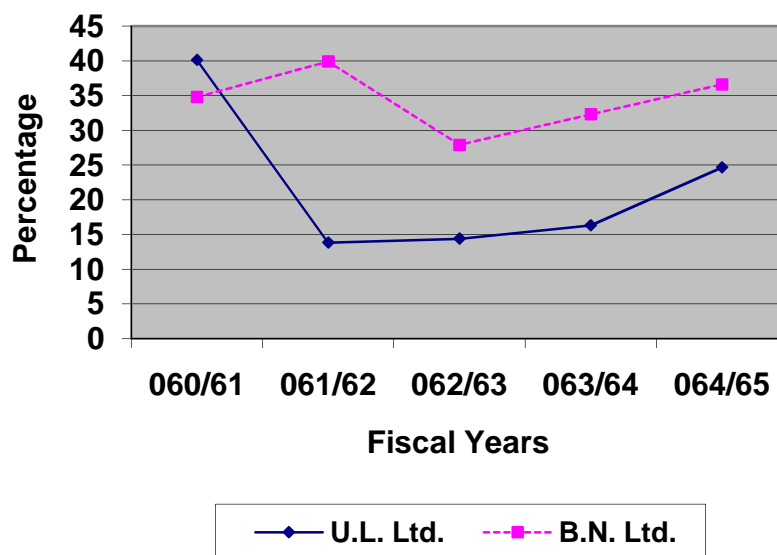
Similarly the highest percentage of Miscellaneous Current Asset of B.N. Ltd. is 39.9% in F/Y 061/62 whereas the lowest percentage is 27.9% in F/Y 062/63. The average miscellaneous C.A. percentage of B.N. Ltd. is 34.3% which is higher than average percentage of U.L. Ltd.

Calculation of miscellaneous C.A. percentage trend from Appendix 2 (IV), the value of the constraint 'a' and 'b' are as follows:

|             |             |            |            |
|-------------|-------------|------------|------------|
| U.L. Ltd.   |             | B.N. Ltd.  |            |
| $a = 21.87$ | $b = -2.84$ | $a = 34.3$ | $b = -0.4$ |

The rate of change in miscellaneous current asset for both companies is negative which implies that both companies are decreasing Miscellaneous C.A. from their total current assets gradually during the entire period.

**Graph 4**  
**Actual and Trend Line of Misc. Current Assets to Current Assets ratio of**  
**U.L. Ltd. and B.N. Ltd.**



### 4.3 Composition of Current Liabilities

Current liabilities is defined as debt originally schedule for repayment within one year. It involves the liquidity and solvency of the firm. The major components of current liabilities include loan and advances, sundry creditors, provision for taxation and miscellaneous current liabilities.

**Table 4.5**  
**Composition of Current Liabilities of U.L. Ltd.**

**(In Million)**

| Particulars       | Fiscal Year |        |        |        |        |
|-------------------|-------------|--------|--------|--------|--------|
|                   | 060/61      | 061/62 | 062/63 | 063/64 | 064/65 |
| Loan and Advances | 0           | 0      | 0      | 0      | 0      |

|                           |        |        |        |        |        |
|---------------------------|--------|--------|--------|--------|--------|
| Sundry Creditors          | 85.70  | 240.92 | 335.72 | 370.24 | 353.31 |
| Misc. Current liabilities | 137.51 | 185.53 | 207.99 | 511.78 | 388.92 |
| Total Current Liabilities | 223.21 | 426.45 | 543.71 | 882.02 | 742.23 |

**Table 4.6**  
**Percentage composition of Current Liabilities of U.L. Ltd.**

| Particulars               | Fiscal Year |        |        |        |        | Average % |
|---------------------------|-------------|--------|--------|--------|--------|-----------|
|                           | 060/61      | 061/62 | 062/63 | 063/64 | 064/65 |           |
| Loan & Advances           | 0           | 0      | 0      | 0      | 0      | 0         |
| Sundry Creditors          | 38.39       | 56.49  | 61.75  | 41.98  | 47.60  | 49.24     |
| Misc. Current Liabilities | 61.61       | 43.51  | 38.25  | 58.02  | 52.40  | 50.76     |

The current liabilities of U.L. Ltd. contain loans & advances, sundry creditors and Misc. current liabilities. The above table 4.5 shows the amount of different component of current liabilities hold by U.L. Ltd. and table 4.6 shows the percentage proportion of different component to total current liabilities.

The amount of short-term loan is zero and its percentage composition is also zero during the entire period.

Sundry creditors are the major component of current liabilities. The highest percentage of sundry creditors is 61.75% in F/Y 062/63 and lowest is 38.39% in F/Y 060/61. The average percentage of sundry creditors during the period is 49.24%.

The miscellaneous current liabilities contain the other current liabilities except loan & advances and sundry creditors. It contains highest major portion of the current liabilities in U.L. Ltd. during the period. It covered 50.76% of the total current liabilities. The highest percentage of Miscellaneous C.L is 61.61% in F/Y 060/61 and lowest is 38.25% in F/Y 062/63.

**Table 4.7**  
**Composition of Current Liabilities of B.N. Ltd.**

**(In million)**

| Particulars               | Fiscal year |        |        |        |        |
|---------------------------|-------------|--------|--------|--------|--------|
|                           | 060/61      | 061/62 | 062/63 | 063/64 | 064/65 |
| Loan and Advances         | 3.89        | 0      | 58.72  | 37.10  | 98.92  |
| Sundry Creditors          | 85.15       | 0      | 36.26  | 92.58  | 125.41 |
| Misc. current liabilities | 230.10      | 309.14 | 51.82  | 99.31  | 25.15  |
| Total Current Liabilities | 319.14      | 309.14 | 146.79 | 228.99 | 249.48 |

**Table 4.8**  
**Percentage Composition of Current Liabilities of B.N. Ltd.**

| Particulars               | Fiscal Year |        |        |        |        | Average % |
|---------------------------|-------------|--------|--------|--------|--------|-----------|
|                           | 060/61      | 061/62 | 062/63 | 063/64 | 064/65 |           |
| Loan & Advances           | 1.22        | 0      | 40     | 16.20  | 39.65  | 19.41     |
| Sundry Creditors          | 26.68       | 0      | 24.7   | 40.43  | 50.27  | 28.42     |
| Misc. Current Liabilities | 72.10       | 100    | 35.3   | 43.37  | 10.08  | 52.17     |

The above table 4.7 shows the amount of different component of current liabilities hold by B.N. Ltd. and table 4.8 shows the percentage proportion of different component to total current liabilities.

The miscellaneous current liabilities contain highest major proportion of the current liabilities in B.N. Ltd. during the period. It covered 52.17% of the total current liabilities. The highest percentage of Miscellaneous C.L. is 100% in F/Y 061/62 and lowest is 10.08% in F/Y 064/65.

Sundry creditors have covered the second highest portion of the total current liabilities in B.N. Ltd. during the study period. The average percentage of the sundry creditors during the period is 28.42%.

Loan & advances is major component of current liabilities. It holds least portion of the total current liabilities in B.N. Ltd. during the year. The highest percentage of loan & advances is 39.65% in F/Y 064/65 and lowest is 0% in F/Y 061/62.

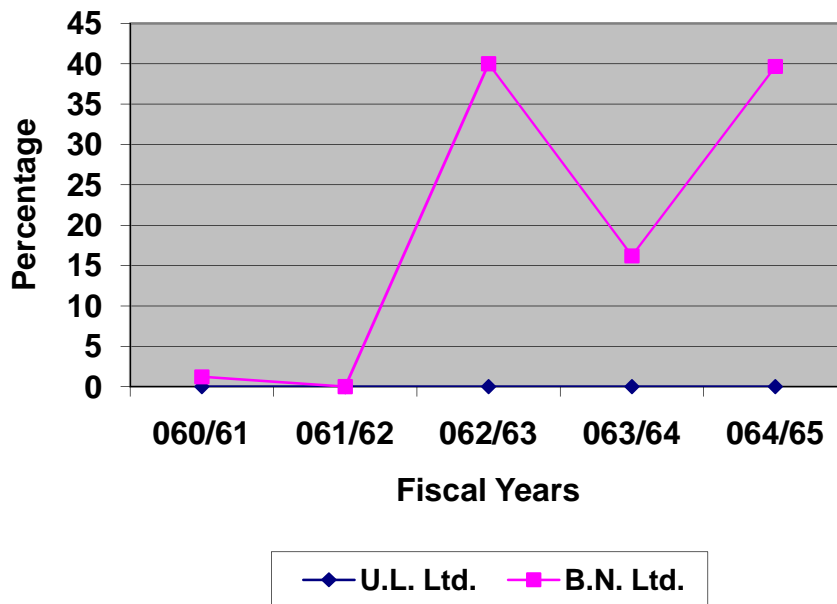
### 4.3.1 Comparison of Loan and Advances Percentage

The percentage of loan and advances of U.L. Ltd. are 0 % all over the study period. So its average percentage is also 0. Similarly, loan and advances percentage of B.N. Ltd. has been fluctuating 0% to 40% during the period. The average percentage of loan and advances of B.N. Ltd. is 19.41%. The percentage of loan & advance is higher in B.N. Ltd. in comparison to U.L. Ltd.

From the calculation of loan & advances percentage trend as per Appendix 2(V), the value of the constants 'a' and 'b' are as follows:

|       |           |           |           |
|-------|-----------|-----------|-----------|
|       | U.L. Ltd. |           | B.N. Ltd. |
| a = 0 | b = 0     | a = 19.41 | b = 9.31  |

**Graph 5**  
**Actual & trend Line of Loan and Advances to Current Liabilities Ratio of U.L. Ltd. and B. N. Ltd.**



The above graph indicates that the actual line of B.N. Ltd. is fluctuating in the entire period of the study. It can be seen that the trend line of B.N. Ltd. is upward sloping whereas the line of U.L. Ltd. is straight.

### 4.3.2 Comparison of Sundry Creditors Percentage:

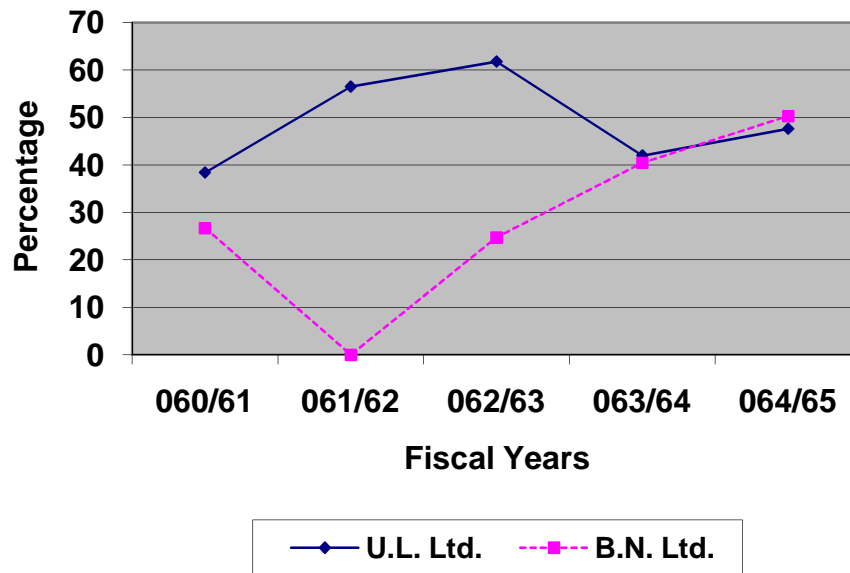
Sundry creditors hold second major portion of current liabilities in both the companies, U.L. Ltd. and B.N. Ltd. In U.L Ltd. it varies from 38.39% to 61.75% and in B.N. Ltd. it varies 0% to 50.27%. The average percentage of sundry creditors in U.L. Ltd. is 49.24% whereas in B.N. Ltd. is 28.42%.

From the calculation of sundry creditors' percentage trend as per the Appendix 2(VI), the values of constants 'a' and 'b' are as follows.

| U.L. Ltd. |          | B.N. Ltd. |          |
|-----------|----------|-----------|----------|
| a = 49.24 | b = 0.39 | a = 28.42 | b = 8.76 |

The rate of change of sundry creditors, i.e. 'b' is positive in both the companies, U.L. Ltd. and B.N. Ltd. It indicates that both the companies have increasing trend of sundry creditors throughout the period.

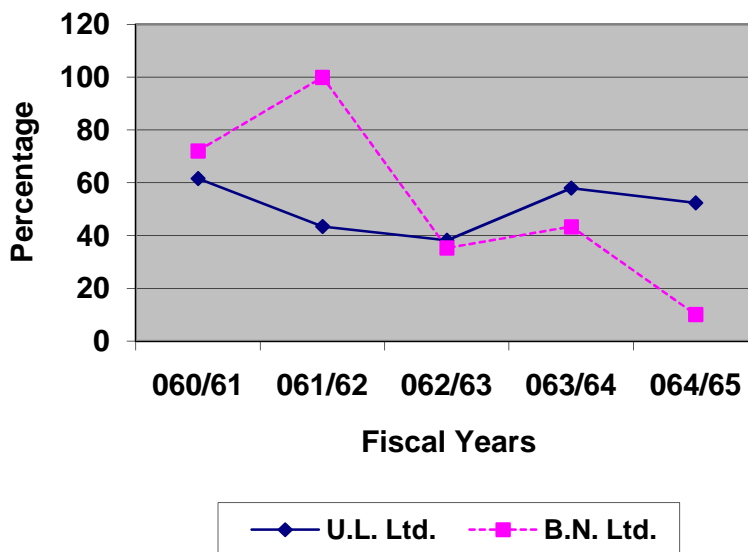
**Graph 6**  
**Actual & Trend line of Sundry Creditors to CL Ratio of U.L. Ltd. and B.N. Ltd.**



### 4.3.3. Comparison of Miscellaneous Current Liabilities Percentage

The miscellaneous current liabilities hold the major portion of current liabilities in both the companies. In U.L. Ltd. it varies from 38.25% to 61.61% whereas in B.N. Ltd. it varies from 10.08% to 100% the average percentage of miscellaneous current liabilities in U.L. Ltd. is 50.76% whereas in B.N. Ltd. it is 52.17%. The miscellaneous current liabilities percentage has covered higher portion of total current liabilities in B.N. Ltd. than U.L. Ltd.

**Graph 7**  
**Actual and Trend Line of Misc. Current Liabilities Ratio of U.L. Ltd. and B.N. Ltd.**



#### 4.3.4. Comparison of Percentage of Current Assets on Total Assets

Current assets are the most important factors, which plays the vital role in the operation of the company. Current assets to total assets ratio shows the proportion of the current assets to total assets. Total assets contain sum of current assets and sum of fixed assets. If the firm increases the proportion of current assets, there are the high probabilities of return as well as risk and vice-versa. The table given below represents the percentage of current assets on total assets of two related companies.

**Table 4.9**  
**Proportion of Current Assets to Total Assets of U.L. Ltd. (In Million)**

| Year   | Current Assets | Total Assets | CA/TA * 100 |
|--------|----------------|--------------|-------------|
| 060/61 | 399.13         | 571.34       | 69.86       |
| 061/62 | 589.89         | 784.80       | 75.16       |
| 062/63 | 724.24         | 859.95       | 84.22       |
| 063/64 | 891.41         | 1019.19      | 87.46       |
| 064/65 | 741.61         | 763.73       | 97.10       |

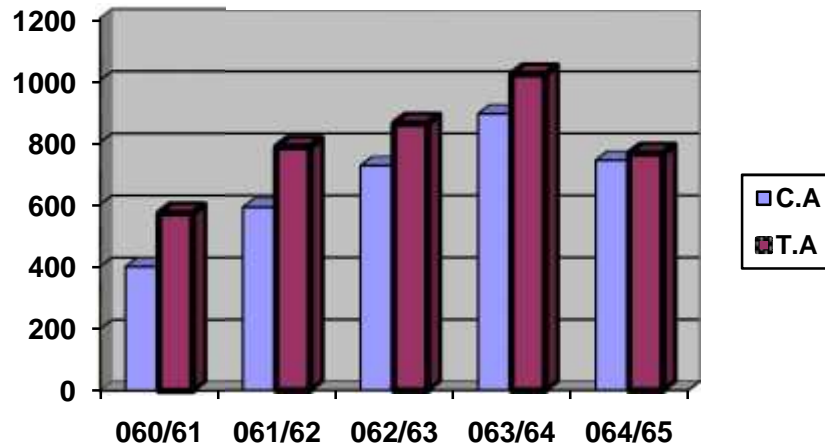
**Table 4.10**  
**Proportion of Current Assets to Total Assets of B.N. Ltd. (In Million)**

| Year   | Current Assets | Total Assets | CA/TA *100 |
|--------|----------------|--------------|------------|
| 060/61 | 506.43         | 1036.05      | 48.88      |
| 061/62 | 532.39         | 1022.4       | 52.07      |
| 062/63 | 447.83         | 886.56       | 50.51      |
| 063/64 | 453.22         | 975.28       | 46.71      |
| 064/65 | 436.05         | 1048.36      | 41.59      |

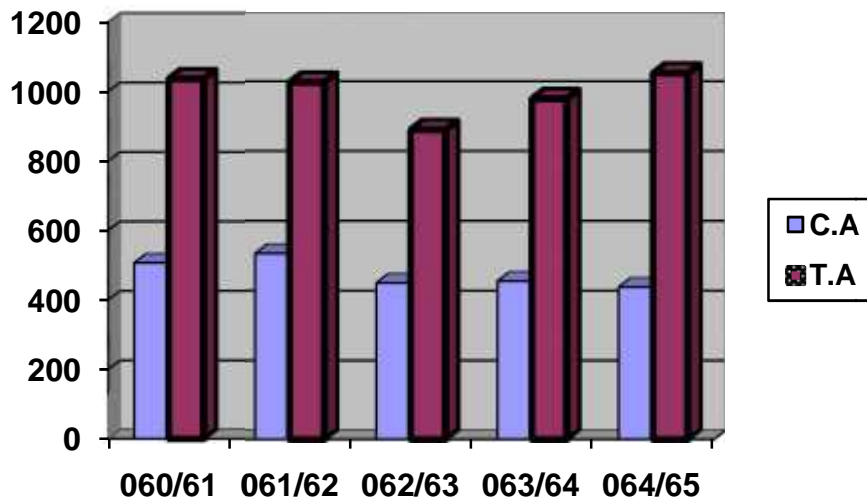
In the above table 4.9 the proportion of current assets to total assets is in F/Y 060/61 which contains only 69.86% which is in increasing trend and which gradually increases up to 97.10% in F/Y 064/65 and in F/Y 064/65 it holds the highest proportion of current assets, which is 97.10%. The increasing proportion of current assets in the observed fiscal years shows that the holding on inventories, debtors and cash is in increasing trend. In average there is 82.76% sharing of current assets to total assets during the period.

In the above table 4.10 the proportion of current assets is fluctuating during the period. In the F/Y 060/61 the proportion contains 48.88% of the total assets. It fluctuates in the entire study period and reaches to 41.59% in F/Y 064/65. In an average the sharing of current assets to total assets in B.N. Ltd. is 47.95% during the period. The proportion of current assets to total assets in U.L. Ltd. is higher than B.N. Ltd. the average percentage of CA to TA in B.N. Ltd. is 47.95% whereas in U.L. Ltd. is 82.76%.

**Graph 8**  
**Graphic Presentation of Current Assets on Total Assets of U.L. Ltd.**



**Graph 9**  
**Graphic Presentation of Current Assets on Total Assets of B.N. Ltd.**



#### **4.4 Ratio Analysis**

Ratio analysis is essential tools of the financial analysis which helps in identifying financial strengths and weakness of any manufacturing concern. Liquidity, activity, leverage and profitability are the main ratios:

#### 4.4.1. Liquidity Position

Liquidity ratio measures the ability to pay its debt within a year. It involves the relationship between current assets and current liabilities. If a firm has sufficient net working capital (the excess of CA over CL) it is deemed to have sufficient liquidity. Liquidity position of U.L. Ltd. and B.N. Ltd. is analyzed with the help of the following ratio:

(i) Current Ratio

Current ratio shows the liquidity position of the firm. It measures the short-term solvency of the firm in gross terms. The current assets of U.L. Ltd. and B.N. Ltd. include inventory, sundry debtors, cash and bank balance which can be converted into cash within one year. Current liabilities consist of sundry creditors, short-term loans, and advances received, which have to be paid within one year. We use the current ratio to calculate the solvency position of U.L. Ltd.

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

The following table shows the current ratio to compare the working capital management of U.L. Ltd. and B.N. Ltd.

**Table 4.11**  
**Current Ratio (In Million)**

| Fiscal Year | U.L. Ltd. |        |       | B.N. Ltd. |        |       |
|-------------|-----------|--------|-------|-----------|--------|-------|
|             | CA        | CL     | Ratio | CA        | CL     | Ratio |
| 060/61      | 399.13    | 223.21 | 1.79  | 506.43    | 319.14 | 1.59  |
| 061/62      | 589.89    | 426.45 | 1.38  | 532.39    | 309.14 | 1.72  |
| 062/63      | 724.24    | 543.71 | 1.33  | 447.83    | 146.79 | 3.05  |
| 063/64      | 891.41    | 882.02 | 1.01  | 453.22    | 228.99 | 1.98  |
| 064/65      | 741.61    | 742.23 | 1.00  | 436.05    | 249.48 | 1.75  |
| Average     |           |        | 1.30  |           |        | 2.02  |

Current ratio can be calculated by dividing the current assets by current liabilities. The current ratio indicates the capabilities of paying its current liabilities. The general acceptable current ratio is 2:1. It means the firm should hold a minimum 200% of the current assets to its current liabilities. The current ratio of U.L. Ltd. for five years is 1.79, 1.38, 1.33, 1.01 & 1.00 whereas the

current ratio of B.N. Ltd. for five years is 1.59, 1.72, 3.05, 1.98 & 1.75. The highest current ratio of U.L. Ltd. is 1.79 in F/Y 060/61 and lowest is 1.00 in F/Y 064/65. Same way the highest current ratio of B.N. Ltd. is 3.05 in F/Y 062/63 and lowest is 1.59 in F/Y 060/61. The average current ratio of U.L. Ltd. & B.N. Ltd. is 1.30 & 2.02 respectively.

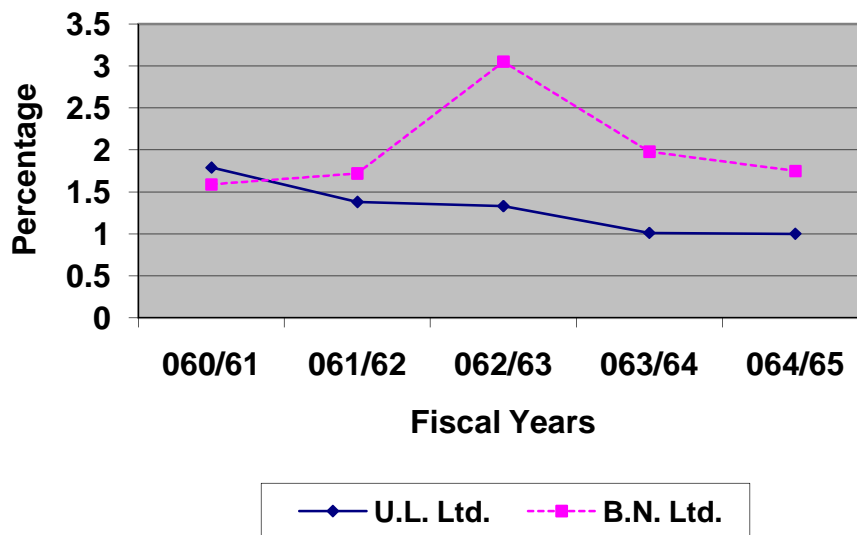
The average current ratio of B.N. Ltd. is higher than that of U.L. Ltd. which seems to be not considerable in five years study the firm is not in general considerable level.

As per Appendix 2(VII) the value of constant 'a' and 'b' are as follows:

|           |           |           |          |
|-----------|-----------|-----------|----------|
| U.L. Ltd. |           | B.N. Ltd. |          |
| a = 1.3   | b = -0.55 | a = 2.02  | b = 0.06 |

The rate of change of 'b' is negative in U.L. Ltd. and positive in B.N. Ltd. which indicates that in U.L. Ltd. current ratio is in decreasing trend but in B.N. Ltd. current ratio is in increasing trend.

**Graph 10**  
**Actual & trend Line of Current Ratio of U.L. Ltd. and B.N. Ltd.**



As above graph current ratio of both the companies are fluctuating in the entire five years period. The trend line of B.N. Ltd. is slightly increasing sloping upward, whereas trend line of U.L. Ltd. is sloping downward i.e. decreasing during the period.

(ii) Quick Ratio

Quick assets include the current assets except inventory. Inventory is a less liquid asset, because it takes a time to convert in cash. An asset is liquid if it can be converted into cash immediately or reasonably without a less of value of cash. Quick ratio measures actual liquidity position of firm. Quick ratio can be found out by dividing the total of quick assets by total current liabilities.

Quick assets

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Following table shows the quick ratio of U.L. Ltd. and B.N. Ltd.

**Table 4.12**  
**Quick Ratio (In Million)**

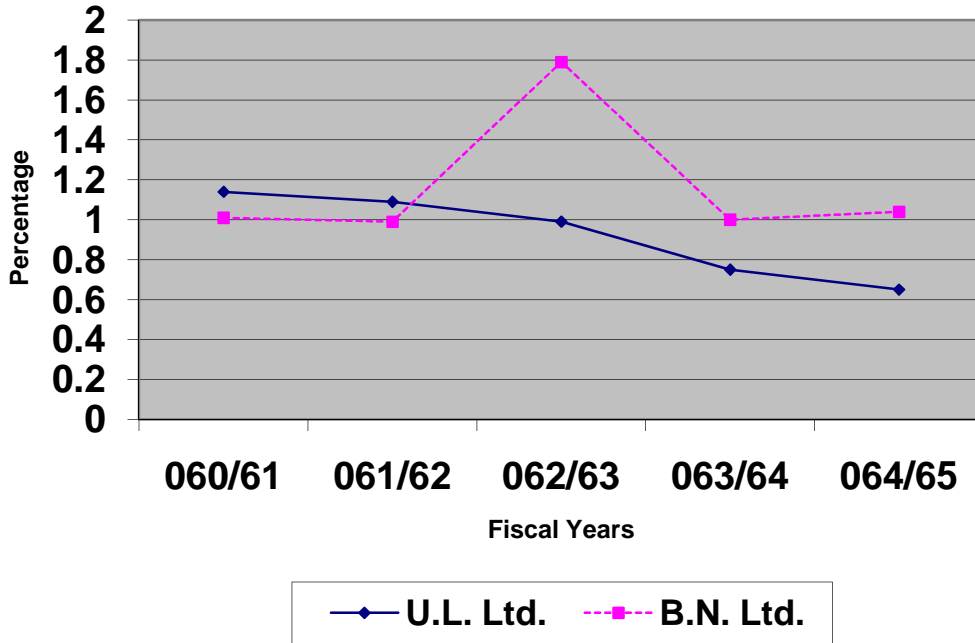
| Fiscal Year | U.L. Ltd. |        |       | B.N. Ltd. |        |       |
|-------------|-----------|--------|-------|-----------|--------|-------|
|             | QA        | CL     | Ratio | QA        | CL     | Ratio |
| 060/61      | 254.68    | 223.21 | 1.14  | 321.09    | 319.14 | 1.01  |
| 061/62      | 463.78    | 426.45 | 1.09  | 305.52    | 309.14 | 0.99  |
| 062/63      | 540.02    | 543.71 | 0.99  | 262.98    | 146.79 | 1.79  |
| 063/64      | 661.65    | 882.02 | 0.75  | 229.14    | 228.99 | 1.00  |
| 064/65      | 485.44    | 742.23 | 0.65  | 259.11    | 249.48 | 1.04  |

The quick ratio of 1:1 of a firm is considered as good position. The quick ratio of U.L. Ltd. is fluctuating for the entire period. The highest quick ratio of U.L. Ltd. is 1.14 in F/Y 060/61 in which lowest is 0.65 in F/Y 064/65. The average quick ratio of U.L. Ltd. is 0.92. Similarly, the quick ratio of B.N. Ltd. is also fluctuating through the entire period. The highest quick ratio of B.N. Ltd. is 1.79 in F/Y 062/63 whereas lowest is 0.99 in F/Y 061/62. The average quick ratio of B.N. Ltd. is 1.17 as per Appendix 2(VIII) the value of constant 'a' and 'b' are as follows:

$$\begin{array}{ll} \text{U.L. Ltd.} & \text{B.N. Ltd.} \\ a = 0.92 & b = -0.13 \\ a = 1.17 & b = 0.007 \end{array}$$

The rate of change of 'b' is positive in B.N. Ltd. & negative in U.L. Ltd. which indicates that in B.N. Ltd. quick ratio is in increasing trend but in U. L. Ltd. quick ratio is in decreasing trend.

**Graph 11**  
**Actual Trend Line of Quick Ratio of U.L. Ltd. and B.N. Ltd.**



As the above graph quick ratio of both the companies are fluctuating in the entire period. The trend line of quick ratio of U.L. Ltd. is higher than B.N. Ltd. in first two years and lower in last three years.

**4.4.2. Activity or Turnover Ratio:**

The activity ratio measures how efficiently the firm is managing its assets. It is reported that the level of each assets in reasonable too high or too low in view of current and projected operating level. If the assets are too high, the interest expenses will be too high and hence their profits will be depressed and on the other hand if asset are too low, profitable sale be lost.

**a) Debtors Turnover / Receivable Turnover Ratio**

Accounts receivable is the major component of current assets. It also plays a vital role to determine the liquidity position of the company. The higher turnover ratio shows the higher degree of liquidity of receivable and vice-versa. Similarly days sales outstanding indicates the length of time to receive the cash after credit sales. All sales are assumed to be

credit sales for the purpose of the calculation of receivable turnover and D.S.O. Normally Company grants 30 days credit sales.

**Table 4.13**  
**Calculation of Receivable Turnover and Days Sales Outstanding of U.L. Ltd.**

**(In Million)**

| Fiscal Years | Sales   | Account Receivable | Sales/AR | DSO= Days <u>in a year</u> Receivable Turnover |
|--------------|---------|--------------------|----------|--|
| 060/61       | 1236.05 | 32.16              | 38.43    | 9  |
| 061/62       | 1244.73 | 64.78              | 19.21    | 19   |
| 062/63       | 1524.90 | 97.06              | 15.71    | 23   |
| 063/64       | 1481.56 | 157.72             | 9.39     | 38   |
| 064/65       | 1434.94 | 138.32             | 10.37    | 35   |

The table shows the receivable turnover and days outstanding of U.L. Ltd. Receivable turnover ratios are fluctuating in the entire period. The highest receivable turnover ratio is 38.43 in F/Y 060/61 which has 9 days sales outstanding. Similarly the lowest receivable ratio is 9.39 in F/Y 063/64 which has 38 D.S.O. the average receivable turnover ratio for the five years of U.L. Ltd .is 18.62.

**Table 4.14**  
**Calculation of Receivable Turnover and Days Sales Outstanding of B.N. Ltd.**

**(In Million)**

| Fiscal Years | Sales  | Account Receivable | Sales/AR | DSO= <u>Days in a Year</u> Receivable Turnover |
|--------------|--------|--------------------|----------|--|
| 060/61       | 534.49 | 115.21             | 4.64     | 79   |
| 061/62       | 609.65 | 88.04              | 6.92     | 53   |
| 062/63       | 632.11 | 124.18             | 5.10     | 72   |
| 063/64       | 614.74 | 80.85              | 7.6      | 48   |
| 064/65       | 624.82 | 63.66              | 9.81     | 37   |

The table shows the receivable turnover & day's sales outstanding of B.N. Ltd. It has also fluctuating to the entire period of time. The higher

receivable ratio is 9.81 in F/Y 064/65 which has 37 days sales outstanding. Similarly the lowest receivable ratio is 4.64 in F/Y 060/61 has 79 days sales outstanding. The average receivable turnover ratio of B.N. Ltd. is 6.81.

The DSO period of B.N. Ltd. is lower than that of U.L. Ltd. Lesser the DSO indicates that quick collection of receivables from the debtors. The above table shows that B.N. Ltd. is very much more capable in collecting receivables from the debtors in comparison to U.L. Ltd. during the period.

### (b) Inventory Turnover Ratio

Turnover ratio shows the relationship between the sales and inventory. It also shows the efficiency of inventory management. A high inventory turnover ratio shows the optimum utilization of inventory. A low inventory turnover may due to a variety of reasons like poor merchandise, overvaluation of closing stock, a large stock of unusable goods over buying an anticipated future increase in sales etc.

Inventory

**Table 4.15**  
**Calculation of Inventory Turnover Ratio of U.L. Ltd. & B.N. Ltd.**  
**(In Million)**

| Fiscal Years | U.L. Ltd. |           |                   | B.N. Ltd. |           |                   |
|--------------|-----------|-----------|-------------------|-----------|-----------|-------------------|
|              | Sales     | Inventory | Sales / Inventory | Sales     | Inventory | Sales / Inventory |
| 060/61       | 1236.05   | 144.45    | 8.56              | 534.49    | 185.34    | 2.88              |
| 061/62       | 1244.73   | 126.11    | 9.87              | 609.65    | 226.86    | 2.69              |
| 062/63       | 1524.90   | 184.21    | 8.28              | 632.11    | 184.98    | 3.42              |
| 063/64       | 1481.56   | 229.76    | 6.45              | 614.74    | 224.07    | 2.74              |
| 064/65       | 1434.94   | 256.17    | 5.60              | 624.82    | 176.94    | 3.53              |

From the above, table the inventory turnover ratio of U.L. Ltd. increases up to F/Y 061/62 and decreases in the F/Y 062/63 and continuously decreases up to last fiscal year. The highest inventory turnover ratio is 9.87 in F/Y 061/62 which indicate that firm kept the low inventory and the lowest inventory turnover ratio is 5.60 in F/Y 064/65 which indicates that the firm kept high inventory with low sales. U.L. Ltd. holds the higher portion of raw materials in inventory. So it has less turnover time in practical use.

The inventory turnover ratio of B.N. Ltd. is varies from 2.69 to 3.53 during the period. The inventory turnover ratio of U.L. Ltd. is higher than B.N. Ltd. during the period of study. The nature and size of business of U.L. Ltd. is wide range of products that fulfill the various needs and requirement of customers. The higher average turnover ratio of U.L. Ltd. has better inventory management of U.L. Ltd. than of B.N. Ltd. during the period of study.

### (c) Total Assets Turnover Ratio

Total assets turnover ratio indicates how much total assets being used to generate sales. Total assets include current assets and fixed assets. The higher ratio indicates lower investment in assets to generate sales and vice-versa. Total assets turnover ratio can be calculated as

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

**Table 4.16**  
**Total Assets Turnover Ratio of U.L. Ltd. and B.N. Ltd. (in Million)**

| Fiscal Year | U.L. Ltd. |              |                      | B.N. Ltd. |              |                      |
|-------------|-----------|--------------|----------------------|-----------|--------------|----------------------|
|             | Sales     | Total Assets | Sales / Total Assets | Sales     | Total Assets | Sales / Total Assets |
| 060/61      | 1236.05   | 571.34       | 2.16                 | 534.49    | 1036.05      | 0.52                 |
| 061/62      | 1244.73   | 784.80       | 1.59                 | 609.65    | 1022.4       | 0.60                 |
| 062/63      | 1524.90   | 859.95       | 1.77                 | 632.11    | 886.56       | 0.71                 |
| 063/64      | 1481.56   | 1019.19      | 1.45                 | 614.74    | 975.28       | 0.63                 |
| 064/65      | 1434.94   | 763.73       | 1.88                 | 624.82    | 1048.36      | 0.60                 |

The above table shows the total assets turnover ratio of U.L. Ltd. and B.N. Ltd. The total assets turnover ratio in U.L. Ltd. is fluctuating. The highest total assets turnover ratio of U.L. Ltd. is 2.16 times in F/Y 060/61. Whereas lowest total assets turnover ratio is 1.45 times in F/Y 063/64, the average total assets turnover ratio of U.L. Ltd. is 1.77 times.

Similarly total assets turnover ratio of B.N. Ltd. is also fluctuating. The highest total assets turnover ratio of B.N. Ltd. is 0.71 times in F/Y 062/63 same as the lowest total assets turnover ratio is 0.52 times in F/Y 060/61. The average total assets turnover ratio of B.N. Ltd. is 0.61 times. The total assets turnover

ratio of U.L. Ltd. is always higher than that of B.N. Ltd. that is why U.L. Ltd. is generating sales from all financial resources committed to total assets in comparison to B.N. Ltd.

#### 4.4.3. Profitability Ratio

Profitability is the net result of large number of policies and decision. The ratio examined these for provide some information about the way the firm is operating but the profitability ratio shows the combined effects of liquidity, assets management and debt management on operating results.

##### a) Gross Profit Margin

Gross profit margin ratio shows the percentage of profit after cost of production. High ratio indicates the company is able to produce the product at low cost and lower ratio shows the higher cost of production. A high gross profit implies that the firm is able to produce at relatively lower cost. It is calculated by dividing the gross profit by sales as below:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

**Table 4.17**  
**Gross Profit Margin of U.L. Ltd. and B.N. Ltd. (In Million)**

| Fiscal Year | U.L. Ltd.    |         |              | B.N. Ltd.    |        |              |
|-------------|--------------|---------|--------------|--------------|--------|--------------|
|             | Gross Profit | Sales   | GP/Sales*100 | Gross Profit | Sales  | GP/Sales*100 |
| 060/61      | 298.32       | 1236.05 | 24.13        | 229.01       | 534.49 | 42.85        |
| 061/62      | 401.59       | 1244.73 | 32.26        | 233.39       | 609.65 | 36.64        |
| 062/63      | 320.17       | 1524.90 | 21.00        | 237.74       | 632.11 | 37.61        |
| 063/64      | 155.23       | 1481.56 | 10.48        | 257.39       | 614.74 | 44.80        |
| 064/65      | 326.75       | 1434.94 | 22.77        | 270.75       | 624.82 | 43.33        |

As the above table shows that the highest gross profit margin of U.L. Ltd. is 32.26% in F/Y 061/62 and the lowest is 10.48% in F/Y 063/64. So, gross profit margin of U.L. Ltd. is fluctuating during the study period. The average gross profit margin of U.L. Ltd. is 21.28%.

Similarly the highest gross profit margin of B.N. Ltd. is 44.80% in F/Y 063/64 and lowest is 36.64% in F/Y 061/62. The gross profit margin of B.N. Ltd. is also fluctuating. The average gross profit margin of B.N. Ltd. is 41.05%.

The gross profit margin of B.N. Ltd. is always higher than U.L. Ltd. during the period of study.

### b) Net Profit Margin

Earning the profit is the main objective of every business firm. So, the analysis of net profit margin can be meaningful. The net profit margin is also known as net margin. It shows the relationship between net profit and sales. It indicates the efficiency of management in overall management function of the firm. Net profit margin is calculated by dividing the net profit by sales. Net profit is obtained by deducting all the tax and operating expenses from gross profit. It shows the firm overall profit.

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

**Table 4.18**  
**Net Profit Margin of U.L. Ltd. and B.N. Ltd. (In Million)**

| Fiscal Year | U.L. Ltd.  |         |              | B.N. Ltd.  |        |              |
|-------------|------------|---------|--------------|------------|--------|--------------|
|             | Net Profit | Sales   | NP/Sales*100 | Net Profit | Sales  | NP/Sales*100 |
| 060/61      | 42.61      | 1236.05 | 3.45         | 48.61      | 534.49 | 9.10         |
| 061/62      | 93.17      | 1244.73 | 7.48         | 25.67      | 609.65 | 4.20         |
| 062/63      | 140.78     | 1524.90 | 9.23         | 37.80      | 632.11 | 5.98         |
| 063/64      | 189.20     | 1481.56 | 12.77        | 34.74      | 614.74 | 5.65         |
| 064/65      | 238.16     | 1434.94 | 16.60        | 24.96      | 624.82 | 3.99         |

As the above table shows that the net profit margin of U.L. Ltd. and B.N. Ltd. of the five years. The highest net profit margin of U.L. Ltd. is 16.60% in F/Y 064/65 and lowest is 3.45% in F/Y 060/61. The average net profit margin of U.L. Ltd. is 9.91%. Same as the highest net profit margin of B.N. Ltd. is 9.10% in F/Y 060/61 and the lowest is 3.99% in F/Y 064/65. The average net profit margin of B.N. Ltd. is 5.78%. The average net profit margin of U.L. Ltd. is higher than B.N. Ltd. in the entire period of study.

### 4.4.4. Leverage Ratios

Leverage ratio or capital structure ratio is also known as long-term solvency ratio. Leverage ratios are used to measure the financial risk and to know that how far the firm is using its debt for the benefits of shareholders. The firm collects its required fund by issuing share or by from long term debt as well as short term debt. Debt refers the funds that have been collected from the investors by paying regular interest. The debt management ratio affects the risk and return of the company. So, the firm should manage the proportion of debt and equity properly.

**a. Debt to Equity**

Debt to equity ratio shows the structural position of the firm. The firm collected its required funds from different sources, such as long-term debt, short-term debt and equity. Higher debt refers the higher risk of the firm.

**Table 4.19  
Debt to Equity Ratio of U.L. Ltd. and B.N. Ltd. (In Million)**

| Fiscal Years | U.L. Ltd. |        |             | B.N. Ltd. |        |             |
|--------------|-----------|--------|-------------|-----------|--------|-------------|
|              | Debt      | Equity | Debt/Equity | Debt      | Equity | Debt/Equity |
| 060/61       | 223.21    | 92.07  | 2.42        | 319.14    | 194.89 | 1.64        |
| 061/62       | 426.45    | 92.07  | 4.63        | 309.14    | 194.89 | 1.59        |
| 062/63       | 543.71    | 92.07  | 5.90        | 146.79    | 194.89 | 0.75        |
| 063/64       | 882.02    | 92.07  | 9.60        | 228.99    | 194.89 | 1.17        |
| 064/65       | 742.23    | 92.07  | 8.06        | 249.48    | 194.89 | 1.28        |

The above table shows the debt to equity ratio of U.L. Ltd. and B.N. Ltd. for five years. The highest debt equity ratio of U.L. Ltd. is 9.60 times in F/Y 063/64 which means that more debt is used to collect the fund and the lowest is 2.42 times in F/Y 060/61. The average debt equity ratio of U.L. Ltd. is 6.12 times.

Similarly, the highest debt equity ratio of B.N. Ltd. is 1.64 times in F/Y 060/61 same as the lowest debt equity ratio of B.N. Ltd. is 0.75 times in F/Y 062/63. The average debt equity ratio of B.N. Ltd. is 1.29 times. The average debt equity ratio of U.L. Ltd. is higher than B.N. Ltd.

**b. Short term Financing to Total Financing Ratio**

This ratio is computed to find their relation between STF and TF of U.L. Ltd. & B.N. Ltd. It is calculated by dividing STF/TF.

**Table 4.20**  
**Short term Financing to Total Financing Ratio of U.L. Ltd. and B.N. Ltd.**  
**(In Million)**

| Fiscal Year | U.L. Ltd. |        |                | B.N. Ltd. |        |                |
|-------------|-----------|--------|----------------|-----------|--------|----------------|
|             | STF       | TF     | STF/TF*<br>100 | STF       | TF     | STF/TF<br>*100 |
| 060/61      | 223.21    | 315.28 | 70.80          | 319.14    | 514.03 | 62.09          |
| 061/62      | 426.45    | 518.52 | 82.24          | 309.14    | 504.03 | 61.33          |
| 062/63      | 543.71    | 635.78 | 85.52          | 146.79    | 341.68 | 42.96          |
| 063/64      | 882.02    | 974.09 | 90.55          | 228.99    | 423.88 | 54.02          |
| 064/65      | 742.23    | 834.30 | 88.96          | 249.48    | 444.37 | 56.14          |

The above table shows the STF to TF ratio of U.L. Ltd. & B.N. Ltd. for the five years. The STF to TF ratio of U.L. Ltd. is in increasing trend except in last year. The highest STF to TF ratio of U.L. Ltd. is 90.55% in F/Y 063/64 and the lowest is 70.80% in F/Y 060/61. The average STF/TF ratio of U.L. Ltd. is 83.61%.

Similarly, the STF/TF ratio of B.N. Ltd. is in decreasing trend up to F/Y 062/63 and then in increasing trend then after. The highest STF/TF ratio of B.N. Ltd. is 62.09% in F/Y 060/61 and lowest is 42.96% in F/Y 062/63. The average STF/TF ratio of B.N. Ltd. is 55.31% the average STF/TF ratio of U.L. Ltd is higher than B.N. Ltd.

#### **4.5. Correlation Analysis**

Correlation analysis is the statistical tool that we can use to describe the degree to which are variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figure. Among the various method of findings out coefficient of correlation, Karl person's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r is +1, it means there is perfect relationship between two variables and vice-versa. When r is 0, it means there is no relationship between two variables.

#### **4.5.1. Coefficient of Correlation between Networking Capital and Net Profit**

This calculation is done to measure the degree of relationship between net working capital and net profit. It is supposed to be net profit as dependent variable X and net working capital is to be independent variable Y. These help us to find out whether the change in WC affects profitability of the company or not and if there is any relationship between these two variables. Appendix 2(IX) and (X)

**Table 4.21**  
**Correlation Analysis between Net Profit and Net WC of U.L. Ltd. & B.N. Ltd.**

| Companies | r     | PEr  | 6PEr |
|-----------|-------|------|------|
| U.L. Ltd. | -0.68 | 0    | 0    |
| B.N. Ltd. | 0.05  | 0.30 | 1.8  |

The above table shows the coefficient of correlation between net profit and net W.C of U.L. Ltd. the value of r is -0.68 which indicates inverse relation between the two variables. It implies that increase in W.C leads to decrease in net profit and vice-versa. Similarly, coefficient of correlation between net profit and net W.C of B.N. Ltd. value of r is 0.05 which indicates that there is positive relationship between two variables, but by considering the probable error. Since the value r is less than 6PE that is  $r < 6PE$  so it is not significant that is there is no evidence of correlation between two variables which means that increase in working capital doesn't increase net profit & vice versa.

#### **4.5.2. Coefficient of Correlation between Net Sales and Net Working Capital**

These calculations are to measure the degree of relationship between net sales and net working capital. It is suppose to be net sales as dependent variable x and net working capital is to be independent variable y. these help us to find whether the change in W.C affects the net sales of the company or not and if there is any relationship between these two variables. Appendix 2(XI) and (XII)

**Table 4.22**  
**Correlation Analysis between Net Sales and Net WC of U.L. Ltd. & B.N. Ltd.**

| Companies | r    | PEr  | 6PEr |
|-----------|------|------|------|
| U.L. Ltd. | 0.45 | 0.24 | 1.4  |
| B.N. Ltd. | 0.42 | 0.25 | 1.5  |

The above table shows the coefficient of correlation between net sales and net w.c of U.L. Ltd. the value of  $r = 0.45$  which indicates that there is positive relationship between two variables. It implies that increase in net WC leads to increase in net sales and vice-versa.

Similarly, the coefficient of correlation between net sales and net WC of B.N. Ltd. the value of  $r = 0.42$  which also indicates the positive relationship and changes of both variables are on the same direction.

## 4.6 Regression Analysis

The literal meaning of regression is the stepping back (or return back) to the average value. It measures the nature of relationship between two variables in terms of original data. There are two variables in this case namely dependent and independent variable. The variable which is used for estimation (or prediction) is called independent variable and the variable which is to be estimated (or predicted) by known values is called dependent variables. Hence, regression determines the average probable change in one variable on a certain amount of change in another.

There are two line of regression namely regression equation of Y on X and that of X on Y. An algebraic expression of the regression line is called the regression equations.

- a. Regression Equation of Y on X :  $Y_c = a + bx$
- b. Regression Equation of X on Y :  $X_c = a + by$

‘a’ and ‘b’ are constant as a parameters of the line. ‘a’ is determines as Y-intercept and ‘b’ is slope of regression line. The regression equation of net

W.C, net profit and net sales in which ‘a’ and ‘b’ are calculated in appendix 2(XIII), (XIV), (XV) and (XVI).

**Table 4.23**  
**Calculation of Regression equation between Net Profit and Net W.C. and Net Sales & Net W.C of Unilever Nepal Ltd.**

| S.N                      | Y(net w.c) on X(net profit) | X(net profit) on Y(net w.c) | Y(net w.c) on X(net sales) | X(net sales) on Y(net w.c) |
|--------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| Regression eqn           | $Y=251.59-1.04X$            | $X=895.69-7.14Y$            | $Y=-13406.4+9.76X$         | $X=-80.99+2.07Y$           |
| Regression Constant a    | 251.59                      | 895.69                      | -13406.4                   | -80.99                     |
| Regression Coefficient b | -1.04                       | -7.14                       | 9.76                       | 2.07                       |

**Table 4.24**  
**Calculation of Regression equation between Net Profit and Net W.C and Net Sales & Net W.C of Bottlers Nepal Ltd.**

| S.N                      | Y(net w.c) on X(net Profit) | X(net profit) on Y(net w.c) | Y(net w.c) on X(net sales) | X(net sales) on Y(net w.c) |
|--------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| Regression eqn           | $Y=560.94+2.39X$            | $X=-199.09+1.04Y$           | $Y=-75.34+0.50X$           | $X=523.50+0.35Y$           |
| Regression Constant a    | 560.94                      | -199.09                     | -75.34                     | 523.50                     |
| Regression Coefficient b | 2.39                        | 1.04                        | 0.50                       | 0.35                       |

As above table 4.24 shows the regression eqn. of net profit & net w.c as well as net sales and net w.c of U.L. Ltd. the eqn. of net W.C (Y) on net profit (X) is  $Y = 251.59-1.04x$ . So, the value of regression coefficients ‘b’ is positive that means one million increases in net profit increase the net WC by 1.04 million. The regression constant ‘a’ is 251.59 that is working capital is 251.59 millions if net profit is zero. Similarly the regression equation of net profit (X) or net W.C (Y) is  $X = 895.69-7.14Y$ . The coefficient ‘b’ is positive that one

million increase in net W.C increase net profit by 7.14million. The regression constant 'a' is 895.69 which mean net profit is 895.96 million if net WC is zero. Same as the regression eqn of net WC (Y) a net sales (x) is  $Y = 13406.4 + 9.76x$ . So the value of regression coefficient is 9.76x. So the value of regression coefficient 'b' is 9.76 which are positive that one million increases in net sales increase net WC by 9.76 million. The regression constant 'a' is 13406.4 that are working capital is 13406.4 million of net sales are zero. Similarly the regression eqn. net sales (x) on net sales (Y) is  $X = -80.99 + 2.07y$ . The coefficient 'b' is positive that one million increase in net WC, increase net sales by 2.07 million. The regression constant 'a' is -80.99 which means net sales are zero if net WC is 80.99.

The table 4.25 shows the regression equation of net profit and net WC and net sales and net WC of B.N .Ltd. The regression equation of net WC (Y) a net profit (X) is  $Y = 560.94 + 2.39x$ , so the value of regression coefficient 'b' is positive so that one million increase in net profit increase the net WC by 2.39 million. The regression constant 'a' is 560.94 that is net WC is 560.94 million if net profit is zero. Same as the regression equation of net profit (X) on net WC (Y) is  $X = -199.09 + 1.04y$ . The coefficient 'b' is positive that one million in net WC increase the net profit by 1.04 million. The regression constant 'a' is -199.09 which means the net profit is zero if net WC is 199.09.

Similarly the regression equation of net WC (Y) on net sales (X) is  $Y = -75.34 + 0.50x$ . So the value of regression coefficient is 0.50 which is positive that the one million increase in net sales, increase the net WC by 0.50 million. The regression constant 'a' is -75.34 that is net WC is zero if a net sale is 75.34 million.

Same as the regression equation of net sales (X) on net WC (Y) is  $X = 523.50 + 0.35y$ . The 'b' is positive that one million increase in net WC increase net sales by 0.35 million. The regression constant 'a' is 523.50 which mean a net sale is 523.50 million if net WC is zero.

## **4.7 Analysis of Primary Data**

The primary data gives the accurate information of the company. The data are collected through questionnaire and the questions are in objective as well as in ranking form.

Data are collected through interview and survey. Mainly data are collected through face to face interview with top level managers to lower level employee. There is difference in idea and opinion regarding holding and using of working capital within an organization ranking from top to bottom. When the question was put to employees of both companies “For the best management of working capital, who do you, think is responsible?” answer from lower level employee is “they manage properly because they are directly associated with it in factory site and they are the main user of working capital and they have more idea about allocating working capital.” But top level employee denied with their answer they said allocation and management of working capital is crucial matter and it should be managed from top level because it needs vast research and idea. Primary data are analyzed and presented in tabular or chart form for easy outlook of data and to understand the condition of working capital in an organization.

Basically, the requirement of the working capital is influenced by the nature of its business. Trading and financial firms required the very large sum of working capital and they invest the small amount in fixed assets. For e.g. retail stores must carry large stocks of a variety of goods to satisfy the varied and continuous demand of customers. The manufacturing firms require a significant level of working capital and fixed assets. In public utility and service providing organization, they hold a very limited of working capital because of cash nature of their business and party of their selling a service instead of a commodity and there is no need of maintaining big inventories. As the question is asked in U.L. Ltd. & B.N. Ltd. about the performance role of working capital management in both companies found that it has high importance.

Every organization has different levels of management and their performance role is very important. The top level can't work without co-operation and support of lower level and the top level can't operate their work without the good management of lower level. The working capital consist the current assets, which are crucial for the day to day operations. The questionnaires is asked to both the companies about the responsible person to manage the working capital in which no specific person are there but the top level management is responsible to manage the working capital.

There are three type of working capital financing policy. They are aggressive, moderate and conservative working capital financing policy. The policy depends upon the nature of the business. U.L. Ltd. is following aggressive working capital policy in which it is using more percentage of short

term financing where as in B.N. Ltd. it is following moderate policy in which it is using less percentage of short term financing.

In responses as the question asked to both the companies that does the working capital policy have impact on profitability and risk of the company. It was found to be working capital policy have impact on profitability and risk of the company.

In the organization they need various types of current assets. The major components of current assets are inventory, sundry debtors and cash & bank balances. The organization may keep different type of current assets in different level. Some organization may keep inventory in large amount, some may keep sundry debtors and some may keep cash and bank balances. The composition of current assets depends upon the nature of organization and business. The financial institution need large amount of cash and bank balances so they need to keep cash and bank balance in large amount. But in manufacturing companies they need to keep large amount in inventory of raw material, work in progress and finished goods to operate the companies smoothly and promptly. As the question is asked that the proportion of current assets and current liability of U.L. Ltd. and B.N. Ltd. is appropriate? In U.L. Ltd. some responses have answers that both the proportion of current assets and current liabilities is appropriate and some have answered it is not appropriate but in B.N. Ltd. responses have answered it is appropriate.

In the organization they keep different level of current and fixed assets. If the firm is keeping higher level of current and fixed assets it is adopting relaxed working capital investment policy and if the firm is keeping low level of current assets then it is adopting restricted policy, and the middle level is called moderate working capital investment policy. As the questionnaires for both the companies they responses that both the companies are adopting moderate working capital investment policy.

There are various factors that affect in working capital policy of the firm U.L. Ltd. is requested for ranking the factors that affect in the working capital policy to their importance. They have rank as size of business, sales and demand condition, inventory conversion period, suppliers' credit policy, credit policy of the company. Similarly, B.N. Ltd. have rank as credit policy and profit margin, size of business, growth and expansion, level of taxes etc.

## 4.8 Major Findings of the Study

Working capital management plays the vital role in the organization and success and failure of the organization depends upon it. To study the working capital management of U.L. Ltd. and B.N. Ltd. the primary as well as secondary data has been collected and analyzed by using various statistical tools. The major findings of the study have been presented as below:

1. The major components of current assets in U.L. Ltd. and B.N. Ltd. are cash and bank balance, sundry debtors, inventory and miscellaneous current assets. In U.L. Ltd. cash and bank balance holds the higher proportion than other component which has average percent of 41.19%. In average percentage of inventory, sundry debtors and miscellaneous current assets are 28.67%, 8.27%, 21.87% respectively. In B.N. Ltd. inventory holds the higher proportion than other component which has average percentage of 42.1%. Same as the average percentage of cash & bank balance, sundry debtors and miscellaneous current assets are 3.7%, 19.9% and 34.3% respectively. The average percentage of cash & bank balance and inventory of U.L. Ltd. is higher than B.N. Ltd. but average percentage of sundry debtors and miscellaneous C.A of B.N. Ltd. is higher than U.L. Ltd.
2. As per the trend analysis the rate of change of 'b' cash and bank balance in U.L. Ltd. and B.N.Ltd both are positive. It implies that there is increasing rate of cash and bank balance both in U.L.Ltd and B.N.Ltd.. Similarly the rate of change 'b' of sundry debtors in U.L. Ltd. and B.N. Ltd. both are negative which indicate decreasing rate of sundry debtors in both the companies. Same as the rate of change 'b' inventory percentage in U.L. Ltd. and B.N. Ltd. is positive which shows rapid increase rate of inventory in both the companies. Similarly the rate of change 'b' in miscellaneous current assets of both the companies are negative which implies that both the companies are decreasing miscellaneous assets from their total current assets gradually during the entire period of study.
1. The major components of current liabilities in U.L. Ltd. and B.N. Ltd. are loan and advances, sundry creditors, provision for taxation and miscellaneous current liabilities. Misc. current liabilities hold the major proportion of total current liabilities in both the companies. The average percentage of miscellaneous C.L, sundry creditors and loan and advances of U.L. Ltd. is 50.76%, 49.24% and 0% respectively. In U.L. Ltd. misc.

C.L holds the major proportion of C.L where the loan and advances holds the remaining proportion of C.L. the average percentage of misc. C.L, loan and advances and sundry creditors of B.N. Ltd. are 52.17%, 19.41% and 28.42% respectively.

2. As on the trend analysis the rate of change of 'b' loan and advances in U.L. Ltd. is zero and in B.N. Ltd. it is positive which implies no change in U.L. Ltd. and increasing trend in B.N. Ltd. Similarly rate of change 'b' of sundry creditors B.N. Ltd. are higher positive i.e.8.76 which indicates that there is rapid increasing rate and in U.L. Ltd. also it is positive. Same as the average misc. current liabilities of B.N. Ltd. is 52.17% which is higher than U.L. Ltd. i.e. 50.76%.
3. The proportion of CA to TA of U.L. Ltd. for five years are 69.86%, 75.16%, 84.22%, 87.46% and 97.10% respectively where as in B.N. Ltd. it is 48.88%, 52.07%, 50.51%, 46.71% and 41.59% respectively. The average CA to TA of U.L. Ltd. is 82.76% whereas in B.N. Ltd. it is 47.95% the average CA to TA ratio of U.L. Ltd. is higher than B.N. Ltd.
4. The CR of U.L. Ltd. for five years are 1.79, 1.38, 1.33, 1.01 and 1 times respectively and the average C.R is 1.30 where as the current ratio of B.N. Ltd. for the five years are 1.59, 1.72, 3.05, 1.98 & 1.75 respectively and the average CR is 2.02 times. The general acceptable ratio is 2:1, so the current ratio of B.N. Ltd. is satisfactory.
5. The trend analysis the rate of change of 'b' current ratio is negative in U.L. Ltd. whereas it is positive in B.N. Ltd. which indicates that there is decreasing trend in U.L. Ltd. and increasing trend in B.N. Ltd.
6. The quick ratio of U.L. Ltd. for the five years are 1.14, 1.09, 0.99, 0.75 & 0.65 respectively and the average QR is 0.92 where as the QR of B.N. Ltd. for the five years are 1.01, 0.99, 1.79, 1 & 1.04 respectively & the average QR is 1.17. The average QR of U.L. Ltd. is lower than B.N. Ltd.
7. The trend analysis the rate of change of 'b' QR is negative in U.L. Ltd. & it is positive in B.N. Ltd. so, it implies that there is decreasing trend in U.L. Ltd. and it is increasing trend in B.N. Ltd.
8. The receivable turnover ratio for the five years of U.L. Ltd. are 38.43, 19.21, 15.71, 9.39 & 10.37 times and it averages to 18.62 times. Similarly, B.N. Ltd. is 4.64, 6.92, 5.10, 7.6 & 9.81 times and it average to 6.81times. the days sales outstanding of B.N. Ltd. is higher than that of U.L. Ltd. which average of B.N. Ltd. is 58 days & U.L. Ltd. is 25 days.
9. The inventory turnover ratios for the five year study of U.L. Ltd. are 8.56, 9.87, 8.28, 6.45 & 5.60 times where as B.N. Ltd. are 2.88, 2.69, 3.42, 2.74 & 3.53 times respectively. And the average inventory ratio of U.L. Ltd. is higher than that of B.N. Ltd. i.e. 7.75 & 3.05 respectively.

10. The total assets turnover ratio for the five year of U.L. Ltd. are 2.16, 1.59, 1.77, 1.45 & 1.88 times as well as of B.N. Ltd. are 0.52, 0.60, 0.71, 0.63 & 0.60 times respectively. The average total asset turnover ratio of U.L. Ltd. is higher than that of B.N. Ltd. i.e. 1.77 & 0.61 respectively.
11. Profitability ratio is the net result of a large number of policies and decision, it can be examined by the calculating of gross profit margin, net profit margin and operating expenses ratio. The average GPM of B.N. Ltd. is higher i.e. 41.05% than that of U.L. Ltd. which has 21.28% the average NPM of U.L. Ltd. is higher i.e. 9.91% than that of B.N. Ltd. i.e. 5.78%.
12. Leverage ratios are calculated to examine the long term solvency of the firm. The debts to equity ratio for the five years of U.L. Ltd. are 2.42, 4.63, 5.90, 9.60 & 8.06 times respectively. Whereas of B.N. Ltd. are 1.64, 1.59, 0.75, 1.17 & 1.28 times respectively. The average debt to equity ratio of U.L. Ltd. is higher i.e. 6.12 times than of B.N. Ltd. i.e. 1.29 times. The average STF to TF ratio of U.L. Ltd. and B.N. Ltd. are 83.61% and 55.31% respectively. It indicates that U.L. Ltd. has aggressive policy in financing its current assets than that of B.N. Ltd. during the period of study.
13. The coefficient of correlation are measure the degree of relationship between the different variables i.e. net working capital & net profit. The coefficient of correlation  $r$  of U.L. Ltd. is -0.86 and B.N. Ltd. is 0.05. In U.L. Ltd. there is inverse relationship between two variables and it is positive relationship between two variables B.N. Ltd. but considering the probable error. Since the value of  $r$  is less than 6 P.E i.e.  $r < 6$  P.E. So it is not significant. There is no evidence of correlation between two variables which means that increase in WC doesn't increase net profit and vice versa.
14. The coefficient of correlation between net sales and net W.C. of U.L. Ltd. and B.N. Ltd. are 0.45 & 0.42 respectively. It implies that there is relationship in N.L Ltd & B.N Ltd between two variables. Here 6 PE is greater than  $r$ , so in N.L Ltd if WC is increasing than there is decreasing in net sales. In B.N. Ltd also same trend occurs.
15. The simple regression analysis shows the relationship between net profit and net w.c and net sales and net w.c of U.L. Ltd. and B.N. Ltd. The value of regression coefficient 'b' is negative in N.L Ltd which indicates that of net profit is increases than the another variable net WC will be decreased. Same as the value of 'b' is positive in B.N Ltd. which shows that the increase in net profit simultaneously increases another variable the net W.C.

16. The value of regression coefficient 'b' is positive in U.L. Ltd. which implies that if a net sale is increase then the variable net W.C. will also increase. Similarly the value of regression co-efficient 'b' between net sales and net W.C. is positive in B.N. Ltd. So it indicates that increase in net sales shows to increases another variable the net W.C.
17. The top management is responsible to manage the working capital and working capital plays a vital role in the performance.
18. U.L. Ltd. has adopted the moderate working capital financing policy and working capital investment policy whereas B.N. Ltd. has adopted less moderate working capital financing policy and has moderate working capital investment policy. The working capital policy has impact on the profitability and risk of company. The proportion of CA and CL found appropriate in N.L and B.N Ltd. The major factors that affecting working capital policy in N.L. Ltd are nature and size of business, growth and expansion, profit margin, level of taxes, which are ranking on the priority basis.

# Chapter V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is used to summarize the whole study and to draw the major findings of this study. This study also aims to draw the conclusion of the study and forward the applicable recommendation for more efficient working capital management.

### 5.1 Summary

Establishment of industries and business for sake of the economic development of nation is essential. Consequently, in Nepal few numbers of industries and business concerns are established in many different sector of the overall development of the country. Industrialization is the process of economic development in which growing part of national resources is mobilized to develop technically up to date diversified domestic economic structure characterized by dynamic manufacturing consumer goods capable of assuring a high rate of growth for economy as a whole and achieving economic and social progress. It is believed that in order to achieve security stability and a high standard of living the country must become industrialized. The most important reason for embarking on a performance of industrialization is to increase the national income. Industrialization is the central problem of economic development of backward countries. It is one of the major tools with the aid of which the various circle of backwardness and poverty can be broken.

In Nepal multinational companies has been established in various sector of the economy with view to build up the infrastructure for the development of the nation. Industries or manufacturing industries mainly depends upon the effective overall management of the organization. Beside this financial management plays the crucial role in the success of the organization. One of the most important aspects of the financial management for the success of the business is proper working capital management. Working capital is said to be life blood of the business organization. To run the daily production activity of the company, besides the manpower, equipment etc. one of the major components is working capital. Without proper management of working capital no business can be imagined to be success. Out of which two major companies

i.e. U.L. Ltd. & B.N. Ltd. has been selected to make a comparative study of working capital management.

The first chapter focuses background of the study brief overview, statement of problem, objective, significance, and limitations. The second chapter deals with review of literature, which includes the conceptual framework and different view to different writers, books and articles. Research methodology followed in this study is given in the third chapter. It presents the nature and sources of data, data collection and processing technique and financial & statistical tools used.

The fourth chapter includes the presentation and analysis the data which have been derived from balance sheet & profit and loss account of U.L. Ltd. & B.N. Ltd. for the five years period of F/Y 058/59 to 062/63. The comparative analyses have been made through various financial & statistical tools. The analyses have been presented in figures and charts & in tabular form. A related questions was prepared and responses through the authority of the related companies for more information of working capital policy of the companies. In five chapter of the study it has been conducted summary conclusion and recommendation of study.

## **5.2. Conclusion**

Working capital management is the crucial aspect of the financial management. It is the life-blood and controlling nerve centre for any types of business organization because without the proper control upon it no business can run smoothly. The management of current assets and current liabilities is necessary for day-to-day operation of any organizations. Thus it plays the crucial role in the success and failure of an organization as it deals with the part of assets, which are transformed from one form to another during the course of manufacturing cycle. Therefore the role of working capital management is more significant for every business organization irrespective to their nature. There have been a number of studies on working capital management from different experts in various enterprises, which covers the all current assets and liabilities of the firm.

The manufacturing companies should not neglect the working capital management but during the study nor U.L. Ltd. or B.N. Ltd. have attention towards the working capital management. The fluctuation of U.L. Ltd. and B.N. Ltd. C.A. determined that both of the companies have not examined the

working capital management policy. Both the companies have absence of sources of financing, financial position without long run of current assets. The U.L. Ltd. as well as the B.N. Ltd have not predetermine of their working capital needs which indicates that there is a high variability of working capital and have lower liquidity position. During the study period the profitability, liquidity and turnover ratio of both the companies are not satisfactory.

B.N. Ltd. has a nature of blending companies so it imports various types of chemicals from outsides. It mixes up with base oil to produces different varieties of lubricants. Same as U.L. Ltd. fulfills the daily necessities products to the proper so they import varieties of raw materials from outsides. U.L. Ltd. as well as B.N. Ltd. has to pay royalties to the mother companies. In comparison U.L. Ltd. is bigger than B.N. Ltd. according to their nature. The total amount of C.A & C.L of U.L. Ltd. is always higher than that of B.N. Ltd. the U.L. Ltd. have large proportion of inventory and misc. C.A so, it is very difficult to handle these components. As in the B.N. Ltd. has absence of management of facing the problems of the components.

Due to the unsound economic policies of the country U.L. Ltd. have problem of tax provision. As in B.N. Ltd. it has more problems of advances & loan. In the present situation of the modern business both companies have sell huge amount of commodities in credit and they are facing great problem from credit amount collection from debtors.

By the analysis of different calculation it seems to show that U.L. Ltd. have better liquidity, profitability and turnover position than that of B.N. Ltd. U.L. Ltd. has followed more aggressive policy than that of B.N. Ltd. The correlation coefficient between net profit and net working capital of U.L. Ltd. has negative relationship between two variables where as the correlation coefficient of B.N. Ltd. has positive relationship between two variables. Similarly the correlation coefficient between net sales and net working capital of U.L. Ltd. has negative relationship between the two variables where as in B.N. Ltd. it has no relation during the period of study.

According to regression analysis there is negative relationship between net profit and net working capital in U.L. Ltd. where has there is positive relationship in B.N. Ltd. Similarly, there is negative relation between net sales and net working capital in U.L. Ltd. whereas there is positive relationship in B.N. Ltd.

## 5.3 Recommendations

Working capital management is the functional area of finance that covers all the current account of the firm. It is concern with the adequacy of current assets as well as the level of risk posed by current liabilities. It is a discipline that seeks proper policies for managing current assets by current liabilities and practical techniques for maximizing the benefits from managing working capital. To study the working capital management of U.L. Ltd. & B.N. Ltd. the secondary and primary data has been collected and analyzed. From the findings and conclusion of the primary and secondary data some recommendation has been provided by the companies.

1. The secondary data of U.L. Ltd. shows inventory holds the highest proportion among the other current assets. So, U.L. Ltd. should give great attention to the inventory management. The company should adjust the inventory according to the sale and production and its priority basis. Holding large amount of inventory carries high operating cost. There should be good storekeeping system, better material handling system and properly timely inspection. Moreover systematic inventory control system should be applied to know the inventory position in the company from time to time.
2. The liquidity position of the firm is very much important. The higher liquidity position leads less risk and less profit to the company and tight liquidity position leads high risk and high profit. Similarly, if there is lack of current assets the firm may not be able to pay its current liabilities and higher current assets indicates the management's failure to utilization the firms resources properly i.e. tax management. So, the firm should try to maintain the considerable liquidity position.
3. Without a definite credit policy, the efficient management of working capital cannot be imagined. It helps the company to operate lower level of working capital. The receivables are increasing with reference to sales in U.L. Ltd. to avoid the investment in receivables; the company should have maximum cash sales. For this the customer should provide discount on cash purchase and also should have tight credit policy. In B.N. Ltd receivable are increasing which increases in collection cost and obstruct the smooth operation of the company. It has proper absence of credit policy. So, it is recommended to have setting proper credit policy.

4. B.N. Ltd. is facing a problem of effective inventory management. So it is recommended to have effective inventory control they should pay attention to capacity utilization, ordering cost, carrying cost.
5. B.N. Ltd. should determine the appropriate source of fund. Its current liability composition is not directed by certain fixed rule. Thus, certain proportion of current liabilities should be set to avoid the risk of default. It has not fixed rule about the financing policy. It is very dangerous for the liquidity position of the firm in future. So, it should fix the financing policy.
6. By the analysis of secondary data, B.N. Ltd. has not any fixed rule about the financing policy. So, B.N. Ltd. is recommended to avoid risk and have profitability and liquidity to the company.
7. The management of U.L. Ltd. & B.N. Ltd. should give attention to the minimization of operating expenses. Due to the unskilled labor, over tendency of employees, unnecessary purchase of raw materials, high overhead cost leads more operating expenses. So, both the companies should pay attention towards it.

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## Appendix – 1

To,  
The Chief

Dear Sir,

I am MBS final year student of Nepal Commerce Campus preparing a thesis on “A Comparative Study on Working Capital Management in a U.L. Ltd. and B.L. Ltd.” fulfill partial requirement of my study. I therefore, request you to fill these questionnaires and help me to carry out my study. Your valued responses will be very helpful for me to conduct my study. I would like to assure you that information obtained from you will be used only for academic purpose in this thesis and not otherwise.

1. Which working capital financing policy is appropriate to the company?
  - Aggressive
  - Moderate
  - Conservative
  
2. Which working capital financing policy is adopted by the company?
  - Aggressive
  - Moderate
  - Conservative
  
3. Who is responsible to manage the working capital in your company?
  - Top level management
  - Middle level management
  - Lower level management
  
4. The performance role of working capital management is
  - High important
  - Important
  - Not so important
  
5. For the best management of working capital, who do you think is responsible?
  - Top level management
  - Middle level management
  - Lower level management
  
6. Is proportion of current liabilities is appropriate in your company?
  - Yes
  - No
  - Can't say

7. Is proportion of current assets is appropriate in your company?

Yes

No

Can't say

8. Does working capital policy have impact on profitability?

Yes

No

9. Which working capital investment policy is adopted by your company?

Relaxed

Moderate

Restricted

10. Does working capital policy have impact on risk of the company?

Yes

No

11. Please rank the factors that affect in working capital policy in your company from highest to lowest position.

) Suppliers credit policy

) Nature and size of business

) Credit policy

) Inventory conversion period

) Sales and demand conditions

## Appendix -2

### I. Calculation of trend value of cash and bank balance to current asset.

| U.L. Ltd. |                     |                         |                         |                        | B.L. Ltd.             |                       |                        |
|-----------|---------------------|-------------------------|-------------------------|------------------------|-----------------------|-----------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>          | Xy <sub>1</sub>         | Yc <sub>1</sub> = a+by | Y <sub>2</sub>        | Xy <sub>2</sub>       | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 15.62                   | -31.24                  | 35.17                  | 5.8                   | -11.6                 | 2.86                   |
| -1        | 1                   | 53.81                   | -53.81                  | 38.18                  | 1.0                   | -1.0                  | 3.28                   |
| 0         | 0                   | 54.06                   | 0                       | 41.19                  | 3.1                   | 0                     | 3.7                    |
| 1         | 1                   | 49.73                   | 49.73                   | 44.20                  | 0.4                   | 0.4                   | 4.12                   |
| 2         | 4                   | 32.73                   | 65.46                   | 47.21                  | 8.2                   | 16.4                  | 4.54                   |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 205.95 | xy <sub>1</sub> = 30.14 |                        | y <sub>2</sub> = 18.5 | xy <sub>2</sub> = 4.2 |                        |

$$a = \frac{y_1}{N} = \frac{205.95}{5} = 41.19$$

$$a = \frac{y_2}{N} = \frac{18.5}{5} = 3.7$$

$$b = \frac{xy_1}{x^2} = \frac{30.14}{10} = 3.01$$

$$b = \frac{xy_2}{x^2} = \frac{4.2}{10} = 0.42$$

### II. Calculation of trend value of sundry debtors to current assets ratio.

| U.L. Ltd. |                     |                        |                         |                        | B.N. Ltd.             |                         |                        |
|-----------|---------------------|------------------------|-------------------------|------------------------|-----------------------|-------------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>         | Xy <sub>1</sub>         | Yc <sub>1</sub> = a+by | Y <sub>2</sub>        | Xy <sub>2</sub>         | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 8.06                   | -16.12                  | 8.83                   | 22.8                  | -45.6                   | 22.9                   |
| -1        | 1                   | 10.98                  | -10.98                  | 8.55                   | 16.5                  | -16.5                   | 21.39                  |
| 0         | 0                   | 6.11                   | 0                       | 8.27                   | 27.7                  | 0                       | 19.88                  |
| 1         | 1                   | 8.10                   | 8.10                    | 7.99                   | 17.8                  | 17.8                    | 18.37                  |
| 2         | 4                   | 8.08                   | 16.16                   | 7.71                   | 14.6                  | 29.2                    | 16.86                  |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 41.33 | xy <sub>1</sub> = -2.84 |                        | y <sub>2</sub> = 99.4 | xy <sub>2</sub> = -15.1 |                        |

$$a = \frac{y_1}{N} = \frac{41.33}{5} = 8.27$$

$$a = \frac{y_2}{N} = \frac{99.4}{5} = 19.88$$

$$b = \frac{xy_1}{x^2} = \frac{-2.84}{10} = -0.28$$

$$b = \frac{xy_2}{x^2} = \frac{-15.1}{10} = -1.51$$

### III. Calculation of trend value of inventory to current assets ratio.

| U.L. Ltd. |                     |                         |                       |                        | B.N. Ltd.               |                         |                        |
|-----------|---------------------|-------------------------|-----------------------|------------------------|-------------------------|-------------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>          | Xy <sub>1</sub>       | Yc <sub>1</sub> = a+by | Y <sub>2</sub>          | Xy <sub>2</sub>         | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 36.19                   | -72.38                | 28.45                  | 36.64                   | -73.28                  | 39.17                  |
| -1        | 1                   | 21.38                   | -21.38                | 28.56                  | 42.6                    | -42.6                   | 40.64                  |
| 0         | 0                   | 25.44                   | 0                     | 28.67                  | 41.3                    | 0                       | 42.11                  |
| 1         | 1                   | 25.78                   | 25.78                 | 28.78                  | 49.4                    | 49.4                    | 43.58                  |
| 2         | 4                   | 34.54                   | 69.08                 | 28.89                  | 40.6                    | 81.20                   | 45.05                  |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 143.33 | xy <sub>1</sub> = 1.1 |                        | y <sub>2</sub> = 210.54 | xy <sub>2</sub> = 14.72 |                        |

$$a = \frac{y_1}{N} = \frac{143.33}{5} = 28.67$$

$$a = \frac{y_2}{N} = \frac{210.54}{5} = 42.11$$

$$b = \frac{xy_1}{x^2} = \frac{1.1}{10} = 0.11$$

$$b = \frac{xy_2}{x^2} = \frac{14.72}{10} = 1.47$$

IV. Calculation of trend value of miscellaneous current assets to current assets ratio.

| U.L. Ltd. |                     |                         |                          |                        | B.N. Ltd.             |                      |                        |
|-----------|---------------------|-------------------------|--------------------------|------------------------|-----------------------|----------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>          | Xy <sub>1</sub>          | Yc <sub>1</sub> = a+by | Y <sub>2</sub>        | Xy <sub>2</sub>      | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 40.13                   | -80.26                   | 27.55                  | 34.8                  | -69.6                | 35.1                   |
| -1        | 1                   | 13.83                   | -13.83                   | 24.71                  | 39.9                  | -39.9                | 34.7                   |
| 0         | 0                   | 14.39                   | 0                        | 21.87                  | 27.9                  | 0                    | 34.3                   |
| 1         | 1                   | 16.32                   | 16.32                    | 19.03                  | 32.3                  | 32.3                 | 33.9                   |
| 2         | 4                   | 24.66                   | 49.32                    | 16.19                  | 36.6                  | 73.2                 | 33.5                   |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 109.33 | xy <sub>1</sub> = -28.45 |                        | y <sub>2</sub> =171.5 | xy <sub>2</sub> = -4 |                        |

$$a = \frac{y_1}{N} = \frac{109.33}{5} = 21.87$$

$$a = \frac{y_2}{N} = \frac{171.5}{5} = 34.3$$

$$b = \frac{xy_1}{x^2} = \frac{-28.45}{10} = -2.84$$

$$b = \frac{xy_2}{x^2} = \frac{-4}{10} = -0.4$$

V. Calculation of trend value of loan & advances to current liability ratio.

| U.L. Ltd. |                     |                    |                     |                        | B.N. Ltd.              |                         |                        |
|-----------|---------------------|--------------------|---------------------|------------------------|------------------------|-------------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>     | Xy <sub>1</sub>     | Yc <sub>1</sub> = a+by | Y <sub>2</sub>         | Xy <sub>2</sub>         | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 0                  | 0                   | 0                      | 1.22                   | -2.44                   | 0.79                   |
| -1        | 1                   | 0                  | 0                   | 0                      | 0                      | 0                       | 10.10                  |
| 0         | 0                   | 0                  | 0                   | 0                      | 40                     | 0                       | 19.41                  |
| 1         | 1                   | 0                  | 0                   | 0                      | 16.20                  | 16.20                   | 28.72                  |
| 2         | 4                   | 0                  | 0                   | 0                      | 39.65                  | 79.30                   | 38.03                  |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 0 | xy <sub>1</sub> = 0 |                        | y <sub>2</sub> = 97.07 | xy <sub>2</sub> = 93.06 |                        |

$$a = \frac{y_1}{N} = \frac{0}{5} = 0$$

$$a = \frac{y_2}{N} = \frac{97.07}{5} = 19.41$$

$$b = \frac{xy_1}{x^2} = \frac{0}{10} = 0$$

$$b = \frac{xy_2}{x^2} = \frac{93.06}{10} = 9.31$$

VI. Calculation of trend value of sundry creditors to current liability ratio.

| U.L. Ltd. |                     |                         |                        |                        | B.N. Ltd.               |                         |                        |
|-----------|---------------------|-------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>          | Xy <sub>1</sub>        | Yc <sub>1</sub> = a+by | Y <sub>2</sub>          | Xy <sub>2</sub>         | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 38.39                   | -76.78                 | 48.46                  | 26.68                   | -53.36                  | 10.90                  |
| -1        | 1                   | 56.49                   | -56.49                 | 48.85                  | 0                       | 0                       | 19.66                  |
| 0         | 0                   | 61.75                   | 0                      | 49.24                  | 24.7                    | 0                       | 28.42                  |
| 1         | 1                   | 41.98                   | 41.98                  | 49.63                  | 40.43                   | 40.43                   | 37.18                  |
| 2         | 4                   | 47.60                   | 95.2                   | 50.02                  | 50.27                   | 100.54                  | 45.94                  |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 246.21 | xy <sub>1</sub> = 3.91 |                        | y <sub>2</sub> = 142.08 | xy <sub>2</sub> = 87.61 |                        |

$$a = \frac{\sum y_1}{N} = \frac{246.21}{5} = 49.24$$

$$a = \frac{\sum y_2}{N} = \frac{142.08}{5} = 28.42$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{3.91}{10} = 0.39$$

$$b = \frac{\sum xy_2}{\sum x^2} = \frac{87.61}{10} = 8.76$$

#### VII. Calculation of trend value of current ratio.

| U.L. Ltd. |                     |                       |                         |                        | B.N. Ltd.              |                        |                        |
|-----------|---------------------|-----------------------|-------------------------|------------------------|------------------------|------------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>        | Xy <sub>1</sub>         | Yc <sub>1</sub> = a+by | Y <sub>2</sub>         | Xy <sub>2</sub>        | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 1.79                  | -7.16                   | 2.4                    | 1.59                   | -3.18                  | 1.9                    |
| -1        | 1                   | 1.38                  | -1.38                   | 1.85                   | 1.72                   | -1.72                  | 1.96                   |
| 0         | 0                   | 1.33                  | 0                       | 1.3                    | 3.05                   | 0                      | 2.02                   |
| 1         | 1                   | 1.01                  | 1.01                    | 0.75                   | 1.98                   | 1.98                   | 2.08                   |
| 2         | 4                   | 1.00                  | 2.00                    | 0.2                    | 1.75                   | 3.5                    | 2.14                   |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 6.50 | xy <sub>1</sub> = -5.53 |                        | y <sub>2</sub> = 10.10 | xy <sub>2</sub> = 0.58 |                        |

$$a = \frac{\sum y_1}{N} = \frac{6.50}{5} = 1.3$$

$$a = \frac{\sum y_2}{N} = \frac{10.10}{5} = 2.02$$

$$b = \frac{\sum xy_1}{\sum x^2} = \frac{-5.53}{10} = -0.55$$

$$b = \frac{\sum xy_2}{\sum x^2} = \frac{0.58}{10} = 0.06$$

#### VIII. Calculation of trend value of quick ratio.

| U.L. Ltd. |                     |                       |                         |                        | B.N. Ltd.             |                        |                        |
|-----------|---------------------|-----------------------|-------------------------|------------------------|-----------------------|------------------------|------------------------|
| x         | X <sup>2</sup>      | Y <sub>1</sub>        | Xy <sub>1</sub>         | Yc <sub>1</sub> = a+by | Y <sub>2</sub>        | Xy <sub>2</sub>        | Yc <sub>2</sub> = a+by |
| -2        | 4                   | 1.14                  | -2.28                   | 1.18                   | 1.01                  | -2.02                  | 1.16                   |
| -1        | 1                   | 1.09                  | -1.09                   | 1.05                   | 0.99                  | -0.99                  | 1.16                   |
| 0         | 0                   | 0.99                  | 0                       | 0.92                   | 1.79                  | 0                      | 1.17                   |
| 1         | 1                   | 0.75                  | 0.75                    | 0.79                   | 1                     | 1                      | 1.18                   |
| 2         | 4                   | 0.65                  | 1.30                    | 0.66                   | 1.04                  | 2.08                   | 1.18                   |
|           | x <sup>2</sup> = 10 | y <sub>1</sub> = 4.62 | xy <sub>1</sub> = -1.32 |                        | y <sub>2</sub> = 5.83 | xy <sub>2</sub> = 0.07 |                        |

$$a = \frac{\sum y_1}{N} = \frac{4.62}{5} = 0.92$$

$$a = \frac{\sum y_2}{N} = \frac{5.83}{5} = 1.17$$

$$b = \frac{-xy_1}{x^2} = \frac{-1.32}{10} = -0.13$$

$$b = \frac{-xy_2}{x^2} = \frac{0.07}{10} = 0.007$$

IX. Calculation of correlation between net profit and net wc of U.L. Ltd.

| x(net profit) | y(net wc) | X= (x- $\bar{x}$ ) | Y= (y- $\bar{y}$ ) | XY            | X <sup>2</sup>            | Y <sup>2</sup>            |
|---------------|-----------|--------------------|--------------------|---------------|---------------------------|---------------------------|
| 42.61         | 175.92    | -98.17             | 70.19              | -6890.55      | 9637.35                   | 4926.64                   |
| 93.17         | 163.44    | -47.61             | 57.71              | -2747.57      | 2266.71                   | 3330.44                   |
| 140.78        | 180.53    | 0                  | 74.80              | 0             | 0                         | 5595.04                   |
| 189.20        | 9.39      | 48.42              | -96.34             | -4664.78      | 2344.50                   | 9281.40                   |
| 238.16        | -0.62     | 97.38              | -106.35            | -10356.36     | 9482.86                   | 11310.32                  |
| x= 703.92     | y= 528.66 |                    |                    | XY= -24659.26 | X <sup>2</sup> = 23731.42 | Y <sup>2</sup> = 34443.84 |

$$\bar{x} = \frac{X}{N} = \frac{703.92}{5} = 140.78$$

$$\bar{y} = \frac{y}{N} = \frac{528.66}{5} = 105.73$$

$$\text{Correlation}(r) = \frac{XY}{X^2 * Y^2} = \frac{-24659.26}{23731.42 * 34443.84} = -0.86$$

$$\begin{aligned} \text{PEr} &= 0.6745 * \frac{1-r^2}{n} \\ &= 0.6745 * \frac{1-(-0.86)^2}{5} \\ &= 0 \end{aligned}$$

$$6\text{Per} = 6 * 0 = 0$$

X. Calculation of correlation between net profit and net wc of B.N. Ltd.

| x(net profit) | y(net wc)  | X= (x- $\bar{x}$ ) | Y= (y- $\bar{y}$ ) | XY         | X <sup>2</sup>          | Y <sup>2</sup>           |
|---------------|------------|--------------------|--------------------|------------|-------------------------|--------------------------|
| 48.61         | 187.29     | 14.25              | -37.19             | -529.96    | 203.06                  | 1383.10                  |
| 25.67         | 223.25     | -8.69              | -1.23              | 10.69      | 75.52                   | 1.51                     |
| 37.80         | 301.04     | 3.44               | 76.56              | 263.37     | 11.83                   | 5861.43                  |
| 34.74         | 224.23     | 0.38               | -0.25              | -0.09      | 0.14                    | 0.06                     |
| 24.96         | 186.57     | -9.4               | -37.91             | 356.35     | 88.36                   | 1437.17                  |
| x= 171.78     | y= 1122.38 |                    |                    | XY= 100.36 | X <sup>2</sup> = 378.91 | Y <sup>2</sup> = 8683.27 |

$$\bar{x} = \frac{x}{N} = \frac{171.78}{5} = 34.36$$

$$\bar{y} = \frac{y}{N} = \frac{1122.38}{5} = 224.48$$

$$\text{Correlation}(r) = \frac{XY}{X^2 * Y^2} = \frac{100.36}{378.91 * 8683.27} = 0.05$$

$$\begin{aligned} \text{PEr} &= 0.6745 * \frac{1-r^2}{n} \\ &= 0.6745 * \frac{1-(0.05)^2}{5} \\ &= 0.3 \end{aligned}$$

$$6\text{PE}(r) = 6 * 0.3 = 1.8$$

XI. Calculation of correlation between net sales and net wc of U.L. Ltd.

| x(net sales)  | y(net wc)    | X= (x- $\bar{x}$ ) | Y= (y- $\bar{y}$ ) | XY                | X <sup>2</sup>               | Y <sup>2</sup>               |
|---------------|--------------|--------------------|--------------------|-------------------|------------------------------|------------------------------|
| 1236.05       | 175.92       | -148.39            | 70.19              | -10415.49         | 22019.59                     | 4926.64                      |
| 1244.73       | 163.44       | -139.71            | 57.71              | -8062.66          | 19518.88                     | 3330.44                      |
| 1524.90       | 180.53       | 140.46             | 74.8               | 10506.41          | 19729.01                     | 5595.04                      |
| 1481.56       | 9.39         | 97.12              | -96.34             | -9356.54          | 9432.29                      | 9281.39                      |
| 1434.94       | -0.62        | 50.5               | -106.35            | -5370.67          | 2550.25                      | 11310.32                     |
| x=<br>6922.18 | y=<br>528.66 |                    |                    | XY= -<br>22698.95 | x <sup>2</sup> =<br>73250.02 | y <sup>2</sup> =<br>34443.83 |

$$\bar{x} = \frac{\sum x}{N} = \frac{6922.18}{5} = 1384.44$$

$$\bar{y} = \frac{\sum y}{N} = \frac{528.66}{5} = 105.73$$

$$\text{Correlation}(r) = \frac{XY}{X^2 * Y^2} = \frac{22698.95}{73250.02 * 34443.83} = 0.45$$

$$\begin{aligned} \text{PEr} &= 0.6745 * \frac{1-r^2}{n} \\ &= 0.6745 * \frac{1-(0.45)^2}{5} \\ &= 0.24 \end{aligned}$$

$$6\text{PE}(r) = 6 * 0.24 = 1.4$$

XII. Calculation of correlation between Net sales and Net WC of B.N. Ltd.

| X(Net sales) | Y(Net WC) | X= (x- $\bar{x}$ ) | Y= (y- $\bar{y}$ ) | XY      | X <sup>2</sup> | Y <sup>2</sup> |
|--------------|-----------|--------------------|--------------------|---------|----------------|----------------|
| 534.49       | 187.29    | -68.67             | -37.19             | 2553.84 | 4715.57        | 1383.09        |

|                     |                     |       |        |                     |                      |                      |
|---------------------|---------------------|-------|--------|---------------------|----------------------|----------------------|
| 609.65              | 223.25              | 6.49  | -1.23  | -7.98               | 42.12                | 1.51                 |
| 632.11              | 301.04              | 28.95 | 76.56  | 1347.91             | 838.10               | 5861.43              |
| 614.74              | 224.23              | 11.58 | -0.25  | -2.89               | 134.09               | 0.0625               |
| 624.82              | 186.57              | 21.66 | -37.91 | -821.13             | 469.16               | 1437.16              |
| $\bar{x} = 3015.81$ | $\bar{y} = 1122.38$ |       |        | $\sum XY = 3069.75$ | $\sum X^2 = 6199.04$ | $\sum y^2 = 8683.25$ |

$$\bar{x} = \frac{\sum x}{N} = \frac{3015.81}{5} = 603.164$$

$$\bar{y} = \frac{\sum y}{N} = \frac{1122.38}{5} = 224.48$$

$$\text{Correlation}(r) = \frac{\sum XY}{\sqrt{\sum X^2 * \sum Y^2}} = \frac{3069.75}{\sqrt{6199.04 * 8683.25}} = 0.42$$

$$\begin{aligned} \text{PEr} &= 0.6745 * \frac{1-r^2}{n} \\ &= 0.6745 * \frac{1-(0.42)^2}{5} \\ &= 0.25 \end{aligned}$$

$$6\text{PE}(r) = 6 * 0.25 = 1.5$$

### XIII. Calculation of Regression equation between net profit and net WC of U.L. Ltd.

Regression eqn. of Y (net WC) on X (net profit) is given by  
 $Y - \bar{y} = b_{yx} (X - \bar{x})$  where  $x$  = net profit and  $Y$  = net WC  
or,  $Y - \bar{y} = r * \frac{\sum y}{\sum x} (x - \bar{x})$

$$\text{or, } Y - 105.73 = -0.86 * \frac{\sum Y^2}{\sum X^2} (x - 140.78)$$

$$\text{or, } y - 105.73 = -0.86 * \frac{34443.84}{23731.42} (x - 140.78)$$

$$\text{or, } y - 105.73 = -1.04 (x - 140.78)$$

$$\text{or, } y - 105.73 = -1.04x + 145.86$$

$$\text{or, } y = 251.59 - 1.04x$$

where  $a = 251.59$  &  $b = -1.04$

Again we have regression equation X (net profit) on Y (net WC) is given by

$X - \bar{x} = b_{xy} (y - \bar{y})$  where  $x$  = net profit and  $y$  = net WC

$$X - \bar{x} = r * \frac{\sum x}{\sum y} (y - \bar{y})$$

$$\text{or, } X - \bar{x} = r * \frac{\sum X^2}{\sum Y^2} (y - \bar{y})$$

$$\text{or, } \bar{X} - 140.78 = -0.86 * \frac{23731.42}{34443.84} (y - 105.73)$$

$$\text{or, } \bar{x} - 140.78 = -7.14 (y - 105.73)$$

$$\text{or, } \bar{x} - 140.78 = -7.14y + 754.91$$

$$\text{or, } \bar{x} = 895.69 - 7.14y$$

$$\text{where } a = 895.69 \text{ \& } b = -7.14$$

#### XIV. Calculation of regression eqn between net profit and net WC of B.N. Ltd.

Regression eqn. of Y (net WC) on X (net profit) is given by

$Y - \bar{y} = b_{yx} (X - \bar{x})$  where  $x = \text{net profit}$  and  $Y = \text{net WC}$

$$\text{or, } Y - \bar{y} = r * \frac{\sum y}{\sum x} (x - \bar{x})$$

$$\text{or, } Y - 224.48 = 0.05 * \frac{Y^2}{X^2} (x - 34.36)$$

$$\text{or, } y - 224.48 = 0.05 * \frac{8683.27}{378.91} (x - 34.36)$$

$$\text{or, } y - 224.48 = 2.39 (x - 140.78)$$

$$\text{or, } y - 224.48 = 2.39x + 336.46$$

$$\text{or, } y = 560.94 + 2.39x$$

$$\text{where } a = 560.94 \text{ \& } b = 2.39$$

Again we have regression equation X (net profit) on Y (net WC) is given by

$X - \bar{x} = b_{xy} (y - \bar{y})$  where  $x = \text{net profit}$  and  $y = \text{net WC}$

$$X - \bar{x} = r * \frac{\sum x}{\sum y} (y - \bar{y})$$

$$\text{or, } X - \bar{x} = r * \frac{X^2}{Y^2} (y - \bar{y})$$

$$\text{or, } X - 34.36 = 0.05 * \frac{378.91}{8683.27} (y - 224.48)$$

$$\text{or, } x - 34.36 = 1.04 (y - 224.48)$$

$$\text{or, } x - 34.36 = 1.04y - 233.46$$

$$\text{or, } x = -199.09 + 1.04y$$

$$\text{where } a = -199.09 \text{ \& } b = 1.04$$

#### XV. Calculation of regression eqn between net sales and net WC of U.L. Ltd.

Regression eqn. of Y (net WC) on X (net sales) is given by

$Y - \bar{y} = b_{yx} (X - \bar{x})$  where  $x = \text{net sales}$  and  $Y = \text{net WC}$

$$\text{or, } Y - \bar{y} = r * \sum y (x - \bar{x})$$

$$\text{or, } Y - 105.73 = 0.45 * \frac{Y^2}{X^2} (x - 1384.44)$$

$$\text{or, } y - 105.73 = 0.45 * \frac{3443.83}{73250.02} (x - 1384.44)$$

$$\text{or, } y - 105.73 = 9.76 (x - 1384.44)$$

$$\begin{aligned} \text{or, } y-105.73 &= 9.76x-13512.13 \\ \text{or, } y &= -13406.4 + 9.76x \\ \text{where } a &= -13406.4 \text{ \& } b = 9.76 \end{aligned}$$

Again we have regression equation X (net sales) on Y (net WC) is given by

$$X - \bar{X} = b_{xy} (y - \bar{y}) \text{ where } x = \text{net sales and } y = \text{net WC}$$

$$X - \bar{X} = r * \frac{\sum xy}{\sum y^2} (y - \bar{y})$$

$$\text{or, } X - \bar{X} = r * \frac{\sum xy}{\sum y^2} (y - \bar{y})$$

$$\text{or, } X - 138.44 = 0.45 * \frac{73250.02}{3443.83} (y - 105.73)$$

$$\text{or, } x - 138.44 = 2.07 (y - 105.73)$$

$$\text{or, } x - 138.44 = 2.07y - 219.43$$

$$\text{or, } x = -80.99 + 2.07y$$

$$\text{where } a = -80.99 \text{ \& } b = 2.07$$

XVI. Calculation of regression eqn between net sales and net WC of B.N. Ltd.

Regression eqn. of Y (net WC) on X (net sales) is given by

$$Y - \bar{y} = b_{yx} (X - \bar{x}) \text{ where } x = \text{net profit and } Y = \text{net WC}$$

$$\text{or, } Y - \bar{y} = r * \frac{\sum xy}{\sum x^2} (x - \bar{x})$$

$$\text{or, } Y - 224.48 = 0.42 * \frac{\sum Y^2}{\sum X^2} (x - 603.164)$$

$$\text{or, } y - 224.48 = 0.42 * \frac{8683.25}{6199.04} (x - 603.164)$$

$$\text{or, } y - 224.48 = 0.50 (x - 603.164)$$

$$\text{or, } y - 224.48 = 0.50x - 299.82$$

$$\text{or, } y = -75.34 + 0.50x$$

$$\text{where } a = -75.34 \text{ \& } b = 0.50$$

Again we have regression equation X (net sales) on Y (net WC) is given by

$$X - \bar{X} = b_{xy} (y - \bar{y}) \text{ where } x = \text{net sales and } y = \text{net WC}$$

$$X - \bar{X} = r * \frac{\sum xy}{\sum y^2} (y - \bar{y})$$

$$\text{or, } X - \bar{X} = r * \frac{\sum xy}{\sum y^2} (y - \bar{y})$$

$$\text{or, } X - 603.164 = 0.42 * \frac{6199.04}{8683.25} (y - 224.48)$$

$$\text{or, } x - 603.164 = 0.35 (y - 224.48)$$

$$\text{or, } x - 603.164 = 0.35y - 79.66$$

$$\text{or, } x = 523.50 + 0.35y$$

$$\text{where } a = 523.50 \text{ \& } b = 0.35$$

**Appendix – 3**  
**UNILEVER NEPAL LIMITED**  
**Five Years Balance Sheet<sup>33</sup>**

| Particulars                         | (Rs. In million) |               |               |               |               |
|-------------------------------------|------------------|---------------|---------------|---------------|---------------|
|                                     | 060/61           | 061/62        | 062/63        | 063/64        | 064/65        |
| <b>CAPITAL &amp; LIABILITIES:</b>   |                  |               |               |               |               |
| <b>Capital &amp; Reserve Fund</b>   |                  |               |               |               |               |
| Share Capital                       | 92.07            | 92.07         | 92.07         | 92.07         | 92.07         |
| Reserve & Retained Earnings         | 256.06           | 266.06        | 205.18        | 142.72        | 178.61        |
| Medium & Long-term Loan             |                  |               |               |               |               |
| <b>Total</b>                        | <b>348.13</b>    | <b>358.13</b> | <b>297.25</b> | <b>234.79</b> | <b>270.68</b> |
| <b>ASSETS:</b>                      |                  |               |               |               |               |
| Fixed Assets                        | 172.2            | 146.16        | 94.54         | 96            | 107.65        |
| Investment                          | -                | 48.53         | 22.18         | 129.40        | 163.65        |
| <b>Current Assets:</b>              |                  |               |               |               |               |
| Inventories                         | 144.45           | 126.11        | 184.22        | 229.76        | 256.17        |
| Trade & Other Receivables           | 32.16            | 64.78         | 44.25         | 72.22         | 59.89         |
| Cash & Bank Balance                 | 62.33            | 317.40        | 391.53        | 443.31        | 242.67        |
| Pre-paid, Advances, Loan & Deposits | 160.19           | 81.60         | 104.24        | 145.51        | 182.88        |
| <b>Total Current Assets</b>         | <b>399.13</b>    | <b>589.89</b> | <b>724.24</b> | <b>891.41</b> | <b>741.61</b> |
| <b>Less: Current Liabilities</b>    |                  |               |               |               |               |
| Trade & Other Payables              | 85.70            | 240.92        | 335.72        | 370.24        | 353.31        |
| Provisions                          | 137.51           | 185.53        | 207.99        | 511.78        | 388.92        |
| Total Current Liabilities           | 223.21           | 426.45        | 543.71        | 882.02        | 742.23        |
| <b>Net Current Assets</b>           | <b>175.92</b>    | <b>163.44</b> | <b>180.53</b> | <b>9.39</b>   | <b>-0.62</b>  |
| Less: Deferred Expenses             | -                | -             | -             | -             | -             |
| <b>Total</b>                        | <b>348.67</b>    | <b>358.13</b> | <b>297.25</b> | <b>234.79</b> | <b>270.68</b> |

<sup>33</sup> Source: Annual Financial Report of U.L. Ltd. from 058/59 to 062/63 B.S.

II.  
UNILEVER NEPAL LIMITED  
Cooperative Profit & Loss Statement<sup>34</sup>

(Rs. in million)

| Particulars                      | 060/61        | 061/62        | 062/63        | 063/64        | 064/65        |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sales Income                     | 1236.05       | 1244.7        | 1553.03       | 1818.53       | 2144.59       |
| Less: cost of sales              | 937.73        | 843.14        | 1098.76       | 1281.62       | 1370.21       |
| <b>Gross Profit</b>              | <b>298.32</b> | <b>401.59</b> | <b>454.27</b> | <b>536.91</b> | <b>774.38</b> |
| Other Income                     | 1.76          | 7.13          | 34.88         | 87.78         | 54.39         |
| <b>Total</b>                     | <b>300.08</b> | <b>408.72</b> | <b>489.15</b> | <b>624.69</b> | <b>828.77</b> |
| Less: Administrative Expenses    | 61.86         | 73.63         | 45.89         | 43.64         | 52.81         |
| Less: Sales & Promotion Expenses | 169           | 208.44        | 123.45        | 194.93        | 299.39        |
| <b>Profit Before Interest</b>    | <b>69.22</b>  | <b>126.65</b> | <b>319.81</b> | <b>386.12</b> | <b>476.57</b> |
| Interest                         | 12.61         | 2.6           | 1.98          | 1.06          | 0.13          |
| <b>Profit Before Tax</b>         | <b>56.61</b>  | <b>124.95</b> | <b>317.83</b> | <b>385.06</b> | <b>476.44</b> |
| Provision for Income Tax         | 14            | 30.88         | 66.74         | 82.5          | 98            |
| <b>Net Profit</b>                | <b>42.61</b>  | <b>93.17</b>  | <b>251.08</b> | <b>302.56</b> | <b>378.44</b> |

<sup>34</sup> Source: Annual Financial Report of U.L. Ltd. from 058/59 to 062/63 B.S.

III.  
Bottlers Nepal Limited  
Five Years Balance sheet<sup>35</sup>

(Rs. In Million)

| Particulars                         | 060/61        | 061/62        | 062/63        | 063/64        | 064/65        |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>CAPITAL &amp; LIABILITIES:</b>   |               |               |               |               |               |
| <b>Capital &amp; Reserve Fund</b>   |               |               |               |               |               |
| Share Capital                       | 194.89        | 194.89        | 194.89        | 194.89        | 194.89        |
| Reserve & Retained Earnings         | 427.27        | 483.04        | 627.33        | 535.79        | 352.18        |
| Medium & Long-term Loan             | -             | -             | -             | -             | 72            |
| <b>Total</b>                        | <b>622.16</b> | <b>677.93</b> | <b>822.22</b> | <b>730.68</b> | <b>619.07</b> |
| <b>ASSETS:</b>                      |               |               |               |               |               |
| Fixed Assets                        | 434.87        | 456.98        | 420.72        | 409.43        | 323.57        |
| Investment                          | -             | -             | 112.63        | 112.63        | 112.63        |
| <b>Current Assets:</b>              |               |               |               |               |               |
| Inventories                         | 185.3         | 226.9         | 185.0         | 224.1         | 176.9         |
| Trade & Other Receivables           | 115.2         | 88.0          | 124.2         | 80.9          | 63.7          |
| Cash & Bank Balance                 | 29.5          | 5.5           | 13.8          | 1.9           | 35.9          |
| Pre-paid, Advances, Loan & Deposits | 176.4         | 212.2         | 124.9         | 146.4         | 159.5         |
| <b>Total Current Assets</b>         | <b>506.9</b>  | <b>532.4</b>  | <b>447.8</b>  | <b>453.2</b>  | <b>436.1</b>  |
| <b>Less: Current Liabilities</b>    |               |               |               |               |               |
| Trade & Other Payables              | 89.04         | 0             | 94.98         | 129.68        | 224.33        |
| Provisions                          | 230.10        | 309.14        | 51.82         | 99.31         | 25.15         |
| <b>Total Current Liabilities</b>    | <b>319.14</b> | <b>309.14</b> | <b>146.79</b> | <b>228.99</b> | <b>249.48</b> |
| <b>Net Current Assets</b>           | <b>187.29</b> | <b>223.25</b> | <b>301.04</b> | <b>224.23</b> | <b>186.57</b> |
| Less: Deferred Expenses             | -             | 2.3           | 12.17         | 15.61         | 3.7           |
| <b>Total</b>                        | <b>622.16</b> | <b>677.93</b> | <b>822.22</b> | <b>730.68</b> | <b>619.07</b> |

<sup>35</sup> Source: Annual Financial Report of B.N Ltd. from 058/59 to 062/63 B.S.

## IV

Bottlers Nepal Limited  
Comparative Profit & Loss Statement<sup>36</sup>

(Rs. in million)

| Particulars  | 060/61        | 061/62        | 062/63        | 063/64        | 064/65        |
|--|---------------|---------------|---------------|---------------|---------------|
| Sales Income   | 561.85        | 589.64        | 601.38        | 614.74        | 621.83        |
| Less: cost of sales  | 302.89        | 334.65        | 341.47        | 375.35        | 351.08        |
| <b>Gross profit</b>  | <b>258.96</b> | <b>254.99</b> | <b>259.91</b> | <b>257.39</b> | <b>270.75</b> |
| Other Income   | 0.22          | 0.39          | 0.58          | 1.16          | 0.86          |
| <b>Total</b>   | <b>259.18</b> | <b>255.38</b> | <b>260.49</b> | <b>258.55</b> | <b>271.61</b> |
| Less: Administrative Expenses                                  | 109.98        | 128.78        | 128.50        | 137.46        | 155.67        |
| Less: Sales & Promotion Expenses                               | 12.13         | 18.66         | 15.29         | 19.74         | 16.95         |
| <b>Profit before interest &amp; depreciation</b>               | <b>137.07</b> | <b>107.94</b> | <b>116.70</b> | <b>101.35</b> | <b>98.99</b>  |
| Interest   | 0.10          | 0.89          | 1.23          | 0.26          | 1.33          |
| Depreciation   | 74.67         | 54.87         | 68.54         | 49.17         | 64.16         |
| Amortization   | 4.46          | 0.89          | 3.23          | 6.60          | 0.53          |
| Dividend from Bottlers Nepal (Tarai) Ltd, a subsidiary company | (3.66)        | (3.98)        | (4.87)        | (5.49)        | -             |
| Profit/ Loss on sales of fixed assets                          | -             | (1.78)        | (3.67)        | -             | (2.86)        |
| Provision for staff quarters                                   | 1.67          | 1.43          | 2.67          | 2.54          | 1.79          |
| Provision for bonus  | 5.21          | 4.50          | 4.87          | 4.39          | 3.10          |
| <b>Profit before Tax</b>                                       | <b>54.62</b>  | <b>51.12</b>  | <b>44.70</b>  | <b>43.88</b>  | <b>30.96</b>  |
| Provision for tax  | 12.71         | 11.57         | 8.97          | 8.50          | 5.54          |
| Provision for Special Fees                                     | 1.97          | 1.20          | 0.72          | 0.64          | 0.46          |
| <b>Net profit after tax</b>                                    | <b>39.94</b>  | <b>38.35</b>  | <b>35.01</b>  | <b>34.73</b>  | <b>24.96</b>  |

<sup>36</sup> Source: Annual Financial Report of B.N Ltd. from 058/59 to 062/63 B.S.