THE MANAGEMENT OF WORKING CAPITAL IN MANUFACTURING COMPANIES.

(A CASE STUDY OF TECHNO TURKEY COMPANY LTD. AKURE)

BY

BADA PETER
AKR/2000 80266

A Project Report Submitted to the Faculty of Social and Management Sciences. Adekunle Ajasin University, Akungba-Akoko

DECEMBER, 2003

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BEING A PROJECT REPORT SUBMITTED TO THE FACULTY OF SOCIAL AND MANAGEMENT SCIENCES. ADEKUNLE AJASIN UNIVERSITY, AKUNGBA AKOKO

IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POST GRADUATE DIPLOMA IN FINANCIAL MANAGEMENT (PGDFM).

December, 2003.

CERTIFICATION

This is to certify that this project work was carried out by BADA PETER OJO under the direct supervision of Mr. OGUNBADEWA E.Y in partial fulfillment of the requirement for the award of postgraduate diploma in financial management (PGDFM).

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MR. OGUNBADEWA E.Y
supervisor

DR. OGUNBODEDE E.F
co-ordinator external degree

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DEDICATION

This project work is dedicated to the ALMIGHTY GOD FOR HIS protection and guidance throughout my studies at the Adekunle Ajasin University, Akungba Akoko, and for making my Education career a reality.

The work is also dedicated to my loving grand mother, MRS. SERAH BADA for her care and kindness.

My late mother, MRS.VICTORIA BADA whose words of encouragement during her life time has no equal and, finally to my son, MASTER OLUMIDE BADA

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ACKNOWLEDGEMENT

In carrying out this type of study, there are bound to be influences and contributors to this successful accomplishment.

I am gesturing my profound gratitude to my family member. OLUWOLE OLUMIDE my son, and Mrs. MAGRARET BADA, my life.

I recognize with thanks and sincere appreciation the invaluable contribution of my supervisor Mr. OGUNBADEWA E.Y and the management of TECHO TURNKEY COMPANY LTD.

My unending appreciation and thanks goes to ALMIGHTY father who allow this research work to see the light of the day.

Thanks and GOD bless.

Bada Peter.

ABSTRACT

Working capital is grouped into two concepts gross concept, and net concept. The gross concept simply called the current Assets, and these are the assets which can be converted into cash within an accounting year (or operating circle) and include debtors, cash, stocks, bill receivables and short term securities. 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 period and it include expenses, creditors, bank overdraft, bill payables and outstanding.

The need for working capital to run the day to day business activities cannot be over – emphasized. We will hardly find a business firm which does not require any amount of working capital. In deed, firm defers in their requirements of the working capital.

As already known, firms aim at maximizing the wealth of shareholders. In its endeavour to maximize shareholders wealth, the firm should earn sufficient return from its operations. Earning a steady amount of profit requires a successful sales activity, The firm has to invest enough fund in current assets for the success of the sale activity. Current assets are needed because sales do not convert into cash instantaneously. There is always an operating cycle involved in the conversion of sales into cash.

Working capital may be regarded as the lifeblood of business. Its effective management can do mush to ensure the success of a business, while its inefficient management can lead not only to loss of profits but also to the ultimate downfall of what otherwise might be considered as a promising concern.

A deeper understanding of the working capital and its satisfactory provision can lead not only to material savings in the economical use of capital but also assist in furthering the ultimate aim of business, namely, that of maximizing financial returns on the minimum amount of capital which need be employed.

I believe this project would help the manufacturing industries in their working capital management since my basis of information and data worked upon are from manufacturing companies. Working capital management has become problem for accountants, managers, students of account and other academicians.

TABLE OF CONTENTS

CHAPTER THREE

CHAPTER FOUR

CHAPTER FIVE

CHAPTER ONE

1.0 INTRODUCTION:

A concept which is widely used in discussion of cash availability (or liquidity) is that of working capital. It is used to finance current assets, such as stocks,work in progress,debtors and prepayments and operational cash.

DEFINITION OF WORKING CAPITAL

There are various definitions of working capital among which are discussed below. Working capital may be defined then as constituting those assets help for current use within a business less the amount due to those await settlement in short term for value supplied in whatever form.

Working capital can be described as a tool (distinct from fixed assets) stated in monetary term which is required for the day to day operations of a company towards the achievement of its objectives.

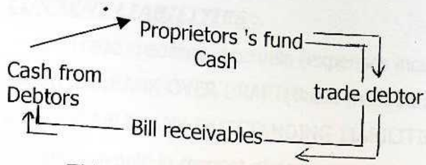
Working capital of a firm is composed of the fund which is invested in those assets that change form in the course of operations. These assets include inventories and cash.

Working capital is a total of current assets less current liabilities i.e. Net current assets.

Working capital is that portion of firms total finance made available for the running of the business.

Good management demands that certain amount of fund must be kept to meet uncertainties, maintenance of day to day operations of business and sudden increase in cash management.

The simple illustration below shows the flow of funds through the cycle to the original fund .In the first instance the original fund invested are used to meet expenses. The cycle flow from inventory to trade debtors (when goods are sold on credit). From debtors to bill receivables (when debtors accept trade bills in settlement) and from bills are discounted or are finally settled upon maturity.



This summary constitute a brief summary of the event which goes to make up the working capital circle.

The cash which arises by means of these sales transactions flow into business and is used for various purpose, including the provision of fund to recommence the circle.

Composition of working capital

The actual composition of the items making up the amount of Net current assets will be dealt with more completely as each item is considered individually. Some items may have to be extracted from financial statement when working capital estimates or flow of funds statement are prepared as their inherent nature may necessitate certain readjustment if a true picture is to be revealed

The constituent parts normally making up the figure of working capital, or as other wise called, the net current asset will most frequently be items such as the following current assets..

CURRENT ASSETS

Stock (include raw materials, work in progress and finished goods),TRADE DEBTORS (prepayment i.e. payment on account of expenses to be incurred.

BILL RECEIVABLES : investment (these must be of a readily realizable nature and only on a temporary basis).

BALANCE AT BANK :

CASH IN HAND.

CURRENT LIABILITIES :

Trade creditors, Accruals (expenses incurred but not yet paid for), TAXATION,BANK OVER DRAFT(these must be of temporary nature) BILL PAYABLE, ANY OUTSTANDING LIABILITIES CURRENT PAYABLE (i.e. amount payable in respect of compensation, settlement of an action, etc)

1.1 BACKGROUND TO THE STUDY

Working capital may be defined then as constituting those assets held for current use within a business, less the amount due to those who await settlement in the short term for value supplied in whatever form.

Working capital may be referred as the life blood of a business its effective management can do much to ensure the success of a business. While its inefficient management can lead not only to loss of profits but also to the ultimate down fall of what other wise might be considered as a promised concern.

Adequate working capital is necessary to solve the problems associated with both excessive and inadequate working capital positions excessive working capital means idle funds which earns no income for the firm inadequate working capital affects the firms profitability as well as resulting in production interruptions and inefficiencies.

A deeper understanding of the importance of working capital and its satisfactory provision can lead not only to material savings in the economical use of capital but can also assist in furthering the ultimate aim of business, namely that of maximizing financial reforms on the minimum amount of capital which needs be employed.

The important of good working capital management cannot be over - emphasized. It concerned not only individual businesses but indeed, it affect the whole economy of the nation in manufacturing industries, working capital exist in various way such a gross working capital which refers to the sum total of current assets, and net working capital which is the difference between current assets and current liabilities.

Whenever a project involving investment in fixed assets is evaluated, additional investment in working capital is required once a project is proceeding its working capital required. Once a project is proceeding, its working capital merges with that of all other activities and separate monitoring become impossible. It is therefore necessary to exercise control over working capital .

1.2 PURPOSE OF THE STUDY:

The purpose of this research can be divided into two:

(a) The research is embarked upon prevailing in partial fulfillment for the award of Post Graduate diploma in financial Management (PGDFM) and;

(b) Working capital management have created a lot of problems for management, Accountants, Managers, Finance/Accounting students and other academicians. Then, the objective of this study is to emphasis in an expiate manners, the method of managing working capital in manufacturing industries.

The study shall serve as guide to students, and the field workers and will remove the problem inherent and attributed to working capital management.

Moreover, the study shall serve as reference materials to the in-coming students especially those in related fields.

1.3 SIGNIFICANCE OF THE STUDY:

The study will help in identifying the causes of waste fund through inefficient and ineffective management of working capital.

In any active and efficiently conducted business, liquid resources in the form of cash, or so called " Near cash" items, will never be static.

Where cash resources are relatively large in comparison with the size of the business, it is safe to assume that the financial aspect of the business are not being managed on the most profitable basis. The nearer assets are.to their realizable in liquid form the less the risk involved in holding them and the less the return they rendered.

The findings of the study will help the organization and the government to understand the problem caused by non availability of liquid assets, inventories etc for the maintenance of the organization.

The finding of this study will go a long way to solve the problems encountered by the company and how it could be solve.

1.4 LIMITATION/DELIMITATION OF THE STUDY:

The area of study for this project is the management of working capital in manufacturing companies. Techo - Turnkey company Ltd. Akure has been taken as a case study for study.

However, the Successiveness of the execution of the project is limited by some factors amongst which are now availability of finance and time factors. No meaningful achievement could be made without a sufficient capital in term of money, materials and time. The limiting factors are therefore money, materials and time.

1.5 RESEARCH QUESTION / HYPOTHESIS

This project work is written to draw attention to the working capital Management system in manufacturing companies with a particular references to Techo Turnkey company limited Akure.

As regards this, the following hypothesis are prepared for teaching.

(a) The appropriateness' of the management system

(b) Competence of the Officers involved

(c) Successfulness of liquid resources management lies in the laid down management policies.

(d) Short term financing is a good means of financing the activities of manufacturing.

(e) How cash flow operates in manufacturing companies

(f) • Inadequate internal control system as to component of working capital.

1.6 DEFINITION OF TERMS.

MAXIMUM STOCK LEVEL:- This is the lowest level below which it is not economical to allow stocks to exceed.

MINIMUM STOCK LEVEL:- This is the lowest level below which stock would not be allowed to fall.

RE-ORDER LEVEL:- This is the level of which the store keeper will raise a requisition to the purchasing department for the procurement of additional stock i.e level at which an order should be placed to replenish the inventory.

ECONOMIC ORDER QUANTITY:- This is that inventory level which minimizes the total of ordering costs and carrying costs.

ORDERING COST:- Those are carrying costs incurred when an order is placed until the goods are physically received into store e.g. cost of requisitions, purchase ordering, transporting, receiving inspecting and storing.

CARRYING COST:- These are costs incurred by an organisation because it is holding or keeping stock. It is otherwise called holding cost. e.g. cost of storage, insurance, taxes, deterioration and obsolescence.

LEAD TIME:- The time normally taken to replenish inventory after an order has been placed.

SAFETY STOCK:- The minimum amount of inventory maintained to reduce stock-out Cost that may result from changes in feed time.

INTERNAL CONTROL :- This is the whole system of control, financial or otherwise established by the management in other to carry out the business of an enterprise in orderly and efficient policies, safeguard the assets and secure as far as possible the reliability of the records.

INVENTORIES **:-** inventory is defined as tangible property held for sale in the ordinary course of business in the process of productions for such sale or to be consumed in the preparation of good or service for sale.

CURRENT ASSETS :- assets used by the company in its ordinary work (such as materials, cash and finished product).

CURRENT LIABILITIES :- debts which the company has to pay within the next accounting period.

CASH BUDGET :- A schedule of expected receipts and disbursements.

CASH FLOW :- The reported net income of a corporation plus amount charged off for depreciation, depletion, amortization and extra – ordinary charges to reserves, which are book keeping deductions and not actually paid out in cash.

1.7 HISTORY OF THE CASE STUDY

Techno --- Turnkey limited was incorporated in Nigeria as a private limited company on the 27th day of June, year 2000 under the company and Allied matter Decree of 1999 with the Registration number RC.382909. The company is limited by shares and it is located at Akure Industrial Estate, Ilasa road, Akure to undertake the manufacturing of soaps and Detergents of various kind – antiseptic toilets, detergent etc.

At incorporation, the share capital of the company is ₦ 100,000 (one hundred thousand naira) divided into 100,000 ordinary shares of ₦ 100 each with respective right as are defined by the article of association registered herewith.

The company had recently adopted the resolution converting the company from privated to public limited liability company at the extra – ordinary meeting held recently. The company share capitals will soon be listed on the Nigeria stock exchange.

CHAPTER TWO

2.0 INTRODUCTION

For an organization to achieve its goal effectively, there is need for efficient working capital management.

This chapter tries to identify the most common methods by which some components of working capital can be controlled and managed. If analysis the concepts and composition of working capital, how debtors and receivables can be managed and controlled, the management of cash and inventories, it finally elaborate on financial decision making.

2.1.1 THE CONCEPT OF WORKING CAPITAL MANAGEMENT

A firms working capital represents liquid assets held for the purpose of being able to finance differences between the rate at which cash is received and disbursed, to have inventories on hand to meet sudden demands for the firm's sales, and so on. Its (working capital) management refers to the administration of all aspects of current assets, namely, cash, marketable securities, debtors, stocks and current liabilities.

Working capital permits the firm to meet its day to day needs for liquid assets. Since for many firms investment in liquid assets may equals to or even greater than investment in fixed assets, the appropriate amount of working capital to be retained in the firm is a matter of some importance. Furthermore, since liquid assets tend to yield little or no explicit return, there may be a substantial opportunity cost to the firm if excessive funds are tied up in these liquid assets.

2.1.2 THE COMPOSITION OF WORKING CAPITAL

CURRENT ASSETS:

Stock (work in progress, Finished goods and raw materials)

Trade Debtors;

Cash;

Prepayment (payment on account of expenses to be incurred)

Bill receivables;

Investment (these must be of readily realizable nature and only invested on a temporary basis);

Balance at Bank.

CURRENT LIABILITIES:

Trade Creditors;

Accruals (Expenses incurred but not yet paid for);

Taxation;

Bank Overdraft (This must be of temporary nature);

Bill Payable; and

Any outstanding liabilities currently payable.

2.2.1 INVENTORY MANAGEMENT AND CONTROL

Inventory is defined as tangible property

- Held for sales in the ordinary course of business
- In the process of production for such sales, or
- To be consumed in the production of good or services.

Inventories, which may be classified as raw materials, work in progress, and finished good are essential part of most business operations.

MOTIVES FOR HOLDING INVENTORIES:

There are three general motives for holding inventories:

(a) The transactions motive which emphasizes the need to maintain inventories to facilitate smooth production and sales operation.

(b) The precautionary motive which necessitates holding of inventories to quord against risks of unpredictable changes in demand and supply forces and other factors.

(c) The speculative motive which influences the decision to increase or reduce inventory levels to take advantage of price fluctuations. An investment policy especially in times of inflation.

COSTS ASSOCIATED WITH INVENTORIES:

Before discussing cost control, it is necessary to identify and analyse costs associated with stock, therefore, the cost that can be identified as related to inventories are

(i) Holding / carrying cost

(ii) Ordering cost

(iii) Cost of overstocking and

(iv) Cost of Under stocking

HOLDING COST:

These are costs incurred by an organisation because it is holding or keeping inventories. It is otherwise called carrying cost.

Holding cost tend to increase as the size of the inventory increases. i.e., they are in common cases, variable cost. A good example is interest on money invested on stock, it could be interest on money borrowed by the company to finance the stock. In other words, holding cost involves the cost incurred for maintaining a given level of inventory such as storage, insurance, taxes, deterioration and obsolescence.

ORDERING COST:- These are costs incurred when order is placed until the goods are physically received into store. They are the costs associated with getting items of stock into the company's inventory. Like holding cost, ordering cost (in most cases) are variable costs because the more order placed in a given year, the greater the cost incurred. Ordering cost include cost of requisitions, purchase ordering, transporting, receiving, inspecting and storing.

COST OF OVER-STOCKING:-

Example of cost of overstocking are:

(a) The cost of financing the procurement of the stock. This may be the interest on money borrowed, or the opportunity cost of the fund.

(b) The cost of extra storage space

(c) Extra Insurance premium

(d) Cost of more labour to handle the excess stocks

(e) Highest risk of theft, obsolescence and deterioration.

COST OF UNDER-STOCKING:-

Examples of cost of understanding are:

(a) Loss of customer's goodwill as a result of inability to meet demand

(b) Loss of contribution / profit as a result of lost of sales

(c) Cost of production stoppages caused by shortage of raw materials or work-in- progress

(d) Loss of future sales since customers may patronize other competitors.

(e) Loss of bulk - buying discounts if purchase are made in small quantities.

(f) Increased administration costs of placing orders of small quantities are ordered at any given time.

CONTROL OF STOCK LEVELS:

The method used for controlling the stock level depends on the organization the type and value of stocks and the cost of operating the system.

It is important that adequate stocks be maintained to meet the basic requirement of the business.

Essentially, stock control levels are determined and maintained in order to minimize the risk associated with not having enough stock and the cost of holding excessive stock.

STOCK CONTROL LEVELS:

1. ***MINIMUM (BUFFER OR SAFETY) STOCK LEVEL:***

This represents the level below which stock should not be allowed to fall to avoid the risk of running out of stock.

This level is determined by using the following formular:

Minimum stock level = Reorder level - (Normal consumption * Normal lead time). Lead time is the time normally taken to replenish inventory after an order has been placed. Minimum stock level warns the management when demand is above average.

2. ***RE-ORDER LEVEL:-***

This is the level of stock maintained when an order is to be placed. This level tells the management the time to re-order inventory. It is the level at which the purchasing deportment will raise a requisition for procurement of additional stock. The level is determined by using the following formular:

Re-order level = Maximum consumption & Maximum lead time.

3. ***MAXIMUM STOCK LEVEL:-***

This represent the level above which stocks should not be allowed to rise to avoid dangers of overstocking. Overstock gave the dangers of unnecessary 'accumulation of inventories, this, chance of Inventory mishandling waste, theft and losses increase.

This level is determined by using the following formula.

Maximum stock level = re – order level + re - order quality
- (minimum consumption × minimum re -order period).

ILLUSTRATIVE EXAMPLE

The following data relates to MAGPEE Company Ltd.

Normal usage ------------------- 100 per day

Maximum usage ---------------- 150 per day

Minimum usage --------------- 50 per day

Lead time ---------------------- 20 – 25 days

Re – order quality, 10,000

SUGGESTED SOLUTION

Re - order level = Max consumption x Max lead time.

= 150 X 25

= 3750 units

Maximum level = Recorder level + re - order quantity

- (Min consumption x min lead time)

= 3750 + 10,000 - (50 x 20)

= 13750 – 1000

= 12750 units

Minimum level = re order level - (Average consumption

x Normal lead time)

= 3750 – (100 x 22.5)

= 3750 – 2250

= 150 Units.

4. ***ECONOMIC ORDER QUANTITY***

One common technique usually used to determine optimal level of inventory is the economies order quantity (E. O. Q). The E O Q is that inventory WHICH minimize the total of ordering cost and carrying cost. This represent the optimum order size referred to minimize all categories of cost associated with making orders (ordering cost), and maintaining inventories (carrying cost).

The formular for EOQ is

$$Eoq = \sqrt{\frac{2C_2D}{C_1}}$$

where D = Demand
$C1$ = Carrying cost
$C2$ = Ordering cost.

ILLUSTRATIVE EXAMPLE

MAGPEE Company's demand for an item, an item is constant and is 9,000 Units per year .The ordering cost of ₦15 per order if no shortage is allured, determine the quantity that will minimize total costs .

Suggested Solution

$$Eoq = \sqrt{\frac{2C_2D}{C_1}}$$

$C1$ = ₦ 2.50
$C2$ = ₦ 15
D = ₦ 9000

$$Eoq = \sqrt{\frac{2x15 \times 9000}{2.50}}$$

$$= \sqrt{108000}$$

= 329 Units.

THE GENERAL MOTIVES FOR HOLDING INVENTORIES

There are three general motives for holding inventories.

(1) ***THE TRANSACTIONS MOTIVE*** :- which emphasizes the need to maintain inventories to facilitate smooth production and sales operations

(2.) ***THE PRECATIONARY MOTIVE*** :- which necessitates risk of unpredictable change in demand and supply forces and other factors .

(3) ***THE SPECURATIVE MOTIVE*** :- which influence the decision to increase or reduce inventory levels to take advantage of price fluctuations .

INVENTORY STOCK TAKING :-

PERPETUAL INVENTORY

The control system whereby a company is constantly monitoring the quantity of inventory on hand is called perpetual inventory system, it involves keeping a running balances on the store records. (e.g bincard or stock card) after each receipt and issues.

CONTINUOUS STOCK TAKING:

The regular stock taking of stock and composition of actual quantity on hand with the stock records is called continuous stock taking the control element there is the comparison of physical with records and the amendment of store record of differences are found. There can be differences between the physical stock and balance on the stores records as a result of leakages, errors in store records etc

INVENTORIES INTERNAL CONTROL

(1) There should be adequate records in the account department regarding quantities, location, minimum level, unit cost, maximum level aggregate naira valve of stock items etc.

(2) Stock count should be sufficiently frequent as possible.

(3) Stock count should be supervised by official independent of records.

(4) After stock count the task of valvation should be carried out by a reliable officials whose efforts should also be reviewed by a responsible officials material differences observed should also be investigated.

(5) The store area should be out of bounds to unathorised persons.

2.2.2. DEBTORS MANAGEMENT AND CONTROL .

It is important to note that where goods are in short supply relative to demand it is sound financially practice to sell in cash or avoid credit. The figure of debtor is one of the important information which the board of directors look for in the financial report as it depicts the sum outstanding due or overdue for collection the incidence of debtors is bad debtors the higher is the risk of bad debts. Debtors and sums outstanding to individuals should be under strict control.

It is conventional that trade credit is allowed in all businesses. No business can trive without some measure of credit. There is no point in demanding cash with other if competitors in the same trade give are month credit only a very pronounced price on quantity advantage can make to retain customers in these circumstances. Credit extension may indeed increase sales it may also lead to bad debts, or irrecoverable accounts as well as costs of administering and collecting debts.

There are various credit and collection policies that a company could adopt to improve sales, develop its market, reduce costs and improve income however such policies are : -

(a) **Cash discount to be offered for prompt and early payment:**

Some firms offers a cash discount for prompt settlement of account such as 2/10, net thirty days (which offers 2% discount if payment is made within 10 days, otherwise the debt is due within thirty days

(b) **OFFICIAL CREDIT OF NORMAL CREDIT OFFERED**

before allowing credit to any customers management should first examine the position of the customer account or indirectly through bankers references. The period of credit in most cases is set by the convention of the trade and very little flexibility is afforded to individual businesses it is usual to offer various term of credit i.e payment to be made within that intervals.

(c) **ASSESSING CREDIT WORTHNESS OF CUSTOMERS**

A good debt manager should assess the credit worthiness of customer before allowing credit. This may be done directly by an examination of his account or indirectly through trade source or by means of bankers references caution has to be taken in granting credit as the cost of legal action in pursuit of debts can be very high and the cost of bad debt can be diver stating. One large debt will wipe out the profit earned on a very large volume of sales.

(d) **TIGHT CREDIT POLICY WITH PROMPT COLLECTION POLICY**

By this standard, the company makes effort to extend credit only to those customers who are credit – worthy and follows up payment strictly. This standard reduces bad debt expenses to the minimum but the cost of selecting credit worthy customers, administering and collecting debts is high.

(e) **TIGHT CREDIT POLICY WITH LIBERAL COLLECTION POLICY:**

Like the above standard, this selects only credit – worthy customers but does not strictly pursue payments in the belief that a good credit risks they will honour their debt obligations as and when due.

(f) **LIBERAL CREDIT POLICY WITH PROMPT COLLECTION:**

By this standard, a company would honor all requests for credit but would also strictly enforce collections. This standard is particularly useful during recession and period of economic downturn and to companies marketing high mark – up low – priced products in a small quantities like textile and furniture in Nigeria .

(g) **LIBERAL CREDIT POLICY WITH LIBERAL COLLECTION**

A company using this policy fills all customers request for credit extension and also does not strictly pursue collections it is a policy that a company with high liquidity, good cash flow and aggressive marketing strategies would adopt

(h) **ACTION TO BE TAKEN FOR LATE PAYMENT.**

The final point to be considered in the management of trade debtors is the following action on late payment obviously, a system must be maintained so as to signal debt which pass their due dates. There are many sanctions ranging from polite reminder through solicitor's letter and withholding of supplies to actions through the law court and the speed with which this process is followed need careful judgment

2.3 CASH AND MARKETABLE SECURITIES

Cash is the most important current assets for operations of any business. Cash is the basic input needed to keep the business running on a continue basis. It is also the ultimate out put expected to be realized by selling the service or product manufactured by a given firm.

The firm should keep sufficient cash. Cash shortage will disrupt the firms operations, while excessive cash will remain idle (utilized), without contributing any thing towards the firms profitability. This, the major function of the optimum level of cash holding.

Cash is the money which the firm can disbursed immediately without restriction. The term cash include coins, currency and cheques held by the firm and balances in the bank account. Sometime, near - cash items, such as marketable securities or bank time - deposit are also included as cash.

Marketable securities are short term investment into which excess cash may be put to yield a return and which can be reconverted into cash when needed. There are three types of marketable securities.

(a) Those with unknown conversion does but can easily be converted to cash e.g. certificate of deposit (M o).

(b) Those with know conversion dates like commercial paper, treasury bills, bankers acceptances (Mc); and

(c) Those with unknown conversion dates which are free for investment elsewhere like debt retirement (Mf), hence the portfolio M is M = Mo + Mc + Mf.

CASH MANAGEMENT

" Cash management involves managing the monies of the firm in order to attain maximum cash availability and maximum interest income on an idle fund " (VANHORNS 1974). It is worth noting at this point that for effective cash management, an organization needs a full time professional cash manager instead of a clerk. A professional cash manager (treasures will be better off improving working capital by spending his precious time.colleting receivables, taking cash discounts, stretching out your payments and also playing the floot. Cash management concerned with the managing of cash flows into and out of the firm, cash flows within the firm and cash balances held by the firm at a point in time by financing deficit or investing surplus cash.

The motives for holding cash are as follows:

(a) ***TRANSCTIONS :-*** cash balances are held to transact business. Payments are made and receipts are collected at different time, hence the need to hold cash to meet daily obligations.

(b) ***PRECAUTION :-*** cash inflows are somewhat unpredictable, with the degree of predictability varying among firms and industries. Cash balances held in reserve for random, unforeseen fluctuations inflows and outflows are defined as precautionary balances.

(c) ***SPECULATION :-*** Speculative motive relates to the holding of cash for investing in profit making opptunities as and when they arise securities can be purchased when the interest rate is expected to fall, the firm will benefit by the subsequent fall in interest rates and increase in security prices.

CASH BUDGET

Cash budget are prepared in order to ensure that there will be just sufficient cash in hand to cope adequately with budgeted activities. Cash budget may show that there is likely to be a deficiency in some future period in which bank overdraft or loans will have to be arranged or activities curtailed or alternatively the budget may show that there is likely to be a cash surplus in which case appropriate investment or the use of the surplus can be planned rather than leaving the cash idle in a current account. Cash budget is a summary of the firms expected cash inflows and outflows over a projected period. It gives information on the timing and magnitude of expected cash flow and cash balances over the projected period. This information helps the financial manager to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over the cash balance and liquidity of the firms.

ILLUSTRATIVE EXAMPLE

MAGPEE Company Ltd has a cash balance of ₦ 27000 at the beginning of March, 2002 and you are required to prepare a cash budget for March, April, May 2002 having regards to the following information. Creditors give one month credit, salaries are paid in the current Month. Fixed cost are paid one month in arrears and include a charge for depreciation of N 5000.00 per month. Credit sales are settled as follows: 40% in the month of sales, 45% in the next month and 12% in the following month.

The balance represent bad debt.

MONTH	CASH SALES	CREDIT SALES	PURCHASES	SALARIES	FIXED OVERHEAD
Jan	-	74,000	55,200	9,000	30,000
Feb.	-	82,000	61,200	9,000	30,000
March	20,000	80,000	60,000	9,500	30,000
April	22,000	90,000	69,000	9,500	32,000
May	25,000	100,000	75,000	10,000	32,000

SUGGESTED SOLUTION

CASH BUDGET.

	MARCH	APRIL	MAY
Opening Balance	27,000	29,000	38,340
Receipt from Debtors	77,700	81,840	90,100
Cash sales	20,000	22,000	25,000
Total Cash	124,700	132,840	153,440
Less: Salaries	9,500	9,500	10,000
Fixed overhead	25,000	25,000	27,000
Purchases	62,000	60,000	69,000
TOTAL DISBURSEMENT	95,700	94,500	106,000
Bal. c/d	29,000	38,340	47,440

Preliminary workings:

March	April	May
40% x 50,000 = 32,000	40% x 90,000 = 36,000	40% x 10,000 = 4,000
45% x 82,000 = 36,900	45% x 80,000 = 36,000	45% x 90,000 = 40,500
12% x 74,000 = 8,800	12% x 82,000 = 9,840	12% x 80,000 = 9,600
77,700	**81840**	**90,000**

It is important to go through and prepare a budget to judge the actual performance against the budget and ask why cash flow was different then the expected.

INTENAL CONTROL SYSTEM WITH RESPECT TO CASH RECEIPTS:-

(a) All customers deposit shall be properly recorded in the books.

(b) Proper division of responsibilities between receipts and deposit with the bank must be established.

(c) Frequent cash reports for internal managerial use.

(d) That each morning before the collection for the previous ay is lodged into the bank, the senior accountant should check closely the bank pay-in-slip and receipt book to ensure that amount collect is accounted for and shall be fully banked.

(e) Letter of introduction should be sent to the bank covering both financial Accountant and Assistant Accountant to provide for easy access to the bank.

2.30 THE MANGEMENT OF CURRENT LIABILITIES

Current liabilities are debts that will be paid by business within the next twelve months of operations, namely:

- Trade creditors for goods received
- Accrual (i.e expenses incurred but not yet paid for)
- Taxation of all kinds
- Bank overdraft (this must be of temporary nature)

- Bill payable
- any outstanding liabilities currently payable.

2.3.1 TRADE CREDITORS MANAGEMENT

A creditor is a person to whom one owes money. This, in most cases, is as a result of purchase of goods or services on credit. Credit has been defined a the power to obtain goods or service by giving a promise to pay money or goods on demand or at a specified future date".

Payment to supplier(s) are made usually after all necessary documents have passed through the methods, procedures and the organizational arrangement.

The three functions into which accounting controls may be divided clearly appear in the consideration involved in purchases procedures. They are buying (Authorization), Receipt of goods (custody) and Accounting records, in order to ensure full and viable internal control of trade creditors, there should be through separation of duties among there three functions.

The trade arrangement of a concern with its suppliers is an important source of short term finance. The main advantages derived from this and it may be possible to obtain favourable terms.

The procedures of purchasing and internal control to be exercised by management are discussed as follows:

INITIATING PURCHASE:

The key issue here are requisition and approval by an authorized manager RE-order level should have been set for a company's stock items, when this is reached, a purchase requisition forum is raised by the stock-keepers, this will be approved by appropriate person and forwarded to the purchasing unit. Requisition note should at least be in two copies-one kept by the originating department and the other by the purchasing department.

ORDERING:

Having gone through the requisition stage, quotation will now be invited from the company's approved list of suppliers where an approve list of suppliers is not available, quotation should be invited from a careful selected group of suppliers.

These quotations, when received, will be carefully chosen and vetted and a supplier or joint suppliers will be carefully chosen for the particular purchase in consideration.

A purchase order will now be given to the supplier detailing price, quantities, quantity and other specification time, frames and mode of payment.

This purchase order, which will be signed by the appropriate purchasing official, binds the company and should be carefully worded so as not to expose the company to unnecessary losses.

A purchase order should be in triplicate as follows :-

(a) A copy to the account department

(b) A copy to the store and.

(c) A copy retained by the purchasing unit.

RECEIPT OF GOODS:

Receipt of goods into store differs from organization / company to organization / company but an authorized storekeepers working for the company must be in attendance to do the following: -

(a) Officially received the goods from the suppliers.

(b) Promptly count the good to ensure that the quantity receive tallies with quantities stated on the delivery / bill.

(c) Compare goods received with goods ordered in respect with quantities, qualities and other specifications. This task is achievable with the one of the stores own company of the purchase order.

(d) Record the good in the company's standard store's record.

(e) The supplier will normally submit invoices at the account section for processing.

(f) All due invoices should be processed on the due dates for the approval of the authorized manager. When the invoices and its payment voucher had been approved for the signature of the usual company authorized signatories.

It is important at this payment stage to ensure that the purchase invoice is matched with the goods received note, the original purchase order, the record of abnormal (short, over, damaged / returned) deliveries and the suppliers' delivery way bill.

(g) Payment should be made in accordance with the laid down rules/ policies.

(h) Proper recording will be carried out at the account section of the foregoing transaction.

2.3.2 INTERNAL CONTROL FOR TRADE CREDITORS:-

From the above, the following controls can be highlighted:

(i) There should be proper segregation of duties in relation with the purchasing function.

(ii) Appropriately approved purchase order should be raised for all purchases.

(iii) There should be adequate procedures in selecting the best quotations for each purchase.

(iv) The receiving procedures should be adequate to ensure the following:

(a) Safeguard of goods from the time of delivery into the company's premises

(b) Prompt physical inspection and counting of the goods by competent personnel.

(c) Comparison of goods ordered with those received (d). Maintenance of a written record showing details and date of goods received e.g. by using pre – numbered GRNs.

(e) Timely claims against suppliers / transporter for damaged or short delivery.

(f) There should be pre – numbered documents in use for all rejections.

2.4.0 FINANCIAL ANALYSIS AND CONTROL.

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the profit and loss account (pandy, 1995). The following are the various users at financial analysis.

(1) **MANAGEMENT -:** they are concerned with internal control, profitability of company, and efficiency of management of assets.

(11) **SHAREHOLDERS -:** they are interested in the company's profitability, stability, potential for growth and dividends policy

(iii) **CREDITORS -:** they are interested in ability of business to pay interest and repay the principal sum on a due date

(iv) **THE GOVERNMENT** :-they are interested in business profits to assess tax liabilities and other information.

(v) **EMPLOYEES -:** they are interested in long term stability of the company on which their jobs depend, and on the company's ability to meet wages demand.

(vi) **CUSTOMERS** -: they are interested in the ability of the firm to maintain supplies.

. (vii) **COMPETITORS -:** they are interested in comparative performance of a business.

(viii) **FINACIAL ANALYSTS & ADVISERS** -: they are interested so as to advisers their client that can be of any of the other interest groups.

(ix) **OTHERS -:** research institute, trade association and potential take – over bidders.

3.4.1 TYPE, USE, AND LIMITATION OF FINANCIAL RATIOS.

Ratio indicates a relationship that exists between two variables or figures. The relationship between two accounting figures, expressed mathematically is known as financial ratios help to summarize the large quantities of data (from balance sheet and income statement) and to make qualitative judgment about the firm's financial performance. In other hands, ratio indicate a quantitative relationship, which can be used to make a qualitative judgment .The use of accounting ratios can help management :

(a) to pinpoint where performance is deteriorating.

(b) By comparative analysis, indicate where performance is poor relative to similar organisation.

(c) To understand the economic trade.

TYPE OF FINANCIAL RATIOS:

In measuring the adequacy of capital, the following ratios can be used:

1. Liquidity ratio
2. Solvency ratio
3. Efficiency ratio
4. Profitable ratio

1. *LIQUIDITY RATIOS:*

The liquidity of a company refers to its ability to meet short term obligations as they become due. A company should ensure that it does not suffer from lack of liquidity, and also that it is not too much highly liquid.

The most common ratios for measuring company's liquidity are (a) current ratio, (b) quick ratio and (c) Net working capital.

(a) ***Current ratio.***

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

This ratio indicates the availability of current liability. The higher the ratio, the greater the margin of safety for term creditors. As a conventional rule, a current ratio of 2:1 or more is considered satisfactory.

(b) ***Quick ratio or acid test***

Quick ratio = $\frac{\text{Current Assets-stock-Prepaid expenses}}{\text{Current Liabilities}}$

This ratio is similar to the current ratio except that less liquid assets such as stocks and prepaid items are deducted from the current assets figure. Quick ratio is used to measure a company's liquidity under emergency. A quick ratio of 1:1 or more is considered satisfactory.

(c) Net working capital.

Net working capital = Current assets – Current Liabilities.

This is mostly used for internal control purposes, since it is used to measure a company spending power beyond payment to short term creditors.

2. SOLVENCY RATIOS

These are the ratio for measuring the ability of a company to meet its long term obligations. They show the degree of safety of a business from failure in the long term.

The most common ratios for measuring company's solvency are: (a) debt ratio and (b) gearing ratio (or debt equity ratio

(a) **DEBT RATIO** :- This measure the proportion of total assets financed or provided by creditors.

Debt ratio = $\frac{\text{Total debt}}{\text{Net assets}}$ x 100%

Total debt include short term and long term borrowing from financial institutions, debentures / bonds, differed payments, arrangement for buying capital equipment, and bank borrowing, public deposits and any other interest bearing loan. Net assets comprised net fixed assets and net current assets.

(b) **DEBT EQUITY RATIO :-** This ratio measures the relationship between long term funds provided by creditors and those provided by shareholders. The ratio is also a measure of financial leverage.

Hence, it can be prepared on pure debt basis or on total liabilities basis. Debt equity ratio = $\frac{\text{long term debt}}{\text{Total owner's equity}}$ x 100 %

or gearing = $\frac{\text{Total liabilities}}{\text{Total owner's equity}}$ x 100%

3. **EFFIICIENCY RATIOS:**

These ratio are concerned with the efficiency of utilization of resources of a company. The ratios include asst turnover debtors ratios, creditors ratios, and stock turnover ratio.

(a) **NET ASSET TURNOVER RATIO:** This ratio shows how efficiency the assets are being utilized to generate sales.

Net asset turnover = $\frac{\text{sales}}{\text{Net assets.}}$

The relationship between assets turnover, profit margin and return on investment can be depicted as :

Net asset turnover * profit margin = ratio on investment.

$\frac{\text{SALE}}{\text{Net Asset}} \times \frac{\text{PBIT}}{\text{Sales}} = \frac{\text{PBIT}}{\text{Net Assets.}}$

The implication of this is that to maximize return on assets or investment company must try to maximize its assets turnover, while holding its profit margin constant or maximize its profit margin while holding its asset turnover constant.

(b) **DEBTORS RATIOS:**

These ratios show the slowness or otherwise of debtors. Debtors are liquid assets only in so far as they can be collected. The ratios are of two types:-

$$\text{Debtors turnover} = \frac{\text{Annual Credit Sales}}{\text{Debtors}}$$

$$\text{Average collection period} = \frac{\text{Debtors}}{\text{Annual Credit Sales}} \times \frac{365}{1}$$

There ratios are measures of :-

(i) the quality of liquidity of debt; and

(ii) management's credit granting policies. A high debtor ratio may not necessarily be the most efficient policy for a company. On the others hand, a low ratio indicates a long collection period, that is debts are turned to cash slowly.

(c) **STOCK TURNOVER :-**

These ratios indicate the numbers of days stock is held or how many times a company's stock is converted into cash.

$$\text{Stock turnover} = \frac{\text{Cost of sales}}{\text{Average stock}}$$

$$\text{Average age of turnover} = \frac{\text{Average stock}}{\text{Cost of sales}} \times 365 \text{ days}$$

A low ratio is indicative of: -

(i) slow moving stock

(ii) poor liquidity

(iii) high companying cost

(iv) potential future losses due to obsolescence or damaged stock.

(d) **CREDITOR'S PAYMENT PERIOD**

This indicate the number of days taken to pay creditors.

Creditors payment period $= \frac{\text{Creditor}}{\text{Credit purchase}} \times 365\text{days}$

(4) **PROFITABILITY RATIOS**

Profitability is an indication of ability to exist, hence management, creditors and owner are interested in profitability ratios. The important ratios here include :-(a)gross profit margin, (b) net profit margin,(C) return on investment (d) earning per share (e) dividends per share and (f) price earning ratio.

(a) **GROSS PROFIT MARGIN**

This shows the percentage of each naira sale left after the goods sold have been paid for . A higher gross profit margin indicates a lower relative cost of goods sold. The ratio is defined as: -

Gross profit margin $= \frac{\text{Gross profit}}{\text{Sale}} \times 100\%$

(b) NET PROFIT MARGIN:

The ratio shows the percentage of each Naira sales left after all expenses, including taxes and interest, have been paid. A high net profit is usually preferred . This is defined as: -

Net profit margin $= \frac{\text{Net profit after tax}}{\text{Sales}} \times 100\%$

(c) RETURN ON INVESTMENT:

This indicate the effectiveness of a company to generate earnings with available resources. It is also called ***RETURN ON CAPITAL EMPLOYED (ROCE)***

Thus, the ratio can be defined as:

ROCE or ROI $= \frac{\text{Profit before investment \& Tax}}{\text{Capital employed}} \times 100\%$

The return and capital can be defined in various ways. However, the definition of capital employed will determine the corresponding return to use. According to it Person Association Ltd (1998) Capital employed may be defined as: -

(i) Total capital employed = ordinary share + preference share capital . reserve + loans +current liabilities.

(ii) Long term capital = ordinary share capital + preference share capital +reserve.

(iii) Shareholder's capital = Ordinary share capital + preference share capital + reserve.

(iv) Shareholder's equity = Ordinary share capital + reserve.

The relevant profit figures to use are:-

(i) Total capital employed = Profit before tax and before bank 7 loan interest

(ii) Long-term capital = Profit tax and before interest on loans

(iii) Shareholder's capital =Profit after tax.

(iv) Shareholder's Equity= profit after tax and preference dividends.

(d) **Earning per share (EPS)**

The ratio indicates the amount of profit earned on each outstanding ordinary shares, and it is usually expressed in kobo. The ratio is defined as:

$$EPS = \frac{\text{Profit after tax} - \text{Preference dividends}}{\text{No of ordinary shares issued}}$$

(e) **Dividends Per Share**

The ratio show the amount of dividend per each ordinary share that is already issued. It is defined as:

$$DPS = \frac{\text{Dividend paid on ordinary shares}}{\text{Number of share outstanding}}$$

The ratio is usually expressed in kobo.

(f) Price Earning Ratio (P/E ratio).

This ratio measures the length of time if takes to recoup the amount invested on a share at the existing level of earnings (that is the pay back period).

The higher the price earning ratio, the less attractive is the investment to an investor whose interest is dividend income rather than capital appreciation (increase in market value of share). However, a high price-earning may be preferred by another investor since it is an indication of capital appreciation.

This ratio is defined as:

$$\text{P/E ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

(g) **Pay Out ratio**:-

thus measures the dividend policy of the company. It is defined as:

$$\text{Pay out Ratio} = \frac{\text{Dividend Per Share}}{\text{earnings per Share}} \times 100\%$$

SIGNIFICANCE OF ACCOUNTING RATIOS/RATIO ANALYSIS

1. If enables interested parties to know how profitable a business is
2. The extend to which a firm has used its long term solvency by borrowing funds can be ascertained.
3. The ability of a firm to meet its current obligation can be measured.
4. The efficiency at which a firm is utilizing its various asserts in generating sales revenue can be ascertained.
5. The overall operating efficiency and general performance of a firm can be measured.
6. Communication is vital in imparting knowledge within and outside business organisation. Ratio analysis plays a vital role in informing the public of what has happened from one period to another.

LIMITATIONS OF RATIO ANALYSIS

(a) If is difficult to decide on the proper basis of comparison.

(b) There is limited information to be able to critically evaluate business firm: Since statements are only summaries of activities.

(c) The only way to measure the standard of a firm is by comparing the ratios with other companies in the industry. However, individual companies are likely to have different valuation methods for their figures.

(d) Price level changes make interpretation of ratio invalid.

(e) Ratio are generally calculated from past financial statements and thus, are no indicators of the future.

(f) Definitions of items in balance sheet and income statement differ, hence inter-pretation of ratios become difficult.

2.4.3 FUNDS FLOW STATEMENT

This is probably the most useful of the working capital statement to be submitted to the management. The funds flow statement is in effect a financial operational statement, that is, it reveals the methods by which the business has been financed and how it used its funds over the period. By analysis of such statement over periods of time the effects of plans on liquidity are revealed. The sources from which past activities have been financed are clearly shown and the uses to which such funds have been put are highlighted. The careful analysis of the movement of funds over period may serve to indicate weakness in managerial or control function. From the point of view of financing, the fund flow statements can again be analysed revealing the trends of the various aspects of capitalization weather in permanent or current form.

Thee few advantages found in effective use of funds flow statement ranges from effective future planning purposes to revealing the positions of a satisfactory nature or otherwise likely to arise, and finally to ensure that proper control is exercised ever the assets of the firm.

The sources from which business funds are derived can now be summarised.

(a) Trading profit where the total income exceeds expenses requiring the use of cash or working capital.

(b) The.proceeds of sales of fixed assets.

(c) The proceeds of sales of long tern investment.

(d) The proceeds received from issue of additional share capital or the. introduction of new capital by the proprietor.

(e) The proceed from issue of debenture or long tern loans.

(f) Reduction in current assets.

(g) Increase in current liabilities.

(h) Proceed from sales of inventory.

The following are the main application of the funds of a business.

(a) Acquisition of fixed assets.

(b) Purchase of long-tern assets.

(c) Repayment of debenture or long-tern loan.

(d) Payment of share capital.

(e) Payment of dividends and income tax.

(f) Trading losses, where the expenses exceeds the total income requiring the use of founds.

(g) Increase in current assets.

(h) Decrease in current liabilities.

CHAPTER THREE

3.0 INTRODUCTION

This research design and methodology will entail the method of research for this study, the instrument used in conducting the field work, the research approach, research strategy and the source and method of collecting data.

3.1 RESEARCH APPROACH AND STRATEGY

RESEARCH APPPROACH:

In the course of this study, survey was carried out through the use of questionnaire, interview and personal observation. Personal interview was conducted with the Management Accountant, Financial Manager and other key officers in the account department of the case study. The interview concern vital information needed for this project work. during the course of the study, consultation was also made to the respective employees handing inventories and relevant information was obtained from them.

RESEARCH STRATEGY

In the course of fulfilling this objective, research strategy as a course of action to achieve the frame research objective was strictly with the sample frame, A case and survey method were employed.

Most manufacturing industries and industrialist sampled preferred to remain anonymous. One of the problems encountered in carrying out this study is the difficulties encountered in data collection. Industries and individuals are usually not ready to relay information. The strategy of anonymity was adopted in this to enable easy access to information needed or the study.

- Despite the above problem, investigation was conducted relating to various manufacturing companies account, why do companies experience deficiency in liquid assets and some run out of stocks as a result of inadequate or mismanagement of working capital.

3.2 RESEARCH INSTRUMENTS AND METHOD OF INVESTIGATION:

The instrument used for collecting information for the purpose of this research work is grouped into two. There are primary source and the secondary source of data.

Source and Type of Data Collected

The data for this project wa obtained purely from primary and secondary sources. The primary source of data consist of relevant materials collected from the company under personal (Oral) interview, observation and questionnaire.

The secondary source was obtained mainly form library research based on the review of relevant texts, journals publications and previous knowledge on the topic.

THE PRIMARY SOURCE OF DATA :

Personal Interview

Consultation were made no respective employees handling inventories, cash receipts and disbursements into banks, creditors and debtors notes and relevant information was obtained from them.

Questionnaire

Simple analysed question in written forum was distributed to account and Administration department staffs to generate relevant information.

THE SECONDARY SOURCE OF DATA

Library Research:

Reference were made to textbooks in the library and other related journals on the subject matter, handout and publications. All these were done to ensure whether the practice of working capital management will lead to efficient and profitable financial aspects of business.

CHAPTER FOUR

4.0 INTRODUCTION

Having examined the rudimentary facts relevant to this write-up and full discussion and explanation on what the working capital means, the need for working capital management cannot be over-emphasised. This chapter shall deal with the presentation and analysis of data collected.

4.1 INTERPRETATION OF DATA

For the purpose of interpreting the information so far collected for this research through questionnaire, oral interview conducted and personal observation with the company, findings are tabulated for proper understanding and adequate knowledge of what the respondents hard earlier given .

4.2 TEST OF HYPOTHESIS

HYPOTHESIS I

HO :- Working capital is the excess of current assets over current liabilities.

TABLE I: **Excess of current Assets over current liabilities**.

Responses	No of Respondents	Percentage
Yes	8	80 %
No	2	20 %
No Opinion	-	-
Total	**10**	**100 %**

Table I above shows the responses of the respondents with regards to excess of current assets over current liabilities and how it was proved to be right. It is clearly shown that those who share similar view in the hypothesis are greater than those who have opposite opinion among the respondents, hence, the hypothesis is accepted.

(QUESTION 3 APPENDIX)

HYPOTHESIS II

Does the organization use external source of finance to meet its need of fund?

TABLE II: External source as a means of financing company's fund requirement

Responses	No of Respondents	Percentage
Yes	7	70 %
No	2	20 %
No Opinion	1	10
Total	**10**	**100 %**

The table above shows the respondents reaction to the external source as a means of financing company's fund needs.

The analysis of the stated hypothesis in respected of the above view revealed that those who agreed with the stated hypothesis are greater in number than those who against it and only one person chose to be silent on that hypothesis statement, for this reason, the hypothesis is accepted.

(QUESTION 9 APPENDIX).

HYPOTHESIS III

Do you import your raw materials or buy them locally?

TABLE III: IMPORTATION OR LOCAL PURCHASE OF RAW MATERIALS

Responses	No of Respondents	Percentage
Yes	4	40 %
No	6	60 %
No Opinion	-	-
Total	**10**	**100 %**

The table above verifies how raw materials of the company is being bought-locally or overseas.

. The table shows their performance as regards the stated hypothesis. It would be observed from the table that those who agree on overseas purchase are less than those who agreed on local purchase of raw materials i.e percentage of 40 & 60.

(QUESTION 12 APPENDIX)

HYPOTHESIS IV

Does the working capital of your company fluctuate ?

TABLE IV: THE FLUCTUATION OF WORKING CAPITAL

Responses	No of Respondents	Percentage
Yes	7	70 %
No	2	20 %
No Opinion	1	10%
Total	**10**	**100 %**

Table IV analyse whether the working capital of the company fluctuates or not. It is made clear from the table that working capital do fluctuates, seven people go for the hypothesis while two people goes against it and only one was aloof by expressing me opinion on the matter. Conclusively, the hypothesis is accepted.

(QUESTION 4 APPENDIX)

HYPOTHESIS V

Is short term financing a good means of financing the activities of manufacturing companies ?

TABLE V: SHORT TERM FINANCING AS A GOOD MEAN OF FINANCING MANUFACTURING COMPANY'S ACTIVITIES

Responses	No of Respondents	Percentage
Yes	8	80 %
No	2	20 %
No Opinion	-	-
Total	**10**	**100 %**

Table V exhibits the reaction of the respondents to the short term source of financing manufacturing companies activities.

In analyzing the data collected, 80% supported the stated hypothesis, 20% against it while 0% had no opinion . From the above, the hypothesis is then accepted.

(QUESTION 15 APPENDIX).

HYPOTHESIS VI

Do your company practice uniform credit policy for all her customer ?

TABLE IV: THE PRACTICE OF CREDIT POLICY WITH CUSTOMERS

Responses	No of Respondents	Percentage
Yes	7	70 %
No	2	20 %
No Opinion	1	10%
Total	**10**	**100 %**

Table vi exhibits the reaction of respondents to the practice of credit with customers. it is made clear from the table that the company practices uniform credit policy with all her customers. 70% of the respondents were for the hypothesis, 20% go against it while 10% sit on the fence. Conclusively, the hypothesis is accepted.

(Question 16 appendix).

4.3 SUMMARY OF THE RESULT:

The hypothesis has been tested and analysed using different questions as contained in the questionnaire and various conclusions were made. Close observation and study shows that working capital management is a must for manufacturing companies. Different questions were framed to flexed the relationship of current asset and liabilities with other aspect of income statement and the balance sheet, and different economic situation that prevails at a particular time.

Conclusively, adequate management must be made to working capital especially as a source of financing short term financial needs.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMEDATION

5.1 SUMMARY

In working capital management, the consideration of the level of investment in current assets should be to avoid two danger point excessive and inadequate investment in current assets (i.e. the feast and the famine situation). The feast situation will impair the firm profitability as idle investment earn threaten the solvency of the firm if it fails to meet its current obligations.

Working capital management refers to the administration of all aspects of current assets and current liabilities, This encompasses inventory management, debtors and creditors management and cash management. The net working capital means the different between current assets and the current liabilities which could either be positive or negative. It is positive when the current assets exceeds the current liabilities and negative when the current liabilities exceeds current assets.

It can be seen generally that the company need to purchase raw materials which will be converted into work in progress and then the process will in turn be converted into finished goods which will either be sold for cash or credit resulting into debtors. The whole cycle will have to begin all over again . Because of the circulating nature assets, working capital is sometimes called circulating capital.

To determine the level of cash a company requires, it is necessary to prepare a cash budget where the minimum balance needed from month to month will be defined. It is important to note that a weak liquidity position poses a threat to the solvency of the company and make it unsafe and unsound.

It is the working capital that companies use to run their day - to - day business activities and the requirement for working capital will depend on the peculiarity of the individual company. The need for working capital management arise because sale do not convert into cash immediately in the present day word.

Not only this, there is also an operating circle involve in the conversion of sales into cash.

5.2 FINDINGS

In the curse of conducting interview through the two main methods specified in the earlier chapter, one is able to find out that the system of working capital management in manufacturing companies is different from those in operation in financial institution. Although, the system in both the manufacturing concern and financial institutions can be alike to each other in one area or the other. It was gathered that the main problem facing working capital management in manufacturing companies are inflation, source of fund, cash internal control, inadequate funding and limitation of products e. t. c

5.3 RECOMMENDATION

Working capital management is very important in any organization. For any organization to survive, its working capital must be effectively and efficiently managed.

The reached conclusion on my research is that short term financing is better means of financing the activities of manufacturing companies and that is why they optimize in working capital as a security against sudden insolvency an indication of efficient and effective credit policies and operating measures.

Working capital fluctuate from time to time due to business fluctuations thereby it s difficult to achieve optimum working capital, inspire of this, however, the financial manager must continuously monitor the working capital level.

The financial manager should also use his skill as an accountant to maximize the use of alleging principle which states that the nature of an investment. Creditors that falls within a period of one year e.t.c.

5.4 CONCLUSION

The company find it difficult to import adequate stocks due to restrictions on import and economic recession. The optimum level of working capital is difficult to defined due to business fluctuation in Nigeria. availability of adequate stocks will lead to increase insoles and debtors and increase profit in the same direction.

Presently, its import have fallen from about 100% to less than 55% and supplement this with local purchase. Hard working and struggling is the only solution for survival to overcome government import measures and strong market competitors.

Attention must be draw to inventory control, effective and efficient credit policies, and cash control procedures, since all these have direct bearing on the liquidity and profitability of the company. It is necessary to exercise control over stocks, debtors, cash, prepayment, receivables e.t.c. as a whole since additional investment in working capital is require whenever a project involving investment in fixed assets is evaluated.

QUESTIONNAIRE

POST-GRADUATE SCHOOL FACULTY OF SOCIAL AND MANAGEMENT SCINCES ADEKUNLE AJASIN UNIVERSITY, AKUNGBA AKOKO.

QUESTIONNAIRE PREPARED ON THE MANAGEMENT OF WORKING CAPITAL IN MANUFACTURING COMPANIES BY BADA PETER 20008026

This research is being carried out by me. BADA PETER, a post graduate student in financial management of the Adekunle Ajasin university, Akungba Akoko, Ondo state. All information supplied shall be strictly for academic purpose and all will therefore be treated confidentially.

Could you pleas answer the following questions as it relates to this particular company by making the mark in the appropriate boxes provided.

SECTION A

1. Sex : Male ☐ Female ☐
2. Designation : Controller ☐ Manager ☐ Supervisor ☐ Clerk ☐
3. Age :---- 20 – 29 ☐ 30 – 39 ☐ 40 – 49 ☐ 50 + ☐
4. Marital status : Married ☐ Single ☐
5. Educational Qualification ------------------

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SECTION B

1. How was the initial capital need for the commencement of the company realized ?

   (a) issue of shares ☐ (b) Govt securities ☐

   (c) Debenture stocks/loan ☐ (d) others ☐

2. Where and how do the company source for fund

   (a) Long time loan ☐ Medium term ☐ Short term ☐

3. Is working capital excess of current assets over current liabilities ?

   (a) Yes ☐ (b) No ☐ (c) No opinion ☐

(4.) What are the major components of working capital ?

   (a) stocks ☐ (b) cash & bank ☐ (c) debtors ☐

   (d) receivable ☐ (e) all of the above ☐

(5) Do your company prepare cash budget ?

   (a) Yes ☐ (b) No ☐ (c) No opinion

(6) Is cash the most important component of working capital

   (a) Yes ☐ (b) No ☐ (c) No opinion ☐

(7) Do credit purchase from your supplier part of working capital

   (a) Yes ☐ (b) No ☐ (c) No opinion ☐

(8) How do you settle your overseas debt ?

   (a) promissory note ☐ (b) bill of exchange ☐

   (c) international money other ☐ (d) Non of the above ☐

(9) Do the organization uses external sources of finance to meets its needs of fund ?

   (a) Yes ☐ (b) No ☐ (c) No opinion ☐

(10) When your company is unable to pay its debt, dividends e. t. c., despite enough liquidity, will you say the company is .

   (a) Technically insolvent ☐ (b) legally insolvent ☐

   (c) No opinion ☐

(11) Does idle cash impair profitability of the firm ?