IMPORTANCE OF CASH MANAGEMENT ON THE PROFITABILITY OF FIRST BANK PLC

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DECLARATION

I hereby declare that this project work is the result of my effort and a product of my research findings. All materials used are duly and adequately acknowledged. I therefore accept responsibility for any shortcomings and errors.

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CERTIFICATION

This is to certify that the Project titled; ‘‘Importance Of Cash Management On The Profitability Of First Bank Plc’’ by Florence Ngozi Aniekwensi meets the partial regulation governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and is therefore approved for its contribution to knowledge and literary presentation.

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DEDICATION

I dedicate this research project to my loving husband Robert, whose unending love, understanding, support, encouragement and extraordinary strength saw me through the duration of the programme; and to my wonderful and adorable children, Robert Jnr, Henry and Shawn for their continuous show of love and support. Above all, I thank the Almighty Lord for his protection throughout my numerous trips to Zaria.

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ABSTRACT

The concern of any bank is its continuing in business. The bank has to put in more efforts in managing its current assets and liabilities, since cash plays an important role in the day to day operation of the bank, the study of relevance of cash management becomes necessary in any banking sector for its continued survival and profitability. The objective of this research is to study the relevance of cash management on the profitability of First bank. The study made use of both primary and secondary sources of data to obtain information. For the primary source, questionnaire, interview and observations methods were used, while for the secondary data, the use of text books and journals was adopted. For the techniques of data analysis, tabular analysis was used, because of its convenience in compiling data in a form for easy reference, usually in chronological order. Percentage was used because it is easy and involves the drawing of tables. It was found out that efficient and effective cash management has significant effect in improving the profitability position of banks by the analysis made from the respondents' view. It was recommended that cash should be optionally combined with other man and machine resources striking a balance between solvency and profitability to achieve the organization's objective, cash should be judiciously use to ensure effective and efficient utilization of the organization resources.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The continuity of banks largely depends on the management of its Cash, the need for Cash to run the day to day banking activities cannot be over emphasized, because without the Cash there will be no efficiency in the banking sector. The effectiveness and efficiency of Cash management promote and enhance profitability in the Nigerian banks. The phrase 'working capital management" is the combination of two terms that is Cash and management. Working capital is also referred to as circulating assets or circulating capital. It signifies a portion of a company's resources among which are cash, debtors and stock and other liabilities that are due for payment within a year. These items of Cash require the attention of the management of a business on daily basis Cash is the life blood of a business. Its prudent management can uplift and sustain the continuous flourishing of a company.

However, the efficient and prudent management of Cash of a bank in one way or the other may determine the success of that bank in the present day increasing competition in the banking industry. The profitability of banks measures the revenue inflow and outflow determined on the accrual principle. It tries to show the result of deductions of cost from revenues despite the fact that not all the years' costs and revenue may have been liquidated. It also measures the overall performance and effectiveness of the bank. Cash management is the art and science of planning, organizing, directing, controlling and utilizing of Cash management component as well as determining the appropriate mix of Cash. It can also be defined as that aspect of managerial finance of management accounting which is concerned with all the activities in providing profit to the banks.

In managing Cash banks segregate current assets into their component units for the formulation and execution of policies. This is because these assets are of different nature, which make it imperative that they will be considered and managed under a unique approach. However, the short run and long run effectiveness of business activities depends on continuous inflows and outflows of cash and other components of working capital. However working capital management serves as machinery for controlling and administration of current asset and current liability of banks, so as to make a profit in running it day to day activities.

1.2 STATEMENT OF THE PROBLEM

The concern of any business including banking industry is continuity. The bank has to put in more efforts in managing its current asset and liabilities. This has also resulted to giving extra ordinary attention to the Cash in recent times. Cash plays an important role in the day to day operation of the bank, an assessment of Cash management becomes necessary in any banking sector for its continued survival and profitability. But there is Inefficiency in management of Cash and this has led to non availability of profitability, Excess working capital carries a definite cost and its shortage can led to loss in operation of banks, The problems associated with how to prudently and effectively manage both the current assets and the current liabilities (items of working capital) so that the achievement of goals and aspirations of all organization at maximum level of efficiency could be possible.

Apart from the general problems stated above, individual banks do have different problems in the management of their Cash resources. It is believed that the bank under study also has its own problem. The bank was discovered to have suffered tremendous bad debts due to the inability of the bank to collect the amounts due on loans granted. The researcher feels this is as a result of the banks inability to identify the credit worthy customers. Again the most pressing problem of the bank's management of working capital is the granting of loans to incorporated companies with poor financial standing.

It is against this background that the study intends to see the importance of Cash management on the profitability of First bank PLC with a view of proffering some solutions.

1.3 RESEARCH QUESTIONS

For the purpose of this study, the following research question will be answered?

i. Do banking sector attach importance to Cash management in making profit?

ii. Do bank manager know that poor Cash management could lead to loss?

iii. Do must banking sector employed quality and experience personnel?

iv. Do many banking sectors maintain adequate financial resources in making profit?

v. Do most banks give priority to their Cash management?

1.4 OBJECTIVES OF THE STUDY

The objective is to evaluate the impact of Cash management on the profitability of Nigerian banks.

The main objectives of this research can be summarized below:

i. To evaluate the extent of influence of Cash management in the achievement of organization goals.

ii. To critically analyse the importance of managing a bank's current asset such as cash, marketable securities, account receivable and inventories viza-viz current liabilities.

Finally, this study will make suggestion or recommendation on how to improve the management of Cash in the banking sector.

1.5 STATEMENT OF THE HYPOTHESIS

The researcher has formulated the following hypothesis for validation or rejection at the study.

H_0: There is no significance relationship between cash management and profitability of organization.

H_i: There is significance relationship between cash management and profitability of organization .

1.6 SIGNIFICANCE OF THE STUDY

The study will help banks and other financial institutions to know the importance of Cash towards achieving organizational goals and objectives, it will also assist them in the formulation of effective policies to increase their level of efficiency and profitability in banking sectors, the study will add to existing knowledge and serves as useful preliminary materials for further study in the area of finance. Other non banking organization will also find this study useful. This study will also be beneficial to government and the general public.

1.7 SCOPE OF THE STUDY

The research work would be primarily concerned with the importance of Cash management on the profitability of First bank PLC, The scope will cover the period between 2011-2011, for maximum accessibility. The geographical scope shall be first bank Nigerian PLC Yakubu Gowon way, Kaduna.

1.8 DEFINITION OF TERMS

- Business: It can be defined as any legitimating venture or transaction which one goes into and which the final outcome is profitable or good.
- Current assets: They are assets which can be converted into cash within an accounting yeas, it in cash, short terms securities, debtors, bill receivable, stock etc.

- Current liabilities: Are those claims of outsiders which are expected to mature for payment within an accounting year, they include payable, bank overdraft and accounts.
- Working capital: It can be gross or net as “the total of all current assets of a company. It related to the total holdings of current asset items.
- Net working capital: This can be difference as the deference between current asset and current liabilities”. It could be said to mean the proportion of a company is current assets that is required in the day to day operation of converting raw materials into finished goods.
- Management: is a multiphase elephant depending from the side one is viewing it. However, for this study will be define as “the art of getting things as done through others.
- Working capital management: This can now be defined as the effective utilization of manpower and resources in determination of the ratio of current assets to current liabilities required.
- Liquity ratio: Measure the terms ability to meet current obligations.
- Activity ratio: It is, also called overall performance ratio. They are used to evaluate how effectively a firm uses resources as its disposals.
- Profitability ratio: Measures the overall performance and effectiveness of the firm.

- Risk: it is the variability that is unlikely occur in the future returns from an investment outlay.Credit terms: This is the term of payment offer to customers and this depend on the credit period and cash discount.
- Credit standard: These are criteria used to determined the type of customer that could be sold the goods or services on credit in assessing the acceptability of the customer.
- Credit period: The time period or the duration for which credit extended to customer.
- Operating efficiency: It related to the optimum utilization of resource at minimum cost.

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CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the critical examination of various views on the management of the Cash. This will cover various aspects such as determinants and importance of Cash. The treatment include the management of cash, inventories, amount receivable and short term investment and financing.

2.2 CASH AND ITS SIGNIFICANCE

Aminu (2003), The importance of maintaining a healthy profitability position to run the day to day business of a bank cannot be over emphasized. Much of the banks survival and success depends on efficient and effective management and control of cash.

Effective planning and control of cash no doubt will enhance an organization profitability position, cash becomes important because of time devoted to its management, the volume of resources deployed in current assets and because of the direct relationship between sales, growth and current assets.

An increase in the level of sales necessitates additional investment in current assets components. These additional investments affect level of profits in the sense that the more investment in this asset the greater the required profits will be to make satisfactory return on a capital employed.

Suffice to say that an efficient and effective cash management relies heavily on the determination of the need for it identifying various sources of financing and making an optimal investment and applying effective control and monitoring mechanism.

2.3 COMPONENTS OF WORKING CAPITAL IN THE BANKING SECTOR

Nimi (1995), The working capital components include cash, inventories, account receivable and short term investments financing. It represents the current assets or short term investment of any banking sectors. The level of these components affects the profitability position of any bank.

2.3.1 Cash Management

Cash is the most important resources of all the current assets, suitable for the effective and smooth operations of a business more especially within the banking sector. No bank can operate actively and efficiently without cash. Cash is used in the payments of employees for the services rendered, to settle customers when they request accounts to be debited, it is also used to pay creditors interest and taxes and to pay for things required for the day to day activities and smooth operations of the Bank cash include cash at hand and in bank.

According to Samuel and Wilkes, cash management is concerned with:

a. Cash flow in and out of the bank
b. Cash flow within the bank
c. Cash balances held by the bank at any point in time.

Cash management in the banking sector to Samuel and Wilkes is especially concerned with the management of cash realized from customers savings, deposits and other profitable operations which banking sector performs cash management also involve how cash is used for the payments and settlement of the banks debt and other outside obligations. It also involve how cash issued for the payment of salaries and other expenses owed to the bank employees and owners of the bank dividends.

2.3.2 Management of Marketable Securities

Marketable securities provide temporary short term investment outlet for investing surplus funds by a bank to recap immediate returns. According to western and Brigham, marketable securities have a close relationship with cash. They are sometimes called near cash assets because there are parts of banks vault. There are different types of marketable securities including treasury bills, fixed deposits in other bank, commercial paper e.t.c they provide attractive short term investments outlets for cash as they have short term to maturity and reasonable interest rates apart from easy convertibility to cash.

However, some scholars like Wilkes also admit that the choice of marketability of securities depends on risk associated with the security among which are:

a. Default Risk:

   The profitability of default is payments on interest or principals on time and the amount promised.

b. Marketability Risk: the convenience and speed with which a security can be converted into cash when necessary.

c. Interest Rate Risk: The higher the security risk, the higher the required interest on the security. Thus, corporate treasurers should make a trade off between risk and interest when choosing investments for the marketable securities for folios.

d. Foreign Exchange Risk: The risk associated with foreign exchange purchased for sale purpose. When investment is made on foreign exchange, care should be taken that the value of the foreign exchange should not fall within a shorter period of time.

e. Inflation Risk: Another type of risk is the inflation risk, which will reduce the purchasing power of a given sum of money. When money is being invested on securities during inflation, the purchasing power of the money would be reduced.

f. Maturity Risk: The time period over which interest and principal payments are to be made is very important when investment on short term securities are being decided upon.

It is thus, the above mentioned factors that can impair the profitability of marketable securities that make the prudent management not nobly expedient but necessary.

2.3.3 Management of Bank Debtors

Bank debts arising as a result of loans and advances granted to customers. The debts or loan/advances granted create "BOOK DEBITS" which the bank expected to collect in the near future. The debt usually has an interest element attached to it. This interest could be paid on a time based at the expiration of the time of the advance or loan or during the period the loans is being granted in this discounted loan.

Nowadays, bank debts form substantial portions of current assets of some banks and careful analysis and proper management.

Most often firms extend debts to customers for the following reasons:

a. To increase its earnings by generating interest on debts granted.
b. To protect its services from rival competitors
c. To win new customers (potential customers) while making effort to retain the old ones.

The purpose of bank debts management is not only the profit maximization alone, but effective and efficient bank debts operations. However, the need for sound bank debts management arises from the following reasons:

a. Bank debtors tunes constitute a large portion of some banks current assets.
b. There are some elements of uncertainties and risk associated with bank debt especially the risk of default in making prompt payment of interest by customers and hence the need to carefully diagnose and analyze customers before extending over draft, advances and loans.
c. Once loans are granted to customers, the banks liquid cash holding reduces and thus bank debtors represent an investment that requires careful planning, monitoring and control.

2.3.4 Management of Bank Creditors

The creditors to a bank which are current in nature are the depositor and owners of current account and other accounts with credit balances in such an account. The management of creditors therefore includes the management of such deposits on accounts. Most importantly, the ability of a bank to meets the request for withdrawal of customers when ever raised. A bank can also be liable to any inter bank loans collected which remains payable within a year. Such loans are current liabilities and therefore form part of the bank credits.

2.3.5 Management of Bank Deposits, Current and other Accounts

As it is the case with banks, there is usually a given amount of money which banks are required by the central bank to leave in their current accounts. This amount of money which is often determined by the profitability and liquidity ratio of the bank would be used for meeting short terms obligations of the banks. These obligations may include meeting customers demand for withdrawal and other day to day operation or activities of the bank.

Any excess over the liquidity should be invested in short term funds to yield interest which is to be paid on the account of customers.

2.3.6 Investments of Excess Deposits

Excess deposits of First Bank banks could be invested either on treasury bills of the Federal Government of Nigeria or on trade bills of other business. The choice of which would depends on the following factors:

i. Safety of the investment

ii. Marketability of the bill

iii. Maturity of the bill

The yield or return on the investment, excess deposits when left in the current accounts creates a holding cost to the bank thereby reducing the profit margin of the bank. This is because the bank has to pay interest on all accounts maintained by the customers in the bank.

Furthermore, investment of excess liquid is the transferring of deposits to other banks with wider opportunities to yield a return.

2.3.7 Management of Dividends Payable

Upon declaration by the board of directors and final approval by members during annual general meeting, a cash dividend or scrip dividends results in the reduction of retained earnings and usually in the creation of a current liability if there is an intention to pay the dividends in coming financial period. It is very important to note that undeclared dividends in arrears or commutative preferred stock are not recognized as liabilities until they are formally declared by the corporations board of directors, nonetheless, they are disclosed n the footnotes to the financial statements.

The management of dividends payable in any bank greatly depends on the dividends policy of the bank. But strictly speaking in order to reduce liability of a bank to its stockholders dividends should be declared when profits are made. Dividends should not be declared out of retained earnings or unrealized acquisition of fixed assets. This greatly reduce the liquidity of the bank.

The declaration of dividends however is governed by the law. The management or dividends payable should therefore be adopted when reference is made to the status governing the payment of dividends.

To evaluate the financial condition and performance of a bank, the financial analyst, need certain yardsticks. The yardsticks frequently used is a ratio, or index, relating two pieces of financial data to each other.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicative quotient of two mathematical; expression” and as “the relationship between two or more things.

Therefore, the relationship between accounting figures expressed mathematically is known as financial ratio. A financial ratio is equally the product obtained after dividing of equally related items of profit and loss account or the balance sheet to determine the financial condition, direction, growth rate or the viability of the bank or company in question.

Analysis and interpretation of various ratios should give experiences skilled analyst a better understanding of the financial condition and performance of the firm that they would obtain for analysis of the financial data alone.

The part to note is that a ratio indicates a quantitative relationship which can be in turn, used to make a quantitative judgment. Such is the nature of all financial ratios.

2.4 SOURCES OF WORKING CAPITAL

The primary sources and use of working capital are examined.

SOURCE

There are three major sources:

i. Profitable operations

ii. Long term financing

iii. Sale on non current assets

i. **Profitable operations**

Operations represents a key sources of additions to working capital. Working results whenever there is an excess of revenue order charges against revenue (i.e. charges requiring the use of working capital). Consequently, revenue implies a net increase in current assets. Specially, revenue from sales of goods (or whatever) results in an inflow of cash or an increase in accounts or a combination of both. The effect is to increase Cash.

ii. **Long term financing**

The two sources of working capital here are external, so less amenable to control by management. Additional shares could be issue and sold, giving rise to increased working capital through ca collected. Also a company can borrow by the issuance of debentures or through long term loans from banks.

iii. **Sales of Fixed Assets**

Though fairly infrequent, the sales of machines, equipment, furniture, vehicles and non-current assets can provide funds for the organization.

USES OF WORKING CAPITAL

A transaction that decreases working capital requirements a use of working capital. They are the opposite of the source of working capital.

The use can be looked at under four major items:

1. **PURCHASE OF LONG TERM ASSETS**

i. Purchase of plant, machinery, equipment and other non current assets.

ii. Long term investment in share and treasury bills

iii. Purchase of intangible assets

2. **RETIREMENT OF LONG TERM FINANCE**

   i. Payment of long term debt

   ii. Retirement of share capital

3. **DECLARATION OF DIVIDENDS**

The declaration of dividends increases the company's current liability (i.e. dividend payable) and hence reduce working capital. The subsequent payment of dividends results in an outflows of cash, but there is also a reduction of current liability, so a dividend payment does not have an effect on working capital.

4. **UNPROFITABLE OPERATION**

When revenue is less than total expenses involving the use of working capitals there is a net drain or working capital, it thus, represents a use of working capital.

2.5 CONCEPT OF CASH MANAGEMENT

Cash is the most important resources of all the current assets, suitable for the effective and smooth operations of a business more especially within the banking sector. No bank can operate actively and efficiently without cash. Cash is used in the payments of employees for the services rendered, to settle customers when they request accounts to be debited, it is also used to pay creditors interest and taxes and to pay for things required for the day to day activities and smooth operations of the Bank cash include cash at hand and in bank.

2.6 CASH MANAGEMENT AND CONTROL

In banking sector control of cash has not been exercised by management which probably helps to explain why many banks cease to function every year. In most banks there is a strict control of capital expenditures yet many still do not realize how important it is to control capital too. Thus, stocks debtors, creditors, cash e.t.c. requires particular attention.

2.7 FACTORS DETERMINING THE CONTROL OF CASH

The following are identified as the factors which generally influence the cash requirement of banking firms;

i. **The nature and size of the firm**

Most banks and financial institutions usually have less investment in fixed assets but require large sum of money to be invested in cash. A bank with large scale operation will have more cash than a small bank.

ii. **Business fluctuation**

As the economy experience fluctuation, banks thus have different level of cash resources depending on whether the economy is in boom, there is sufficient money in circulation which will result to customers saving which increase a bank cash requirement. If depression tunes are hard and there is less savings and more withdrawals which reduces the cash and working capital of the bank

iii. **Bank's credit policy**

If a banks credit policy is loose, it would require more investment in cash and therefore increase its profitability.

iv. **Growth and expansion activities**

The more a bank is growing, the more branches are opened. This expansion therefore increases the cash of a bank since more branches, more saving are eminent.

The level of banks profit margin and profit appreciation after taxation.

Repression, dividend and retention policies also affect the amount of working capital in terms of each other asset of the bank.

The operating efficiency of a bank also affect the amount and levels of its cash.

A bank making optimum utilization of its resources at minimum cost may require less working capital. This is because not more cash and other items of working capital may be required as when the cost of operations are high.

2.8 FACTORS AFFECTING CASH INVESTMENT

1) **Production cycle**

The larger the production cycle the larger the amount of cash requirement.

2) **Nature of the business**

The nature of the bank has substantial influence on the cash requirement for instance a trading company has very little investment in fixed assets relative to the amount required for cash.

3) **The size of the business**

The larger the size of the bank the larger the cash required.

4) **Business Fluctuation**

That is in most banks they do experience seasonal and cyclical fluctuation in the demand for their production and service this also affect the cash requirement.

5) **Credit policy**

The credit policy of the bank affects the cash by influencing the level of debtor.

6) **Availability of credit facilities granted by creditors**

Dividend policy is also another factor that influence cash requirement.

2.9 SHORT TERM SOURCES OF FINANCE

Short term methods of finance are suitable for finding shortages in working capital.

They should not, if it can be avoided, be used to finance long term loan investments. The main methods available are:

a) Bank credit
b) Commercial paper

c) Trade credit

d) Bill finance

e) Efficient stock control

a. BANK CREDIT

Traditionally, First Bank banks in Nigeria have concentrated on financing the short term needs of companies. In recent years, however, the banks have begun to lead on long term either directly. For example by way of a secured medium term loan, or indirectly for example through leasing.

Although bank overdrafts are normally repayable on demand, they are never in practice, called in without reasonable notice. Except in credit squeeze" condition business can easily borrow for up to a years with adequate provision for a rollover.

The rate of interest on bank loans and overdraft is fixed to other market rates of interest in the case of overdraft, as interest is charged on the day to day overdrawn position bank credit is a cheap as well as the most convenient form of finance.

b. COMMERCIAL PAPERS

A commercial paper (or commercial note) is an unsecured money market instrument, large companies with good credit rating can raise short term funds by issuing commercial note which are then purchased by investors in the money market.

The notes are usually issued on behalf of the company, by an issuing house (normally a merchant bank). The issuing house does not guarantee the note but assist in finding investors to buy them. The investors effectively head directly to the company issuing the note the issuing house charges a commission for the service.

Commercial notes are usually issued for a period say 90 days at a specific rate of interest (coupon rate). This source of finance is only available for large companies because investor will only purchase notes issued by well known corporate names. For these companies, commercial paper is an important source of short term finance particularly when the CBN credit guidelines restrict direct bank lending.

c. BILL FINANCE

The use of bills payable and the discounting of bills receivable helps to overcome a cash shortage, but can be expensive. The cost of this depends upon the credit worthiness of the customers, the discount market provides an efficient markets for obtaining finances by discounting trade bills. In practice, a company can ask it banks to discount bill receivable on it behalf; the bank may turn sell the bill to a discount house in the discount market. The discount market is not well developed in Nigeria. However, a number of finance houses and some insurance companies can discount trade bills.

d. EFFICIENT STOCK CONTROL

Though met a real sources of finance, but a reduction in examine stock can reduce the need for finance and so would achieve a saving in finance cost.

e. HIRE PURCHASES

Industrial hire purchase or installment credit is method of paying for plant and machinery out of income return than capital. Use of the equipment is gained on payment of the first installment. Although it is relative expensive it leaves other sources of finance free from emergencies and, in contrast to bank overdraft, the cost is fixed at the outset and will net be affected by changes in money condition. The repayment period will rarely be greater than two years, which in most cases will be shorten than the useful life of the asset acquired.

A number of finance companies in Nigeria provides hire purchases finance for the purchases of cars. Perhaps the best known being Benworth finance (B.F.N). The finance companies usually raise bank credit to transact their own application in the alternative, promissory notes issued by the purchases of the vehicles may be discount banks, insurance companies and other investor in the Nigeria money market.

2.10 HISTORICAL BACKGROUND OF FIRST BANK PLC

First bank of Nigeria plc (First Bank) was founded in 1894 by Sir Alfred Jones, a shipping magnate from Liverpool, England. The bank has provided excellent banking services since inception and hence, contributed to the economic growth and development of Nigeria for 114 years. Incorporated as limited liability Company with its head office originally in Liverpool, the bank commenced business on a modest scale in the premises of Elder Dempster and Company Limited in Lagos under the name, Bank of British West Africa (BBWA) with paid –up capital of E12000 (FirstBank E-Portal–www.firstbanknigeria.com). This was after absorbing its predecessor, The African Baking Corporation, which was established in 1892. In 1912, the bank also acquired its first competitor the Bank of Nigeria (previously called Anglo-African Bank) which was established in 1899 by the Royal Niger Company (FirstBank E-Portal–www.firstbanknigeria.com).

In response to a rapidly changing economic and business environment, the bank has at various times restructured its operations, for example, in 1957, the bank changed its name from Bank of British West Africa (BBWA) to the Bank of West Africa. In 1966, following its merger with Standard Bank, UK, and the bank adopted the name Standard Bank of West Africa Limited and in 1969 it was incorporated locally as the Standard Bank of Nigeria Limited in line with the company's decree of 1968. Changes in the name of the Bank also occurred in 1979 and 1991 to First Bank of Nigeria Limited and First Bank of Nigeria plc, respectively.

2.11 MANAGEMENT OF CASH AS A WORKING CAPITAL ITEM

Working capital comprise of both current assets and current liabilities, there include the following.

a. Current Assets

Current assets in the banking sector include (loans and advances), investments, discounted bills and cash reserves.

b. Cash (Loans and Advances)

Cash in this text means loans and advances, which a layman would refer to as debtors, since it money given out or borrowed by customers. Loans and advances is also called "Risk Assets" in banking language. Since cash is the main constituent of a bank, much emphasis would be on cash than any other components.

The following are the factors to be considered when given loan to customer.

1. Personality: The personality of the person in need of and loan is of great importance to the bank. The bank would like to know those with whom he associated and their sources of livelihood. They would also want to know what he does for a living, his age to determine if he is up to age to payback. They would try as much as possible to avoid giving loan to a very old man who is about to die. Meaning he would not pay back. The bank would also like to know if he usually take loans payback on schedule and would evaluate such a customer by his mere appearance and his composure.
2. Amount needed: The credibility of the customer would determine the amount the customer is requesting for. If the home work is done to find out his/her credibility, then such an amount would be considered to be given to the customer.
3. Repayment: This is just to know how soon he/she would repay the amount collected from the bank.
4. Securities (collateral): This is a secondary source to repay. Once the bank realizes that the customer cannot payback, then whatever that was used as collateral would be auctioned to retrieve the money. That was borrowed. If for example, it is a land, the land has to be developed and it has to be an area where it is easily marketable.
5. Credit policy of the bank: The bank is operating in an environment that is dynamic i.e. it is prone to charge. In this situation, the bank would want to determine if the business of the customer is within the target market of the bank. If it is within the target market, the bank could grant them the loans since they (the bank) have invented interest in the business.

6. Profitability. The bank would want to determine if the services to be rendered to the customers would be profitable to them. If all these factor raised are adequately analyzed, then the management of cash is attained.
7. Investment: Investments mean the purchase or formation of fixed assets for use rather than resale. This type of investment or capital formation. These securities acceptable to the bank are;

i. Stock and shares
ii. Assignment of life policies
iii. Land
iv. Guarantees
v. Debentures

To effectively manage these investments, the following have to be considered.

a. Identification of where to invest that is, invest in a venture that would yield a high dividend or profit.
b. Do you invest in a company to review> some corporate bodies invest in companies to revive them and probably take over or absorb them.
c. Study the movement of their stock in the stock exchange and know how low they are faring.

i. Discount bills

These are bills which are used to trade in securities. They include commercial papers, bankers acceptance e-tic to effectively manage those bills, the bank would consider.

i. The venture to invest in

ii. Persons with whom they are dealing

iii. The requirement of specialized personnel

iv. Cash reserves

This is the amount asset out to meet future obligations. This is effectively managed by the remittance of a specific amount from the earnings to the reserve, and only when the need arise that this reserve should be touched.

Current Liabilities

The component s of current liabilities include amount payable which encompasses creditors, accrued charged, taxation and dividends, cash (deposit liabilities).

1. Account payable: These are amounts owed to suppliers who extended credit for purchases on open account. But in the case of bank. It is the amount owed to creditors, share holders and the government. The way the bank manages this current liability is to generate enough and adequate funds to pay the liabilities owed.

2. Cash (deposit liabilities) : This is the amount of money kept with the bank by the customers for sat keeping and probably to yield interest or it is the amount kept with the bank, therefore, the bank in turn gives such amount to those who need the money desperately. This forms the liability of the bank because as at any time, the customers can at will withdraw any amount needed as the case may be and this type of deposit is called “Demand Deposit”. Pending when the customer need the cash required, the bank can tailor the funds towards executive utilization, by investing in ventures which are profitable. For example. For saving account in FIRST BANK

Plc. The interest accrued on such account is a percent but when the bank is tending, the interest could go as high as 20 percent, which would provide a large turnover.

Also, the bank embarks on aggressive mobilization of funds from customers so that the bank will have enough to give as loans and advances. To carry out this exercise, bank embarks on aggressive mobilization of funds form customers so that the bank will have enough to give as loans and advances. To carry nit this exercise, the bank entices the customers with sided attractions like the present school fund, which is being embarked upon by the bank. Also, easy card where by the customer need not carry large sums of money around; instead the customer carries the easy card and is used where ever the signs show their use.

2.12 SOURCE OF FUND IN FIRST BANK PLC

Pandey (1999), First Bank is a retail financial institution that helps community members open checking and savings accounts and manage money market accounts. It also provides customers with deposit, withdrawal and transfer services. Bank customers can also carry out retail banking business through an automatic teller machine (ATM) or online. Beyond the everyday services, First Bank banks also offer customers loans to buy a house, an automobile or a boat. And the banks help business owners manage their accounts, including checking, savings and loans. The sources of funds in First Bank banks are:

1. **Deposits**

- Deposits remain the main source of funds for a First Bank . The money collected can go toward paying on interest-bearing accounts, completing customer withdrawals and other transactions. In June 2004 the total money supply from deposits held at First Bank banks and other banking institutions in the U.S. totaled more than $1.3 billion.

  Savings account deposits are especially important to banks as the federal Regulation D law limits the amount of times a savings account holder can withdraw money. Currently, the law mandates that account holders can perform six transfers per month in the form of online, telephone or overdraft transfers. This allows banks to use the accounts' funds and still meet the withdrawal needs of the customer.

2. Reserve Funds

- A First Bank builds a reserve fund with deposits so it can pay interest on accounts and complete withdrawals. Ideally, a bank's reserve fund should be equal to its capital. A bank builds its reserve fund by accumulating surplus profits during healthy financial years so that the funds can be used in leaner times. On average, a bank tries to accumulate approximately 12 percent of its net profit to build and maintain its reserve fund.

3. Shareholders Capital

- First bank trade on the stock exchange and use shareholders' capital to receive the money it needs to stay in business. For example, if a company sells shares on the market, it increases both its cash flow and its share capital. This process is also known as equity financing. Banks can only report the amount of capital that was initially on their balance sheet. Appreciation and depreciation of shares do not count toward the total sum of a shareholder's capital.

Each time a bank makes a profit it can generally make two choices that include paying dividends to their shareholders or reinvesting the money back into the bank. Most banks utilize both options as they will retain a portion of the profit and pay the remainder to their shareholders. The amount reinvested into the bank typically depends on the company's policy and the condition of the stock market.

4. **Retained Earnings**

First bank earn retained earnings or fees to help fund their business. A retained earning can be collected through overdraft fees, loan interest payments, securities and bonds. Banks also charge fees for providing customers with services such as maintaining an account, offering overdraft protection and also monitoring customers' credit scores.

2.13 SOURCES OF BANK FUNDS

John (2005), bank is a business firm. Its main aim is to earn profit. In order to achieve this objective it provides services to the customers. It offers a variety of interest bearing obligations to the public. These obligations are the sources of funds for the bank and are shown on the liability side of the balance sheet of a First Bank. The main sources which supply funds to a bank are as follows:

A Bank's Own Funds.

B Borrowed Funds.

1. Bank's own funds. Bank's own funds are mainly of three types; (a) Paid up capital, (b) Reserve fund and (C) Portion of undistributed profit.

(A) Banks Own Funds.

Bank's own paid up capital. The amount with which a banking company is registered is called nominal or authorized capital. It is the maximum amount of capital which is mentioned in the capital clause of the memorandum of association of the company. Capital is further divided into (i) paid up capital and (ii) subscribed capital. The banks in Pakistan raise authorized capital by issuing ordinary shares of Rs. 10 each which are fully paid up.

2. Reserve fund. Reserve is another source of fund which is maintained by all First banks. At the time of declaring dividend, a certain portion of the profit is transferred to the reserve fund. This reserve belongs to the .shareholders and at the time of liquidation, the Shareholders are entitled to these reserves along with the capital.

The main purpose of setting aside part of profit is to meet unforeseen expenses of the bank. The Banking Companies Ordinance has made it obligatory (binding) for every banking company incorporated in Pakistan to create a reserve fund.

3. Profit. Profit is another source to a bank for the purpose of business. Profits signify the credit balance of the profit and loss account which has not been distributed. The accumulated profits over the years increase the working capital of the bank and strengthens its financial position.

(B) Borrowed Funds.

The borrowed capital is a major and an important source of fund for any banking business. It mainly comes from deposits which are accepted on varying terms in different accounts.

Bank's borrowing is mostly in the form of deposits. Bank collects three kinds of deposits from its customers (1) current or demand deposits (2) saving deposits and (3) fixed or time deposits. The larger the deposits of bank, the larger will be its (use) fund for employment and so higher are its profit.

1. Borrowing from central bank. The First banks in times of emergency borrow loans from the central bank of the country. The central bank extends help as and when financial help is required by the First banks.

2. Other sources. Bank also raise funds by issuing bonds, debentures, cash certificates etc. etc. Though it is not common but is a dependable source of borrowing.

3. Deposits. Public deposits are a powerful source of funds to a bank. There are' three types of bank deposits (i) current deposits (ii) saving deposits and (iii) time deposits. Due to the spread of literacy, banking habits and growth in the volume of business operations, there is a marked increase in deposit money with banks

2.14 PROFITABILITY OF BUSINESS

Gana (1995),the profitability of any business is dependent upon how effective an organization can manage its working capital. Profit is the excess earnings made from sales or business activities after cost of production, marketing and distribution have been deducted from current revenue.

Profit as defined by Suman-Gana (1995) is the most amount by which the total revenue (derived from operation or running of an enterprise) exceeds the total cost of production (i.e. cost of raw material, labor, land, overhead).

Profit means different thing to different people. The word “profit” has different meaning to businessmen, accountant, tax collectors, workers and economist. It is often used in a loose potential sense that buries its real significance (Joel Dean, 1960 p.3). In a general sense, profit is regarded as income accruing to equity holders, in the same sense as wages accrue to laborers; rent accrues to owners of rentable asset and interest accruing to money lenders. To the accountant, profit means the excess of revenue over all paid out cost including manufacturing and overhead expenses while to an Economist, profit is the return over and above the opportunity cost.

For growth and survival of business, management needs to make profit. Even in the non-profit making organizations, profit is often made to ensure the smooth running of the organization. The profit to be make by an organization depends on how the organization is able to manage its working capital.

Profit simply means that excess of revenue over expenditure or cost profits have different meanings to different people different professionals. E.g. the economist view of profit and the accountant view of profit.

THE ECONOMIST VIEW OF PROFIT

The economist takes into account the implicit or imputed costs. The implicit cost is opportunity cost which can be defined as payment that would be necessary to draw forth the factors of production from their most remunerative alternative employment. Opportunity cost is simply the income forgone which a businessman could expect from use of his resources.

The economist makes provision for insurance risk, depression and the minimum return of shareholders.

Total profit = total revenue – (explicit + implicit cost)

THE ACCOUNTANT VIEW OF PROFIT

Accounting profit is surplus of revenue over and above all paid out costs including both manufacturing and overhead expenses. Accounting profit may be calculated as follows: -

Accounting profit = total revenue – (wages + rent + interest + cost + materials)

$$AP = TR - (W + R + I + M)$$

When calculating accounting profit, only explicit or book cost i.e. the cost recorded in the book of accountants are considered. Unlike the economic profit which considers both explicit and implicit cost.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter examines the specific procedures used in the course of carrying out the research (particularly the course of obtaining the needed data for project). The chapter deals with the various methods of research (including the historical, descriptive, experimental and survey research methods), the population and sample size, the sources of data collection i.e. the primary and secondary sources, methods used in analysis of data obtained for the purpose of the research justification for the particular method used and finally a summary of the complete chapter.

3.2 RESEARCH DESIGN

The study was descriptive in nature and survey method was employed. A survey study according to Kelinger, (1977) is a research which studies large and small population (or universe) by selecting and studying samples chosen from the population to cover the relative incidence, distributive and inter-relations of sociological and psychological variables. The study adopted descriptive research design in order to determine the perception of employee, management practices and retrenchment processes McBurney & White, (2004). The method used involved the selection of unbiased representative sample and generalizing the results to the population from which the sample was drawn.

3.3 POPULATION OF THE STUDY

A population under research is entire phenomenon being studied i.e. the theoretically specified aggregation of study element. It is humanly impossible to study the entire population; hence there is need for sample.

3.4 SAMPLE SIZE

These are the processes of drawing sample from the population. They are the methods or procedures available for drawing or selecting a sample from large population. For the purpose of this study the researcher used the Yamane (1967:886) sample method. A sample size of 40 employees was at 95% confidence Level and 5% Precision using Yamane (1967) sample size, the formula is as follows:

The formula: $n = \frac{N}{1+N(e)^2}$

n = sample size

N = Population size

e = level of precision.

3.4 SOURCES OF DATA COLLECTION

Data are recorded observations the phenomena being studied (Nachmias and Nachamias 1982). To make a sound research work, data needs to be sourced from the appropriate sources and in required form. This process is fundamental if the findings of the work are to be relied upon. This study made use of both primary and secondary data to obtain information.

3.4.1 Primary Data

For the primary sources, questionnaire and interview was used. The primary data was adopted by means or oral interview and questionnaire which are discussed in method of data collection.

3.4.2 Secondary Data

Secondary data are data extracted from the works of other individuals, organization and so on. This kind of data can be collected through journal, lecture, notes, textbooks, newspapers, literatures, articutes and other document as well.

3.5 METHOD OF DATA COLLECTION

This is also referred to as the instruments of research or data collection instruments. They are so called, because they assist in collecting measuring and gathering of data, which are essential for the successful conduct of a research work.

Research instruments include questionnaires, interviews and published instruments. Each of these must be valid and reliable for the purpose intended. Validity has been established to an extent to which data collected are relevant to the problem of the research. No data need to be collected unless they are related to the problem. The data must provide exactly the information that is sought from the respondents Imosili (1996). A has the liberty of using either a of the research instrument mentioned above.

However, for the purpose of the study the following will be relied upon.

a) Interviews: This is face to face conversation with the respondents to obtain information.

b) Questionnaires: these are set of prepared question to which respondents are required to provide answers, the answers provided in this form will serve as the data for the research work.

3.6 TECHNIQUES OF DATA ANALYSIS

Coming to techniques of data analysis, tabular analysis was used, because of its convenience in compiling data in a form for easy reference, usually in chronological order.

Percentage was used because it is easy and involves the drawing of tables. And lastly ratio's were used to expressed the profitability position of Bank specifically FIRST BANK PLC. Also correlation is used to test the hypothesis.

3.7 JUSTIFICATION OF METHOD USED

This study employs both primary and secondary data to obtain information from the respondents through questionnaire, interview and other secondary source. This shows that the research work is much encompassing.

However, in an attempt to test the significance of the research, the study adopt the simple percentage and tabulation of data for presentation and analysis because of its clarity and accuracy.

As stated earlier, the methods of research used are historical and descriptive methods. Historical research is employed because the study warrants the use of books, journals and magazines in order to bring out the relationships intended to be studied vividly. This is necessary for the researcher's understanding and analysis.

The descriptive research is employed because it is the method which specifies the nature of given phenomenon since it gives a picture of a phenomenon. It is therefore, the most suitable method for ascertaining the nature and extend of inter – relationships that exist between the component of working capital. Descriptive research is also suitable for describing the implication of these relationships on financial decision of the firm.

3.8 SUMMARY

This chapter contained the research design, population of the study, sample size and technique, sources of data, method of data collection and techniques of data analysis.

It is worth noting that this chapter has served as a platform for the introduction of the next chapter, which provides a practical use of all the methods and techniques used.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter presents all the findings of the researcher. It includes the presentation, analysis and interpretation of the various ratios applied. Presentation of data from the use of questionnaire and conclusions draw and then finally, the summary of findings.

This chapter shows the discoveries the researcher has made with respect to cash management.

4.2 DATA PRESENTATION AND INTERPRETATION

Data collected from respondents were analyzed item by item; information derived from the items in the questionnaire was presented in tables for easy test and comprehension.

Table 4.1 Information on the gender of respondents

Option	Numbers of responses	Percentage (%)
Male	30	75
Female	10	25
Total	40	100

Source: Questionnaire administered (2013)

The data in table 4.1 shows that 75% of respondents are males while 25% are females.

Table 4.2 Information on the ages of respondents

Option (years)	Number of responses	Percentage (%)
21 – 25	5	12.5
26 – 30	12	30
31 – 35	8	66.7
36 – 40	6	15
41 – 45	4	10
46 – 50	3	7.5
51 and above	2	5
Total	40	100

Source: Questionnaire administered (2013)

The data in table 4.2 shows the age of the respondents. It can be seen that 12.5% of the respondents are between the age 21-25, 30% between, 26-30, 66.7% between 31-35, 15% are between the ages of 36-40, 10% between 41-45, 7.5% between 46-50, while 5% represents 51 and above.

Table 4.3 Information on year of experience

Response	**Frequency**	**Percentage**
1-5	20	50%
6- 10	10	25%
11-15	10	25%
Total	40	100%

Table 4.3 shows that 50% have 1-5 years as their experience, 25% have 6-10 years and 25% have 11-15 years.

Table 4.4 Banking sector attach importance to cash management in making profit?

Response	**Frequency**	**Percentage**
Strongly agreed	35	87.5%
Agreed	-	-
Undecided	-	-
Disagree	5	12.5%
Strongly disagree	-	-
Total	40	100%

Source: Questionnaire administered 2013

From the table 87.5% of the respondents are of the opining that banking sector attach importance to cash management in making profit, while 12.5% of respondents did not agreed that banking sector attach importance to cash management in making profit.

Table 4.5 : Poor cash management lead to loss in banks?

Response	**Frequency**	**Percentage**
Strongly agree	30	75%
Agree	-	-
Undecided	-	-
Disagree	10	25%
Strongly disagree	-	-
Total	40	100%

Source: Questionnaire administered 2013

From the table, 75% of the respondents agreed that poor working capital management lead to loss in bank, while 25% respondents did not agreed.

Table 4.6: To what extent do poor cash management has negative effect on the banks profitability?

Response	**Frequency**	**Percentage**
High degree	11	27.5%
Low degree	21	52.5%
Moderate	8	20%
Total	40	100%

Source: Questionnaire administered 2013

From the table, 27.5% agreed that poor cash management has negative effect on the banks profitability, 52.5% agreed that it is low degree while 20% agreed it is moderate.

Table 4.7: Do banks employ qualified personnel for effectiveness and efficiency.

Response	**Frequency**	**Percentage**
Strongly agree	34	85%
Agree		
Undecided		
Disagree	6	15%
Strongly disagree		
Total	40	100%

Source: Questionnaire administered 2013

The above table shows, 85% agreed banks employ qualified personnel for effectiveness and efficiency, while 15% agreed that it is no.

Table 4.8: Effective cash management by the bank improved profit

Response	Frequency	Percentage
Strongly agree	8	20%
Agree	28	10%
Undecided	4	10%
Disagree		
Strongly disagree		
Total	40	100%

Source: Questionnaire administered 2013

From the above table, 20% are of the opinion that effective cash management by the bank improved profit, 70% agreed, while 10% of the respondents disagree.

Table 4.9: Cash is important on profitability.

Response	Frequency	Percentage
Strongly agree	34	85%
Agree		
Undecided		
Disagree	6	15%
Strongly disagree		
Total	40	100%

Source: Questionnaire administered 2013

The above table shows, 85% agreed that cash is important on profitability, while 15% disagreed to this fact.

Table 4.10: Banks effectively manage their cash as working capital

Response	Frequency	Percentage
Strongly agree	38	95%
Agree		
Undecided		
Disagree	2	5%
Strongly disagree		
Total	40	100%

Source: Questionnaire administered 2013

From the above table, 95% agreed that Bank effectively manage their cash as working capital while 5% of the respondent agreed that it is no.

Table 4.11: How will you rate the cash management of your organization

Response	Frequency	Percentage
Very effective	8	20%
Effective	28	70%
Undecided	4	10%
Not effective	-	-
Totally ineffective	-	-
Total	40	100%

Source: Questionnaire administered 2013

From the above table, 20% are of the opinion that cash is effectively manage in their organization, 70% said it is very effective and 10% are undecided.

Table 4.12: Your organization meet their daily cash needs

Response	**Frequency**	**Percentage**
Strongly agree	10	25%
Agree	20	50%
Undecided	5	12.5%
Disagree	5	12.5
Strongly disagree		
Total	40	100%

Source: Questionnaire administered 2013

From the above table, 25% are of the respondents strongly agree to the fact that their organization meet their daily cash needs, 50% agree, 12.5% are undecided and 12.5% disagree to the fact.

Table 4.12: Availability of cash lead to high productivity

Response	**Frequency**	**Percentage**
Strongly agree	10	25%
Agree	5	12.5%
Undecided	10	25%
Disagree	10	25%
Strongly disagree	5	12.5%
Total	40	100%

Source: Questionnaire administered 2013

From the above table, 25% of the respondents strongly agree that availability of cash lead to high productivity, 12.5% agree, 25% are undecided, 25% disagree and 12.5% strongly disagree to this fact..

4.3 TESTING OF HYPOTHESIS: -

Earlier in this study, two hypotheses were formulated for acceptance or rejection and they are:

H_0: There is no significance relationship between cash management and profitability of organization.

H_i: There is significance relationship between cash management and profitability of organization .

The chi-square method of data analysis would be used to test the hypothesis.

CHI-SQUARE: -

A measure of discrepancy existing between the observed and expected frequency is supplied by chi-square (X^2) statistics given by Murray et al 2004.

.i.e. $X2 = \frac{(fo - fe)^2}{fe}$ or $\sum_{j=1}^{k} \frac{(oj - ej)^2}{fe}$

$$X^2 = \frac{(o1 - e1)^2}{e1} + \frac{(02 - e2)^2}{e2} + \frac{(o3 - e3)^2}{e3} \ldots \frac{(on - en)^2}{en}$$

The frequency observed are the results of the questionnaire which were administered. They will be compared with the expected frequency to see whether the results are significantly different from independence.

DECISION RULE:

Reject Ho, if the calculated X^2 value is greater than the statistical (Critical) value.

Accept Ho, if the calculated X^2 value is less than the statistical value.

OBSERVED FREQUENCY

F_o	f_e	$F_0 - f_e$	$(F_0 - f_e)^2$	$\frac{(F_0 - f_e)^2}{Fe}$
35	20	15	225	11.25
5	20	-15	225	11.25
				22.50

$$\text{Expected Frequency} = \frac{\text{Total Frequency}}{\text{No of categories}}$$

$$40/2 = 20$$

Where: -

fe is frequency expected

fo is frequency observed

∑ is summation

DEGREE OF FREEDOM

In computing chi-square, it is necessary to use observation from the sample as well as certain population parameters. The degree of freedom is calculated by deducting the number of columns and rows each by one (1). The multiples of these are known as the degree of freedom usually denoted by df. The degree of freedom is used to check the chi-square value on the table.

df = (c – 1) x (r – 1)

Where; C is the total number of columns.

R is the total number of rows.

From the frequency observed table, there are two columns and rows.

C = 2

R = 2

df = (c – r) x (r – 1)

= (2 – 1) x (2 – 1)

= 1 x 1

= 1

LEVEL OF SIGNIFICANCE: -

In testing hypothesis, the maximum probability which we would be rejecting a hypothesis when it should be accepted is called level of significance.

In other words, it is the predictable level of error expected in an entire statistics. In practice, a significance level of 0.05 (i.e. 5%) is customary. Although other values are used but if for example, the 5% level of significance is chosen, then there are about 5 chances in 100 that we would reject a hypothesis which is supposed to be accepted. This also signifies that we have 95%confident level too make the right decision.

Using 5% level of significance and a degree of freedom of 1 (one), then the established value = 3.841.

INTERPRETATION: -

The calculate Chi square value (22.50) is greater than the statistical table value (3.84) hence we reject the null hypothesis (Ho) which states that There is no significance relationship between cash management and profitability of organization. and accept the alternate hypothesis which states that there is significance relationship between cash management and profitability of organization .

4.4 SUMMARY OF FINDINGS

The result obtained from the study shows that the efficient and effective cash management has significant effect in improving the profitability position of banks by the analysis made from the respondents view.

1. Cash resources are not optionally combined with other man and machine resources in order to strike a balance between solvency and profitability to achieve organization objective.
2. No Proper supervision of cash as working capital to ensure effective and efficient utilization of an organization resources..
3. The result obtained from the study shows that the efficient and effective cash management has significant effect in improving the profitability position of banks by the analysis made from the respondents view.

4.5 SUMMARY

The chapter presented data collected from the bank study for the project with the aim of analyzing the importance of cash management on the profitability. Techniques developed over years by authors and experts have been used for this purpose.

Cash management was examined, being the most profit form of current ratio and return on capital employed. In search for the effect of cash management, current ratio and return on capital and cash use efficiency measurement techniques were employed. Questionnaire were administered, collected, presented and analyzed. Then, the research questions which were asked in the first chapter were analyzed. And the nations in presenting this chapter hypothesis testing followed.

Then findings show that that the bank is liquid enough to offset its outstanding current liabilities and how efficient and effective cash management has a positive effect in improving the profitability position of banks.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

A lot has been discussed on cash management of First Bank PLC selected for this research work. A clear examination of Cash management and what it entails have also been reviewed. The researcher believes that this approach has assisted in carrying out a meaningful research work.

Definitions of Cash management were given, but for the purpose of this research work, the researcher has given more weight specifically to the important aspect of the management of current assets components for these industries. This research work has been focused toward critical evaluation of cash management and control with particular reference to First bank PLC.

The literature review relating to the subject matter. In reviewing Cash concept is a very complex task as it entails management of day to day operations of the company.

And working capital components which are cash, receivables and inventory seems to posses certain characteristics which make them unique from other assets forms and tend to have effect on company's several profitability and growth.

The methods used for the collection of data were questionnaire and ratio analysis. Because very little research has been done on this aspect of financial management of the organization under study. These are use of the profitability ratio, liquidity ratio , leverage ratio and investment ratio. These covered a period of two years for the organization.

From the analysis done in the previous chapter revealed that First Bank PLC is on a forward match towards maintaining a maximum profitability peak. Statement of sources and uses of funds revealed that there was a very large in Cash between 2011 and 2012 year end.

5.2 CONCLUSION

In this project, an attempt has been made to examine the general tool for cash credits policy and controls for determining the profitability position of First Bank Plc. One of the cash budgets where the optimal transaction cash was determined on the basis of cash receipts and cash disbursement, under the internally imposed conditions that the firm maintains a minimum cash balance. By varying the minimum cash balance, once cash or short term anticipated deficits. This is not withstanding, however every aspects of Cash management, as it effects the particular business, must be given due attention as only then can a business firm hope to achieve it set objectives,. The ability to manage Cash effectively depends to a large extent on the appropriate mix of control measures for the components of working capital.

Credit and collection policies encompass the quality of account accepted, the credit period extend the cash discount in each case, the credit decision involves a trade off between the additional profitability and the cost resulting from a change in any of these elements. By liberalizing the quality requirement for accounts, the firm hopes to make more on additional sales than it spends to carry the additional sales is spends to carry the additional bad debt losses. To maximize profits arising from credit and collection policies the bank should vary these policies jointly until an optimal solution is obtained. These variations can be accomplished through simulation, once the functional relationships are specified. The firm's credit and collection policy together with its credit and collection procedures determines the magnitudes and quality of its receivable position in determining the profit.

Suffice to say that "theories are seldom useful unless and until they are put to practice", one would infer that most of the theoretical framework discussed in the early part of this study are operational in First Bank PLC.

5.3 LIMITATION OF THE STUDY

Most of time, research work are subject to certain constraints which constitutes some difficulties to such studies. Some limitations and problems were encountered on carrying out this study.

The problem of insufficient information is a major limitation of this study. This is due to the bank secrecy syndrome which is a very sensitive issue of the Cash position of bank.

The information obtained from interview was limited, although the questionnaire provide to be of more help and in so doing some subjective come into study. Adequate time prove to be a problem because of the other academics work. Moreover for this kind of research there is need for enough time to conceptual theory and analytical technique of Cash.

5.4 RECOMMENDATION.

In view of various review and analysis carried out, the following recommendations are preferred

- Management should ensure that operation stoppages, strikes etc are minimized since this brings about idle resources and subsequently under utilization.
- Management should Endeavour to ensure the reduction of bad debts.
- Cash resources should be optionally combined with other man and machine resources striking a balance between solvency and profitability to achieves of the organization.
- Management should strive for more care on the assessment of the credit worthiness of customers by analysis past statement of debtors.
- Proper supervision of Cash should be carried out to ensure effective and efficient utilization in an organization.
- Adequate budgeting and forecasting, good appraisal to laid down policies.
- Adequate planning, discipline and control of resources.
- Accurate determination and sustenance of the sources of cash.
- Employment of highly qualified personnel in Cash management.
- Adequate remuneration of staff and employees of the organization.
- A more comprehensive procedure for the recovery of debts should be employed by the organization.
- Ensure that a good, efficient and effective credit control policy exist in the organization.

- Finally, management should ensure that turn over is sound, enhance operational efficiency, waste maximization and development of optimum cash level which will definitely, establish a trade-off and consequently, a reduction in cost of holdings or carrying cost.

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APPENDIX

Department of Business Administration,
Ahmadu Bello University,
Kongo Campus,
Zaria,
Kaduna State.
20th January, 2013

Dear Sir/Madam,

I am a Postgraduate Student of the Department of Business Administration, Ahmadu Bello University, Zaria. As part of the requirement for the award of Master of Business Administration (MBA), I am undertaking a research on "IMPORTANCE OF CASH MANAGEMENT ON THE PROFITABILITY OF FIRST BANK "

I am soliciting for your cooperation to kindly answer the questions attached here with. All information would be treated confidentially and would be used for academic purpose only.

Yours faithfully,

ANIEKWENSI, Florence Ngozi
G10BAMP8051
MBA/ADMIN/03495/10-11

QUESTIONNAIRE

SECTION A

1. Sex: Male [ ] Female [ ]

2. Age: 21-25 [ ] 26-30 [ ] 31-35 [ ] 36-40 [ ] 41-45[ ] 46-50 [ ] 51 and above [ ]

3. Years of working experience 1-5 [ ] 6 – 10 [ ] 11 – 15 [ ]

SECTION B

4) Banking sector attach importance to cash as working capital management in making profit?

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

5) Does poor cash management lead to loss in banks?

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

6) To what extent does poor cash management has negative effect on the banks profitability?

High degree { }

Low degree { }

Moderate { }

7) Do banks employ qualified personnel for effectiveness and efficiency.

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

8) Effective cash management by the banks improved profit?

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

9) Cash is important on the profitability of banks?

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

10) Banks effectively manage their cash as working capital

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

11) How will you rate the cash management of your organization?

a. very effective { }

b. effective { }

c. Undecided { }

d. ineffective { }

e. totally in effective { }

12) Do your organization meet their daily cash needs?

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }

13) Availability of cash lead to high productivity?

a. Strongly agree { }

b. Agree { }

c. Undecided { }

d. Disagree { }

e. Strongly disagree { }