THE EFFECTIVE MANAGEMENT OF WORKING CAPITAL:

A CASE STUDY OF ED & F (MAN) ONDO

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BY

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A project submitted to the Faculty of Social and Management Sciences in partial fulfillment of the requirements for the award of Diploma in Accounting of the Adekunle Ajasin University Akungba – Akoko, Ondo State.

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CERTIFICATION.

I certify that this project work was carried out by Olaniyan Omolola Olayinka of the Department of Accounting, Faculty of Social and Management Sciences under my supervision.

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P.O. YABUGBE B.Sc. F.C.A ***SUPERVISOR***	**DATE**
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MR. AKINLEYE	**DATE**

DEDICATION.

This project is dedicated to the glory of God Almighty, the creator of Earth and the giver of life and wisdom, as well as to my parents, Mr & Mrs S.A. Olaniyan for their endless support throughout the duration of this course. They are my jewel of inestimable value, may God bless them abundantly. I say ***"a million thanks"*** to my Dad who is never tired of paying my fee and I thank you once more for the encouragement and advise that ***"Education is the only legacy that a child can be left with"*** I am really proud of you and I am saying thank you once again.

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I appreciate God Almighty for His mercies throughout the duration of this programme and I'm also indebted to a lot of people who helped me one way or the other to make this programme a success.

No one can write a project of such magnitude without the contribution and assistance of others. Therefore I appreciate the contributions of my Supervisor ***Mr Yabugbe*** who had been guiding me through this project work I am indeed very grateful. I am short of words to appreciate the efforts of my highly esteemed Uncle ***Mr Funso Aluko,*** for his painstaking throughout the writing of this project. He demonstrated a high level of tolerance, love, kindness and care, I am grateful to him, May God Almighty give more success to his life and chosen career (Amen). I am also grateful to ***Miss Busola Obigbesan*** and my younger sister ***Miss Olamide Olaniyan*** for providing the relevant document for me to write the project.

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May God bless you all.

Olaniyan Omolola
October 2002.

ABSTRACT

The management of working capital has been the bane of most small scale business in Nigeria. This work is therefore geared towards an analysis of the effective management of working capital in a business setting with specific reference to ED & F MAN Ondo.

This work takes off with the assumption that effective management of working capital is the most important determinant of the success of an organisation. Working capital helps enterprises to meet their short term financial obligations. This is however subject to the economic and business climate persisting at the time.

This paper concludes that any organisation must therefore put a sound management policy in place so as to make effective management of working capital and the attainment of organizational objectives possible.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Working capital refers to net current assets or net current liabilities where current liabilities exceed current assets. It therefore encamped short – term resource (inventory, debtors, investments and cash) and short term funding (creditors and other borrowings)

The importance attached to working capital management by treasures can be attributed to several factors. First, working capital presents a continuous set of decision making alternatives, which respond speedily to policy changes. In contrast, fixed assets and long term funding management involve discrete decisions often with long lead time before results are apparent. Second, although the individual transactions involved in working capital flows are relatively small in comparison with fixed assets and longer term funding, current assets and liabilities are significant in balance sheet terms. Typically in a manufacturing concern, current assets would exceed half the value of total assets , and current liabilities might be expected to supass half of the debt from outside sources.

From the viewpoint of financial management theory, working capital needs to be split into its current asset and current liability components. The principles involved are two fold.

a. Current assets should be increased provided their return is greater than the cost of the firm's capital that is to the point where the marginal revenue from extra current assets equals the meginal cost of financing them.

b. Current liabilities should be substituted for longer term debt provided the weighted average cost of capital is reduced.

Hence, organisation must strife to achieve effective working capital management into corporate objectives must be achieved. Mismanagement can have serious consequences either through overtrading and an inability to pay debts as they fall due or as a result of losing profitable opportunites due to a shortage of funds when there is an excessive level of working capital.

This project will examine the effectiveness of working capital management in ED & F MAN ONDO, which is the case study.

1.2 STATEMENT OF PROBLEM

There is always the need for effective management of working capital in any organisation.

In the face of scarcity of funds harsh business and economic conditions, most organizations have difficulty in achieving effective working capital management. This study will examine the situations in ED & F (Man) Ltd Ondo as a case study.

1.3 OBJECTIVES OF THE STUDY

The main aims of this project are

i. To highlight the effectiveness of working capital management in ED & F MAN ONDO.
ii. To show why working capital is more easily managed than fixed capital.
iii. To show the benefits derived from effective management of working capital and
iv. To recommend ways of achieveing effective working capital management.

1.4 SIGNIFICANCE OF THE STUDY.

Since management of working capital is a crucial and critical business activity, special attention should be given to it.

Firstly, the study will serve as aid to students who wish to research into the effective of management of working capital.

Secondly, the study could help or aid entrepreneur who may want to review their system of working capital management.

Thirdly, a part from the necessity of this project for the purpose of award of Diploma in Accounting, it also affords me the opportunity of contributing my own quota to the development of effective management of working capital in private organizations.

1.5 RESEARCH QUESTIONS.

The following research questions were addressed in the course of this study:-

a. Does management of working capital determine the organisation's ability to meet its short – term obligations?

b. How easy is it to manage working capital ?

c. Do the internal policies of an organisation affect its working capital management ?

d. Is investment in working capital influenced by general economic and business climate ?

1.6 STATEMENT OF HYPOTHESES

The hypotheses used for this study were as follows:-

i. Hypothesis I

Proper management of working capital determines the organisation's ability to meet its short – term obligation .

ii. Hypothesis II

Working capital is not easily manageable as fixed assets.

iii. Hypothesis III

Internal policy of an organisation do not have effect on the management of working capital of the organisation.

iv. Hypothesis IV

General economic and business climate do affect investment in working capital of private organizations.

1.7. DEFINITION OF TERMS.

i. Management:- Is the process of getting things done through people and it entails planning, organizing, directing and controlling. It is treated as a science, due to the use of organized knowledge, Management could also be an art because through experience the manager develop judgement (Knootz).

ii. Business:- Is the search for and the provision of all material into the forms needed the marketing and distributing of such product as well as the provision of services that the aforementioned made possible. "A business enterprise is an organ of the society. There is only one valid definition of business purpose to create customers" (Osaze 1990).

iii. Working Capital:- Is the excess of current assets over current liabilities. Pure unrestricted cash is working capital in its finest sense. However, working capital in its finest sense. However, working capital is broader than cash alone. Working capital can be described in another form as the sum total of current assets less current liabilities (Gopalakrishen, 1991).

v. Policy can be defined as the mode of thought and the body of principles laid down to underline and to guide the activities of a firm towards a declared or known objectives.

vi. Private Organisation:- Are business unit in which the government has no involvement in their formation and the ways they are managed and controlled (Olaleye 1997).

vii. Lead Time:- It refers to the length of time between placement of an order and receipt of the ordered material.

viii. Re – Order – Level:- It is the level point at which an order is placed for material.

ix. Ordering Cost :- These are the various expenses incurred in the process of placing an order.

x. Carrying Cost:- These are the expenses arising from transportation of ordered well to the premises of the organisation.

xi. Minimum Stock Level:- This is the level below which stock must not be allowed to fall.

xii. Maximum Stock Level:- It si the highest level beyond which stock must not go.

xiii. Economic Order Quantity:- This is otherwise called "Economic lot size" or re – order quantity. It is that order size which gives the best return in investment ant that result is the greater advantages and the least cost (Akinniyi 1995).

1.8. SCOPE AND LIMITATION OF THE STUDY.

The study shall be limited to ED & F MAN Ondo. In carrying out this research work some of the problems encountered included the relunctant attitude of management of the organisation in revealing information concerning its organisation due to what they describe as official secrets.

These constraints would obviously reduce the volume of data to work with. The lack of finance also limited the depth of the project work. Nevertheless, effort was made to ensure that the aim of this study was realized.

Moreover, the insufficiency of textbooks current journals and periodicals might impose a major limitation. Also the time allowed to carry out the project was another problem faced by the researcher. Inspite of all these limitations, I belief that the project will serve its purpose.

1.8. REFERENCES:-

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CHAPTER TWO

2.0. LITERATURE REVIEW

2.1 Description of working capital

The working capital of a business is computed by deducting the current liabilities from the current assets at any point in time. It is sometimes expressed as a ratio of current assets to current liabilities (Fajemibola 1997).

The current assets of a business, as shown in the balance sheet consist the following:

a. Cash on hand and cash in bank
b. Account receivable less provision for doubtful debts.
c. Inventories, valued at the lower cost or net realized value
d. Advance to suppliers
e. Marketable securities.

The current liabilities on the other hand shows the sources following from which short – term fund have been recruited by the business, these consist the following:

a. Trade creditors
b. Accrued change
c. Short term loans.
d. Amounts owned to the inland revenue e.g. corporation tax, value added tax or income tax payable within a year.
e. Bank overdraft
f. Dividends which are payable in the near future.

Therefore, the working capital of a business shows the amount of the firm's own fund which have been to finance the current assets and shows the extent to which short – term borrowings were used. For this purpose. Infact, the view of points of a creditor, the existence of working capital denotes a safety margin of current assets over current liabilities, which he sees as a pool from which his short – term loan to the business can be repaid. (Gopalakrishan 1991).

In the past, working capital ratio was thought to be satisfactory if a relationship of two to one existed.

This idea has now fallen into disrepute and now it's considered that the extent of a satisfactory margin of current assets over current liabilities depends upon the company concerned, the trade and season of the year as well as other factors.

2.2 SOURCES AND USES OF WORKING CAPITAL:

Sources: The possible sources of financing working capital – out of which 90% are from inventories may come from the following:

a. Trade receivables and delayed payment to creditors
b. Sales of non – current assets e.g. plant equipment etc.
c. Non – bank short – term borrowing
d. Bank short – term loan.
e. Share capital
f. Reserves
g. Long – Term loans from development financing institution e.g. African Development Corporation etc.

USES

Fund raised can be put into the following uses:-

a. Declaration of cash dividend

b. To acquire fixed assets and current assets.

c. To meeting working expenses

d. Reduction of long term debts.

e. Reduction of outstanding capital stock.

Financial analysts have cited the following useful information as being revealed by a charged statement, the major sources from which working capital has been obtained (i.e. profitable operations, borrowing, sales of capital stock), clue as to the financial management habits of the executives (i.e management attitudes towards spending and financing), the proportion of working capital used or applied to plant, dividend, debt, retirement etc. indication of impact of working capital flows upon future dividend paying probabilities and an indication of a company trend towards general financial strength or weakness (Pizzey 80).

2.3 DISAVANTAGES OF INSUFFICIENT WORKING CAPITAL.

The disadvantages suffered by a company with insufficient working capital are as follows:

1. The company is unable to take advantage of new opportunities or adapt to changes: since it does not have sufficient financial strength, it is unable to finance the development of a new product or the alteration to production techniques needed when a new opportunity occurs.

2. Trade discounts are lost: - A company with ample working capital is able to finance large stock and can therefore take advantage of trade discounts from the supplier.

3. Cash discount are lost: Some company will try to persuade their debtor to pay early by offering them cash discount off the price owed e.g discount of 2% for cash in one month instead of taking 2 or 3 months credit.

4. The advantages of being able to offer a credit to customers are forgone. If the sales force can back up their efforts by making credit available to customers, this will give them an advantage over rival organizations whose credit facilities are less attractive.

5. Financial reputation is lost. A company with ample working capital is able to pay its bills to suppliers and other creditors in good time.

   Thus, it achieves a reputation as being a good payer, and this will enhance the goodwill of the business.

   A company with a good reputation can expect co – operation from trade creditors at times of financial difficulty (Gopalakrishmen 1991).

6. There may be concrete actions by creditors. If the working capital of a business is grossly inadequate it will be forced to finance its operations more and more by short – term borrowing such as overdraft and trade credit.

   Eventually the point will be reached beyond which the short term lenders are not willing to extend credit and it is at this point that the policy, and indeed the continuation of the business is dependent not on the wishes of the owners or management but on the action of the creditors.

7. Over – trading is often the reason for the development of such adverse credit condition in a business. In simple term to overtrade means to

attempt to finance a large volume of production and sales with inadequate working capital (shubin 1957)

2.4 Problem of Working Capital:

1. There is scarcity of fund to be invested in working capital
2. The cost of fund invested in working capital is often high, as the fund is not backed with security.
3. Traditions, practices and conventions which govern the industry or the type of business.
4. Internal policy of an organisation in the face of competition and turbulent economic environment.
5. The general economic and business climate of which the business operates.

Working capital management is thus concerned with the management of current assets and administration of current liabilities. Determinations of the appropriate level of investment in current assets and the size of the current liabilities which in turn determine the desirable level of working capital to be employed in business,; it involves decision concerning trade – off between liquidity, risk and profitability. Hence neither excess nor shortage of working capital is desirable.

The estimation of working capital must be based on the principle "adequacy is virtue but surplus is not". We know the operation circle process:-

Cash → Raw material → Semi finished good → Finished Item

Item → Sales → Debtors → Cash.

2.4 Management of Current Assets.

The management of current assets requires that each account is kept of at a level to mẹet required needs without interrupting activities even for a brief period.

The current assets, which are usually found in balançe sheets are:-

1. Cash on hand and in bank
2. Account receivable
3. Inventories (debtors)
4. Advance to suppliers
5. Prepaid expenses.

They are always shown in reverse order of liquidity that is with first and cash last. However, working capital management is used to describe an organisation investment in current assets such as cash, trade, debtors' etc.

Thus working capital is the excess of current assets over current liabilities. In order words, working capital can be described as the sum total of current assets less current liabilities.
(NWC = CA – CL) (Fajemibola 1997).

2.5.1 Cash and its management.

Cash: Is the least common denomination of all business concerns. Its need cuts across all business organisations.

Cash here refers to cash on hand and balance with bank. Cash is the most fluid of the current assets. It is subject to more frequent changes than any of the other assets and therefore poses more problems of control (Osaze 1990)

Uses of Cash: The three major reasons of handling cash are:-

1. Transactionary motive: That is the need to meet obligations of activities of the firm, which include both routine and periodic payments.

2. The Precautionary motive: The requirement for meeting occasional unforeseen but compelling payments.

3. The Speculative motive: Cash required for taking advantages of usually profitable opportunities which may suddenly occur, there is nothing compelling about these except, perhaps the urge to optimize returns.

In addition to these aforementioned motives, the following factors tend to determine a company's level of cash at any given moment.

1. The company's expected : These can be obtained from its financial forecast and cash budget cash budgets are largely dependent on the turnover size and the stage in the life cycle of the company.

2. The company's borrowing capacity: If the company capacity to borrow in emergencies is good then it would need to keep very little cash balance for transactions and precautionary situations.
3. The company's management attitudes to risk: If a company has a conservative management highly averse to the risk of running out cash then it would need to keep large cash balances to forestall possible liquidity crises.
4. Debt repayment schedule: A company which has a major part of its outstanding debt maturing shortly or within the year would need to set aside some substantial cash to honour the debts obligation except it can easily liquidate some of its idle assets (Osaze 1990).

5. Cash Management; Is the term given to describe the systematic approach to all aspect of planning and controlling the financial resources especially the working capital. It involves:-

i. Forecasting cash inflows and outflows
ii. Scheduling commitment so that cash usage is optimized
iii. Converting cash forecast (probabilities) into cash budget, which represent part of an integrated plan.
iv. Monitoring result by comparing actual payment (or periodic amounts) with budget.
v. Taking action to ensure adequate availability of cash at any time (Batty 1076). Cash management must ensure that cash is sufficiently large to meet all obligations as they fall due; while it must not be too large as to prevent borrowing at unfavourable term. There must be adequate record keeping of all cash receipt and safeguarding of cash from theft or fraud. Each receipt or sales ticket should have duplicate copies. Total collections are summed up at the close of work to cross check receipts of the day as recorded.

On the other hand, for all disbursements, there should be vouchers approved by appropriate authorities before payments are made in cheque instead of cash and the vouchers stamped paid. All treasury documents like receipts, cheque books, stamps etc. Should be properly kept in a good safe, petty cash should be approved periodically for regular cash needs while cash advance should be carefully used because of the attendant abuse the petty cash book should record all cash spent with adequate record to back them.

Objectives of Cash Management.

1. Meeting payment obligation: Daily operation may involve the payment of cash for goods and services. It involves receipt of cash from operations. The day to day cash need will determine what balance to keep.

2. Cash is needed for precautionary and urgent reasons to off – set certain payment that fall due when there will be no adequate in – flow of cash.

3. Cash can also be invested in securities with rising value for quick returns. If the cash balance is not high, it will be difficult to have fund for such investment purpose (Fajemibola 1997).

2.5.2 Accounts receivable (Debtors Management). This category of current asset arose due to the need to sell good and services on credit. Companies find it necessary to extend credit to customers as part of the overall strategies of increasing their sales and market shares.

This creates what is known as debtors or account receivable in the balance sheet. This is necessary so as to increase sales and profit. The availability of credit to customers will certainly enhance organisation's sales, customers will always patronize the organizations that grant credit, especially when funds are not available at the time the goods are required.

However, while credit extension may indeed increase sales, it can also lead to bad debt or irrecoverable account as well as costs of administration and debt collection.

Accounts Receivable Policies:

There are various credit and collection policies that a company could adopt to improve sales, develop its market, reduce cost and improve income, however, four of such policies stands out:

a. Tight credit policies with prompt collection policies; By this policy the company makes effort to extend credit only to those customers, who are credit worthy and follow – up payment strictly. This should and will reduce bad debt expenses to a minimum.

b. Tight credit policy with liberal collections like the above stated policy pursue payment in the belief that as good credit risk they will honour their debt obligation as and when due.

c. Liberal credit policy with prompt collection: By this policies, a company would also strictly enforce collection – this standard is particularly useful during recession and period of economic downturn.

d. Liberal credit policy with liberal collection: A company using this policy feel all customers request for credit extension and also do not strictly pursue collection (OZAZE 1990).

The implications of unguarded credit policy are :

- Tying down resources in debt
- Unavailability of funds when needed
- Possibilities of long debts turning bad with attendant losses.

Account Receivables Protections:

Accounts receivable should be protected through proper internal accounting control. There should be seperation of functions between those keeping debtors records and those approving credit sales: this is necessary to avoid sales to poorly rated customers, manipulations of trade, debtors records and other unpleasant implications (Fajemibola, 1997).

There should be rating system to determine the ability of the customers to pay, fixing of credit limits and period of payment, obtaining security, insuring the accounts receivables, proper system of collection of accounts receivable, offering of discount for prompt payment and interest charged for delayed payment.

However, when a customer begins to make regular excuses and not paying on time, the account must be given close attention.

Stages of Collection are;-

i. Send reminders
ii. Follow – up through a letter phone call or personal visit etc.
iii. Drastic actions when payment is delay e.g. court action.

The effectiveness of a credit policy and collection system could be known through:

i. The ratio of credit sales to total sales
ii. The percentage of outstanding debt to total credit sales.
iii. Percentage of accounts receivables outstanding beyond the sanctioned credit limit to total credit sales and accounts receivables.
iv. The percentage the account receivable bears to total resources. It must be noted that if a credit is too strict, sales will reduce and profit will fall while a loose policy will encourage high bad debt.

2.5.3 INVENTORY (STOCK) AND ITS RELATED COSTS:

Inventory or stock of goods represent a very significant investment of fund by companies, hence the importance of turning over inventory as quickly as possible to reduce the cost of this investment. However, the desire to keep inventory as low as possible and turnover inventory as quickly as possible and to turn over inventory as quickly as possible can conflict with the objective of maintaining adequate stock to satisfy the demand of the production department and customer.

To resolve this conflict, a company must be able to determine the optimal (most cost – effective) level of inventories to maintain at any time (Akinniyi, 1995). While it is true that a financial manager is to play an advisory role on inventory control, he must be concerned due to the fund invested in inventories and this is an important aspect of investment. It can be mismanaged to the ruin of an organisation.

It is the collective responsibility of sales manager, production manager, purchase manager and financial manager. Inventories here include raw materials, finishwed goods, spare parts etc. When finished goods are not shocked, then production will be to order which can prevent the organisation from prompt reaction to sudden sales opportunity.

OBJECTIVES OF INVENTORY MANAGEMENT.

i. Making inventories available for production and sales as at when required.
ii. Reduce cost and volume of investment in inventories to the minimum level
iii. To trade off the cost of maintaining a given level of inventory from maintaining that level of inventory.

TYPES OF INVENTORY

Essentially, there are three types of inventory:

i. Raw materials and component to be used as input in the production process.

ii. Work in progress inventory made up of material, already partly worked on but not yet completed and therefore not ready for the market.

iii. Finished goods which has been fully processed and is packaged and ready for the market (OZAZE, 1990)

Investment in Inventories: The level of investment in inventories depends on

a. The type of business and volume of activities

b. Sales policy and method such as term of sales size of packaging etc.

c. Inventory level to be maintained which will be affected by the type of business government control etc.

d. Expected speculative profit.

e. Length of production cost.

Inventor Cost: The important issue is to keep enough inventory to optimist sales while minimizing inventory cost. There is three basic inventory cost that a company has to contend with:

a. Ordering cost of replenishing inventory and this include:

i. Cost of preparing and placing order

ii. Cost of preparing storage space for inventory.

iii. Cost of preparing the production line, if the company has to produce the order.

Carrying Cost: These include

i. Cost of capital tied – up in inventory

ii. Cost of Storage (warehouse)

iii. Risk of obsolescene of physical deterioration

iv. Insurance inventory

v. Cost of protection.

Out of Stock Cost: These include:

i. Disruption of production leading to extra cost of accelerating service. Overtime set – up, hiring and training when inventory becomes available.
ii. Quantity discount cost.
iii. Contribution margin on lost sales
iv. Loss of customers good will ordering cost, carrying cost versus order size.

The higher the order quantity, the more storage will have to be provided, the more insurance to be take. The sum effect is that carrying cost increases as the order quantity increases. Cost minimization occurs at the point where the annual carrying cost is equal to the annual ordering cost. Q, which is the order quantity (QD) corresponding to the minimum, is known as the economic order quantity (EOQ). Therefore

Ordering Cost = DC/Q	D – Annual demand
Carrying Cost = QH/2	C- Ordering Cost per order
	H – Carrying Cost per unit of stock

Economic Order

Quantity = 2DC/H

2.5.4. Marketable Securities:

These are money market instrument which are readily convertible into cash within a short term, cash that is temporarily idle is usually invested in such instrument in order to earn some return until its needed other purposes.

Idle fund do not grow and as such it is necessary to invest in short term instrument that yield an increase in cash which is temporarily not in use.

The reasons for holding marketable securities include safety levisees, speculative motive, transaction purpose etc. there are three types of marketable securities:

a. Those with unknown conversion dates but can be converted to cash e.g. certificate of deposit.

b. Those with known conversion dates like commercial papers, treasury bills.

c. Those with unknown conversion dates, which are free for investment elsewhere, like debt retirement.

2.6. Management of Current Liabilities:

The current liabilities of any business should be kept below current assets to ensure that a networking capital is maintained. The liquidation of current liabilities constitutes reduction in current assets as cash will have to be settle short – term obligation.

To avoid such obligation would also mean a reduction in cash at funds which should have remained as cash may be used to settle expresses, immediately they are used to pay for items like inventory at the time of purchase.

2.7 Ratios:

Liquidity Ratio: Liquidity of a business firm refers to its ability to meet short term debts as they fall due. This includes the ability to convert certain current assets to cash to pay up its current liabilities.

Measures of a firm overall liquidity could be done by computing its:

a. Current Ratio: It's the ratio of current assets to current liabilities

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

B. Acid test (or quick ratio): Also called liquid ratio. This ratio is similar to current ratio except that less liquid assets such as prepaid items and inventory are deduced from current assets.

$$= \frac{\text{current assets inventory \& prepaid expenses}}{\text{Current Liabilities}}$$

c. Networking Capital: It is the difference between the current assets and current liabilities. It is used to measure a firm spending power beyond payment to short term creditors.

= Current Assets – Current Liabilities.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN.

This study was designed to investigate the effective management of working capital in a business organisation ED & F Man Ondo.

Questionaires were served to workers in the organisation in order to gather necessary information. Records and files of the organisation were also delved into, to get certain information. A few senior officers were also interviewed on a face – to – face basis.

3.2 RESEARCH POPULATION AND SAMPLING TECHNIQUE.

This research combed through all the business organizations in Ondo State and decided to choose ED & F MAN ONDO as a case study. ED & F MAN ONDO is the only organisation selected as sample out of the numerous business organisations in Ondo State. The choice is based on the fact that ED & F, being an import / export firm uses a large sum as working capital. It therefore presents a good case in which the effect of good management of working capital can be clearly investigated.

Systematic sampling technique was adopted so that only the senior staff members would be interviewed. They are the ones directly involved in handling issues of money.

3.3 RESEARCH INSTRUMENT.

A questionnaire designed by the researcher was used to collect data basically designed to reveal the management techniques for working capital in ED & F Man Ondo. Daily records book and' ledgers were also consulted. Verbal questions that are unstructured were employed in face – to – face interview with the General Manager and the chief executive of Ed & F Man Ondo.

3.4 SOURCE OF DATA.

The Data were collected from both secondary and primary sources. The mode of gathering primary data were mostly through sample survey. Questionnaires were administered and personal observations and interview made. The researcher had a face – to – face interview with the Chief Executive and General Manager of ED & F Man Ondo for necessary insight into relevant information about their working capital.

The secondary data were obtained largely from available materials of relevant business journals, Business and financial reports, and text books in the library.

3.5 STATISTICAL METHOD OF ANALYSIS.

The statistical method of analysis that is adopted in this work is simple arithmetic mode. The answers from our respondents that occur the most frequently is chosen as the fact in our analysis as against other responses that are in the minority. The responses are tabularized and the frequencies of responses to each question determined. The highest frequency in responses represents the fact.

CHAPTER FOUR.

4.0 PRESENTATION AND ANALYSIS OF DATA

4.1 ANALYSIS OF DATA

The analysis of data mainly predicated on data collected from the various department of the company in which interview are conducted and the review of previous literature and journals of the organizations and experts opinions.

As earlier enunciated the respondents were made to express their opinions on the effective management of the working capital in private organisation especially ED & F MAN ONDO and the method used in analyzing the data are:-

Bio – social data of respondents.

1. Sex distribution
2. Age Distribution
3. Educational background.

TABLE A – SEX DISTRIBUTION AND CHARACTERISTICS.

SEX	NO OF RESPONDENT	PERCENTAGE
Male	15	60
Female	10	40
Total	25	100

In taking a critical look at the table A above, it is axiomatic that the male out – numbered the female.

This pre – supposes that the male dominate the study population. From the respondent interviewed, 15 which is 60% were of male sex which the remaining 10 respondent were female sex which is 40%.

TABLE B. QUALIFICATION DISTRIBUTION OF THE RESPONDENT.

Qualifications	No of Respondent	Percentage
B.Sc	5	20
HND	4	16
OND	6	12
NCE	3	24
OL /Below	7	28
Total	25	100

Table B above unveils that the qualifications of the respondents are conveniently divided into five(5) groups to facilitate easy analysis.

Thus from the table above it goes without saying that most of the respondents on the study. Population are between N.C.E and B.Sc qualifications, making up 48% of the respondent.

The following are those with ND qualification with 24%, then O/ Level and below brings up percentage 28.

SECTION B.

Table C: Response Distribution for Questions: Does proper management of working capital determine the success of an organisation.

Response	No of Respondent	Percentage
Yes	24	96
No	-	0
Undecided	1	4
Total	25	100

A quick look at table c above reveals that 24 respondents constituting 96% of the total agree that proper management of working capital determines the success of an organisation. No respondent disagrees, except for one that is undecided. This is an indication that proper management of working capital determines organizational success.

Table D. Response Distribution for question 9 : Do you agree that working capital is more important than fixed capital in ED & F.

Response	No of Respondent	Percentage.
Yes	16	64
No	9	36
Undecided	-	0
Total	25	100

From the table, 16 respondents making up 64% of the total agree that working capital is more important than fixed capital. 9 respondents disagree. This shows that working capital is more important in an organisation like ED & F more than fixed capital.

Table E: Response distribution for Question 10 : Does proper management of working capital helps in achieving companies short term financial obligations .

Response	No of Respondent	Percentage.
Yes	21	84
No	2	8
Undecided	2	8
Total	25	100

The table above shows that 21 out of 25 respondents agree that proper management of working capital helps in achieving company's short term financial obligations. While 2 respondents disagree, two also were undecided it follows therefore that proper management of working capital helps in achieving a company's short term financial obligations 84 percent therefore affirms that proper management of working capital is helpful in the achievement of a company's short term financial obligation.

Table F: Response distribution for Question 11: Do you agree that mismanagement of working capital leads to debt.

Response	No of Respondent	Percentage.
Yes	19	76
No	5	20
Undecided	1	4
Total	25	100

Looking at table F above, it would be seen that whereas 19 respondents agree that mismanagement of working capital leads to debt, 5 respondents disagree and only 1 respondent is undecided. This means that 76% agrees, 20% disagrees and 4% undecided.

Table G: Response Distribution for Question 12: Do you agree that there is any company policy / procedure for management of working capital.

Response	No of Respondent	Percentage.
Yes	15	60
No	10	40
Undecided	-	-
Total	25	100

Table G above reveals that 15 respondents are aware of company's policy and procedure for management of working capital and 10 respondents are unaware. 60% of respondents are informed of such policies while 40% are not having such information.

Table H: Response Distribution for Question 13: Does this policy / procedure affect management of working capital.

Response	No of Respondent	Percentage.
Yes	11	44
No	4	16
Undecided	10	40
Total	25	100

From the table H above, only 11 respondents out of the 25 agree that the ED & F's policy / procedure for management of working capital is of positive effect, if respondents are of the opinion that the policy / procedure is of negative effect while 10 respondents are undecided. If these responses are analysed against the background of table G, it would further reveal that 11 respondents out of the fifteen respondents who have the knowledge of the policy see the policy as positive while the rest 4 respondents see it as negative. The 10 undecided respondents are also those who claim not to have any knowledge of the policy / procedure. It can therefore be stated that 73.33% of respondents with the knowledge of the policy agree that it has positive effects on working capital while only 26.66% disagree.

Table I: Response Distribution for Question 14: Does volume of working capital change per time.

Response	**No of Respondent**	**Percentage.**
Positive	18	72
Negative	-	-
Undecided	7	28
Total	25	100

In table I, 18 respondents constituting 72% of the total agree that volume of working capital change over time. No respondent disagrees and 7 respondents are in departments that have nothing to do with finance and accounts. The 18 respondents that agree are field officers and managers who are directly involved with ED & F's money and accounts. They therefore have enough information about financial matter in the organisation.

Table J: Response Distribution for Question 15: Does economic / business climate affect investment on working capital.

Response	No of Respondent	Percentage
Yes	23	92
No	2	8
Undecided	-	-
Total	25	100

23 respondents constituting 92% of the total respondents agree that change in business and economic climate affect investment in working capital.. Two respondents disagree. It therefore implies that changes in economic and business climate affect investment in working capital.

Table K: Response Distribution for Question 16: Do you agree that there are ways of improving effective management of working capital.

Response	No of Respondent	Percentage
Yes	10	40
No	-	-
Undecided	15	60
Total	25	100

In table K above, 10 respondents out of the 25 agree that there are ways of improving the management of working capital. No respondent disagree. 15 respondents are indifferent because they are mostly of lesser qualifications and lack basic knowledge of financial management.

4.2 TEST OF HYPOTHESIS

Hypothesis: It is viewed as essentials to test the hypothesis. Capital in private organisation by determining the reliability and validity of the hypothesis.

Hypothesis I: That proper management of working capital determines organisation is ability to meet its short term debt.

Null – Hypothesis: Proper management of working capital determine organisation is ability to meet it short term obligation.

Alternative Hypothesis:- That proper management of working capital does not determine organisation ability to meet its short term obligations.

Out of the 25 respondent interviewed to test these types of hypothesis, 21 agreed that proper management of working capital will determine organizational ability to meet its short term obligation while two disagreed that proper management of working capital do not determine organizational ability to meet its short – term obligation, hence null hypothesis is accepted.

Hpothesis II: That working capital more important than fixed capital.

Null hypothesis:- That working capital more important than fixed capital.

Alternative hypothesis:- That working capital is not more important than fixed capital.

The interview shows that 16 out of 25 respondents agreed while 9 disagreed, hence null hypothesis is accepted.

Hypothesis III:- That internal policy of an organisation have effect on the management of working capital.

Null Hypothesis:- that internal policy of an organisation have effect on the management of working capital.

Alternative hypothesis:- That internal policy of an organisation do not have effect on the management of working capital.

Out of 25 respondents interviewed, 11 agreed that internal policy of an organisation have effect on management of working capital while 4 affirmed that internal policy of an organisation do not have effect on management of working capital. 10 respondents are different, hence alternative hypothesis is accepted.

Summary of the result – from the hypothesis tested, it was revealed that proper and effective management of working capital determine organizational ability to meet its short – term obligation and that working capital is easily managed than fixed capital while internal policy of an organisation will also have effect on the management of working capital of the organisation.

Although, both the general economic and business climate affect investment in working capital. It is discovered that there are other ways of improving the effective management of working capital in an organisation.

CHAPTER FIVE

5.0 FINDINGS, SUMMARY, CONCLUSIONS AND RECOMMENDATION.

5.1 INTRODUCTION

In this final chapter of the study, the research gives the highlights of the research findings, summarises them, and makes useful recommendations and finally brings the research work to conclusion.

5.2 SUMMARY OF FINDINGS.

Following the review of relevant literature, presentation and analysis of data collected it is considered imperative to bring to view the highlights of the research findings in the following paragraphs:-

The study showed briefly the description of working capital of an organisation. It revealed other sources and uses of working capital. It was discovered that the insufficiency of working capital in an organisation would be of great disadvantages to such organisation.

Moreover, some problems facing working capital management in an organisation were revealed by the study. The study also revealed the uses of cash and cash management in an organisation.

It showed that proper effective management of working capital determines the organisation's ability to meet its short – term debt or obligations. Working capital can be easily managed than fixed capital as revealed by the findings. The study revealed the objective of cash management, inventory management and account receivable policies.

It showed clearly that internal policies of an organisation have effect on the management of its working capital while on the other hand, the study revealed that economic and business conditions generally affect the investment in working capital of an organisation.

During the course of study, data were collected from staff of ED & F MAN, Ondo. A personal interview was conducted and questionnaires served to respondents and their responses analysed.

From the interview, and questionnaire responses the hypothesis formulated in chapter one were tested in chapter four.

The study has been on the effective management of working capital with a special emphasis on private organizations with particular references to ED & F MAN, ONDO. The responsibility for the management of working capital rests with the management team of the organisation.

Effective management of working capital has contributed immensely to the economic growth and development of the organisation.

ED & F MAN Ondo has been carrying on the business of importation of agricultural products. Infact, the company is one of the largest cocoa buyers in West Africa. By operating and performing well in the above mentioned sector ED & F MAN has contributed in no small measure to the development of agriculture in Ondo State like other private organizations.

5.3 CONCLUSION AND RECOMMENDATIONS.

I consider the following recommendations useful to ED & F MAN to improve on its current level of efficiency in managing its working capital:-

a. Excess idle cash should be used to reduce short – term borrowing or invested in bank current accounts. A prudent financial manager may also wish to invest idle cash in high level account receivables and inventory.

b. For the fact that general economic condition and business climate affects investment in working capital, government should try to ensure political stability, formulation of good business policies, provision of rules and regulations that will facilitates easy financial assistance to private organizations.

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APPENDIX

QUESTIONNAIRE

Department of Accounting,
Adekunle Ajasin University,
Akungba – Akoko.
Ondo State.

20 – 08 – 02.

Dear Sir/Madam,

This is a research work based on the effective management of working capital in a small scale business organisation with specific reference to ED & F Man Ondo in Ondo State.

I shall sincerely appreciate it if you will fill the questionnaire below. I assure you that any information supplied shall be treated with utmost confidentiality.

INTRODUCTION

Below are carefully selected questions. You are expected to mark 'x' in the boxes provide where they exist and fill in the answers where space is provided.

SECTION A.

BIO – SOCIAL DATA.

1. Name:..

2. Sex: Male ☐
   Female ☐
   Age:..............................

3. Marital Status: Single ☐ Married ☐
   Divorced ☐ Widows ☐

4. Nationality: Nigerian ☐ Others ☐

5. Qualification: First school leaving ☐

   SSCE /WASC/GCE ☐

   N/D / NCE ☐

   HND/BSC/BED/BA or equivalents ☐

   Others ☐

6. Status in organisation:..

7. Length of service a. below 5 years ☐

b. 6 - 10 years

c. 11 – 15 years

d. 16 – 20 years

e. above 20 years

SECTION B:

8. Would you agree that proper management of working/ capital determines the success of an organisation like yours.

Yes

No

9. Do you agree that working capital in an establishment like yours is more important than fixed capital.

Yes

No

10. Do you agree that proper management of working capital in your organisation is an essential ingredient used to achieve company's short term financial obligations.

Yes

No

11. Can mismanagement of working capital lead the company into debt.

Yes

No

12. Is there any company policy / procedure for management of working capital

Yes

No

13. If yes, how does this policy / procedure affect the management of working capital.

Positively

Negatively

Explain

Please..

....

....

....

....

....

....

14. Does the volume of working capital change per time.

Yes ☐ No ☐

15. Do the general economic and business climate affect investment on working capital of an organisation.

Yes ☐ No ☐

16. Do you think there is any way of improving the effective management of working capital.

Yes ☐ No ☐

If Yes, what are these ways...

....

....

Thank You.

MISS OLANIYAN OMOLOLA. O.