

**ASSESSMENT OF WORKING CAPITAL MANEGEMENT
IN CASE OF DH GEDA FLOUR SHER COMPANY**



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**RESEARCH PROPOSAL SUBMITTED TO THE DEPARTMENT OF
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BACHELOR OF ARTS DEGREE IN ACCOUNT AND FINANCE**

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ABSTRACT

The major purpose of the study is to assess working capital management in the case of DH Geda flour factory. In addition to this the paper identify the major area of problem in relation to working capital management, the limitation and come up with possible suggestion to fill the gap and to overcome the stated working capital management problems. The paper will use primary and secondary source of data to analysis the state problems about working capital management and to achieve the objective of the research. Analysis data shows that, even though there are some problems of working capital management of the factory has almost good performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Working capital management is the process of planning and controlling the level of current assets, specifically cash, account receivables and inventories as well as financing the asset (www.studyfinance.com/lesson/working/). It involves the management of current asset of the firms and the appropriate financing for those assets. It simply financing and controlling the current asset of the firm (Stanley 1997). Working capital management is important in any business enterprise, because working capital is an essential part of management day to day activities of the organization. In addition to this proper control over working capital to mean to achieve goal of the organization and to meet its current obligation (Impadey 2005). It worked implementing short term decision that carry over from one learning period to the next ([www. Businessdictionary.com](http://www.Businessdictionary.com)). The management of working capital generally central in forecasting and internal control over current liabilities. The responsibility of management with respect to working capital is; to ensure that there is sufficient working capital to carry out operation and preventing current asset from misappropriates use and searching for the right source to finance this current asset (Hailu 2000).

The organization should maintain optimum working capital position and it should have to run its business operation. Both excessive and inadequate working capital positions are dangerous for the organizations. Excessive working capital means liquid asset which increase chance of incurring small amount of working also impairs firm profitability and also results production interruption and inefficiencies. Therefore, an enlightenment management should maintain the right on continuous basis to ensure proper functioning of the business operation (pandey, 2005).

The goal of working capital management is to manage a balance between profitability and risk that contributes positively to the firm's value. The lower the investment will leads to the higher the risk of not being able to pay debts as they come due. And the higher networking capital or lower current liability and higher current assets, financing also reduces the profit ability due to high cost of financing from long term this to be compensated by reduced risk this gives the firm

ability to meet its liability with out difficult. And when the firm finances from short term, implies net working capital will be negative this shows higher current liabilities than current asset as this time, with in short period of time the firm may be un able to meet in short period of time the firm may be unable to meet its liability. Therefore, all these situations greatly leads to lower the firms value (Pandey, 2005).

Thus the study of the working capital management and source of finances for the working capital is an essential part of managing day-today activities of the firm.

1.2 Statement of the problem

In every organization the working capital is important to maintain the smooth running of business, the motive power of business enterprise provided by working capital components; current assets such as; cash, receivable, and inventory and current liabilities and poor control over these current assets will lead to incurring losses. In order for the organization to meets its objectives and under take its operations effectively and efficiently, it is important to establish and maintain effective control over each components of working capital management. If the level of working capital is adequate, it become difficult to implement operating plans and achieves or I organization goal. Similarly, if the level of the working capital is in adequate to meet requirements of the customers if leads to loss of sale, loss of customers and loss of profit. In generally, the day-to-day activities failure in working capital management may result in the bankruptcy of the organization (Atril, 2007). Moreover in the above the researcher put different conclusions regarding the assessment of working capital management. In addition to this the above researchers were studied in a country level and as far as the researcher knowledge Dh Geda Flour Share Company is not assessed before. The lack of prior empirical research that assesses the assessment of working capital management Dh Geda flour factory, they does not show current performance of working capital of the factory. Due to this fact, it attracts our attention to conduct a research in Dh Geda flour factory.

1.2 Research Question

The study will answer the following research questions

1. What are the different strategies used by company to manage different components of working capital?

2. What source of finance does the company use?
3. What the company's current capacity to meet its liability looks like?

1.3 Objectives of the study

1.3.1 General objectives

The general objectives of this study is to assess the overall working capital management of Dh Geda flour factory

1.3.2 Specific Objectives

In addition to the above general objectives, the study will be the following detail objectives

- To investigate the source of finance for current asset and its cost.
- To identify factors that affect working capital management policy of Dh Geda flour factory.
- To come up with short coming in working capital management of Dh Geda flour factory.

1.4 Significance of the study

The result is also expected to inspire the firm to manage its working capital in proper manner, to ensure maintain of solvency to have good image with out side world. Thus, this study is very significant as it focuses on the back bone of the firm. Therefore, it is important to have some knowledge.

This study is extremely important to:

- Provide useful information for proper management of each components of working capital of the firm.
- Offer suggestion and comments on the company's operation
- It will suggest some possible solutions to the problems faced by the factory that enables them to improve their working capital management. It will acts as starting point for other researchers, who will like to conduct research on the same area.

1.5. Scope of the study

This study will conduct in Dh Geda flour Share Company, which is located, in the capital town of Ethiopia Addis Abeba .The study will attempt to deal with only analysis of working capital management of the company specified above which is Dh Geda flour Share Company due to time and cost constraint. Therefore, the study will be limit to:

- Management of cash
- Management of receivables
- Management of inventory.

1.6 Organization of the study

This study will be organized in to five chapters, the first chapter deals with introduction, statements of the problem, objectives of the study, scope of the study, significance of the study and organization paper. The second chapter will concern about review of related literatures. The third chapter deals with the research methodology. The fourth chapter will contain data analysis and presentation. The fifth and the last chapter deal with summery of findings, conclusion and recommendation.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Nature of working capital

Working capital is concern with problem that arise in attempting to manage the current assets, current liabilities and interrelation ship that exist between them. The term current asset refers to those assets which is the ordinary course of business could be converted in to cash in a year with our undergoing diminish involve and without the disrupting the operation of the firm. The major current asset includes cash, account receivable and inventory. Current liabilities are those which are paid in the ordinary course of business, with on a year, out of current assets the basic current liabilities are account payable, bank over drafts and outstanding expense. The goal of working capital management is to manage current assets and current liabilities. There are two types of working capital which is permanent and temporary (fluctuating) working capital. Permanent working capital is a minimum amount required to be kept in the form of current assets. Temporary working capital is the amount of working capital it is created by the firms to meet liquidity requirement that would last only temporary (impandey 2005).

2.2 Concepts of working capital

There are two concepts of working capital such as gross and net. The first one refers to the firm investments in current assets. It is the total all current assets where as the last one is the different between current asset and current liabilities. It can be negatives or positive depends on both current asset and current liabilities. In this case the firm is financed with short term funds. The concept of net working capital is use full to group interested in determining the amount and nature of assets may be used to pay current liabilities (gitmam, 1997). According to the opinion of financial analysts provide that the ratio analysis is one of the most important concepts in analysis of effective working capital management. Because it provides meaning full compression to its industry and it's the most power full tools of financed analysis ratio. Ration analysis is the methods of calculating and interpreting financial ration to assets the

Identifying excess working capital (macmllan, 2006firm performance and status.

2.3 Management of working capital.

It involves the following process

- Acquiring funds.
- Monitoring the levels of cash, receivable and inventory.
- Knowing percentage of fund in current account.
- Recording time spent in managing current asset.
- Identifying excess working capital (macmillan, 2006).

2.4 Characteristics of current asset

In the management of working capital, to characteristics of current asset must be born in mind, short life spans and swift transformation in other assets forms. Current assets have short life spans. Cash balance hold idle for one to two weeks, receivable may hold life spans Of 30 to 120 days, and inventory may hold for 30 to 100 days.

2.5 Approaches of finance working capital.

Among the several source of financing the firm has to identify certain source of finance its current assets. These can be long and short term. The long term contains shares, debentures; preference share retained earned, debt from financing institution. The short term includes short term bank loan and commercial papers. There are three options of financing working capital management.

Includes

- matching approaches
- Conservatives approaches
- Aggressive approaches

2.5.1 Matching approaches.

In this approaches the company hedging it's by matching the maturities of it asset and liabilities. The company finances seasonal variation in current asset which current liabilities of the some maturity

2.5.2 Conservatives approaches

This uses relatively higher proportion of long term debt and relatively low proportion of short term debt, this approaches reduced risk associated with interest rate fluctuations

2.5.3 Aggressive approaches.

The aggressive approaches use less long term and short term financing. The goal of this approach is to raise profitability by financing temporary and parts of permanent current asset from short term sources. The remaining assets are financing with long term sources (Douglas, 1998). The important element of working capital management includes cash management, receivable management and inventory management.

2.6 Cash management

Cash is the funds which the firm can disburse immediately any limitation. The term cash include coins, currency and check held by the firm and balance in bank account. Near cash asset which can be readily converted in to cash are also included in cash (arlhanian daty 2005). Cash is read to convert in to other assets.

2.6.1 Operating cycle.

Operating cycle is the amount time that elapses from the point when the firm begins to inventory to the point when cash is collected from the sale of resulting finished acts. The cycle is made up of two components. The average age of inventory and the age collection periods of the sales.

2.6.2 Cash conversion cycle

Cash conversion cycle represents the length of between when the company makes the payment and it receives cash inflows.

2.6.3 Cash ratio.

The cash ration is the ratio of a company's total cash and cash equivalents to its current liabilities (padachl.k.2016), the cash ratio is most commonly used as a measure of company's liquidity.

Cash ratio= cash +cash equivalent divided by current liabilities.

The cash ratio is the most stringent and conservative of three short term liquidity (current, quick and cash).

2.7 Management of account receivables

Account receivables are the extensions of credit by which the firm gives to its customers. It should not be judged too high or too low based on historical standards of organizations normal and the firm financial managers directly control account receivable through involvement in the establishment and management of credit selection, credit standard and credit terms. Collection policy should consider both the firm and debt because of extended collection period and the customer of firms generally the objectives of the account receivables management is to minimize the time lapse between completion of sales and receipt of payment (Brigham 2002).

2.8 Management of inventory.

In management of inventories the firm objectives should be in accordance with the wealth maximization principles, one can achieve this, by determining the optimum level of inventory the basic financial problems are determine the proper level of investment inventory and to decide how much inventory must be acquired during each period to maintain that level. Efficiently controlled inventories results in unbalance inventories and inflexible in operational activities all inventories have two characteristics in common.

- Cost must be incurred to acquire inventories.
- There are costs to holding inventories.

The first one is called ordering costs and the second one is called carrying costs (pundey, 2005)

2.8.1 Inventory management techniques.

To manage inventories efficiently answer should be sought to the following questions.

- How much should be ordered.
- When it should be ordered.

The first questions is related to the problem of determine economic order quantity and it is answered with the analysis of cost of maintaining as certain level of inventories, The second question when the order arises because of uncertainty and problem of determining the questions.

2.8.2 Inventory control.

Usually a firm has to maintain several types of inventories. It is not desirable to keep the some degree of control over all the items. The firm should pay maximum attention to those items whose value is the highest. The firm should therefore classify inventories to identify which items should receive the most efforts to controlling. The firm may use the following technique in controlling inventory (impader, 2005).

1. ABC analysis inventories are categorized based on the value and volume. Inventories with high value and low volume are grouped under category (a) and inventories with low volume are grouped under category (b).

2. Aging schedule (fsnd) analysis inventories are classified according to the period of their holding where

F=fast moving inventories.

S= slow moving inventories.

N=normal moving inventories.

D=dead making inventories.

Analysis inventories are classified based on usage.

Where V=vital items of inventories.

E=essential items of inventories.

D=desirable items of inventories.

2.8.3 Inventory turnover ratio.

Inventory turnover ratio is on efficiency ratio that shows how effectively inventory is managed by comparing cost of god sold with average inventory for a period (rah man). It measures how many times a company sold it total average inventory dollar amount during the year. This ratio is important because total turnover depends on two main components of performance. The firs component is stock purchasing. It large amounts of inventory purchased during the year, the company will have to sell greater amount of inventory to improve its turnover. If the company can't sell this greater amount of inventory it will incur storage cost and other holding costs.

Inventory turnover=cost of goods sold/Average inventory.

2.9 Liquidity

Liquidity refers to a measure of the extent to which a person or organization has cash to meet immediate and short term obligations or assets that can be quickly converted to this (www.businessdictionary.com).

The liquidity of the business firm is measured by its ability to satisfy short term obligations as they become due. The three basic measures of a firm's area of liquidity are:

- The current ratio
- The acid test ratio
- The net working capital

The current ratio is calculated by dividing current assets by current liabilities

Current ratio=current assets/current liabilities

A current asset includes cash and those assets that can be converted into cash within a year. Current liabilities are all obligations maturing/paying within a year in an accounting period. An asset is liquid if it can be converted into cash immediately or reasonably soon without loss of value.

Quick ratio =current assets-inventories/current liabilities.

Net working capital ratio: the difference between current assets and current liabilities excluding short term bank borrowing is called net working capital or net current assets.

$NWC=CA-CL$ Where -NWC=net working capital

-CA=current assets

-CL=current liabilities

2.10 Empirical Review

Ebratists (2014) studied the effects of working capital management on firm profitability in Singapore. He used a fundamental quantitative and qualitative approach of research design using

panel data analysis pooled OLS and fixed affect estimation, for a sample of Singapore firm's from 2004 to 2011. He find that managers can increase profitability by managing working capital efficiency, more over managers can improve firms profitability by shorting receivables, conversion period and inventory conversion periods. He concludes that working capital management is more important for firms in managing markets with loss access to short term funds.

Ahsan (2014) the study investigates the relationship between working capital management efficiency and firm performance for panel data of 77 listed flour companies from a rapidly emerging market of china. He fined that working capital management efficiency is gauges through net trade cycle and return on assets is used as proxy to replicate firm performance.

Moreover, leverage, firm size and production efficiency are used as control variables because they can have same effects on firm performance. He concluded that finance managers shall improve working capital management practices by focusing on every individual component of net trade cycle so accelerate firm performance.

James(2012) management and its implication on liquidity risk in quested commercial bank in Kenya, the general objectives of this study was to established the implication of working capital management quoted commercial bank in Kenya. This study uses to longitudinal research design. The final that debtors collection period and cash collection cycle have significantly negative relationship with liquidity of quoted have Singapore nattily negative relationship with liquidity of quoted commercial banks, credit payments, period have significantly positive relationship with liquidity of quoted commercial banks. He concludes that financial manager to improve the working capital management by short time to collect cash from their customer

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The descriptive research presents a picture of the specific details of situation and events of the present. Descriptive research to determine the answer to whom, where, when, what and how the questions.

In this study descriptive types of research will be used with quantitative and qualitative approach will be conducted with working capital management in Dh Geda flour factory in Addis Abeba.

3.2 Target population and sampling frame

The study will be conducted in selected working capital management in Dh Geda flour factory. The target population will be the workers of the factory who have duty related with working capital management including manager, auditor and accountant.

3.3 Sampling size and sampling techniques

The sampling technique that will be used to implement this study is non-probability census sampling because the total population of the factory is less than 30. This technique of sampling is selected, because it enables to get accurate and sufficient information. Therefore, the entry members will be taken to achieve accuracy.

3.4 Types of data

The researcher will use two types of data. These are qualitative and quantitative data. Quantitative data is expressed the result by numerical like age, number of workers, profit, loss while qualitative data is expressed the result by non numerical such as experience, knowledge, attitude, weakness, strength of the firm.

3.5 Data sources and method of data collection

The researcher will use two types of data sources. These are primary data and secondary data. The data collection process different data collection method will be use in the study. According to this the primary data involves=interview, questionnaire and secondary data will be collected

from different sources such as; records of factory report from (2009-2010), reference books and internet.

3.6 Data collection instrument and procedures

The data collection instruments are primary and secondary sources of data. The primary data include self administrate, questionnaire, an unstructured interview, which include both open and closed ended to employee of factory in order to find data related to working in capital management of factory.

3.7 Data analysis and presentation technique

After relevant data are collected, it will be analysis the collected data through percentage, chart and the researcher will use another system like tabulation.

Tabulation can be consist of simple counting the number of fact that falls in to various groups it communicate the result of study, can use several purpose that calculate and summarized the result.

Data can be presented in different ways based on data collected. The table is an effective way of presenting data; also we will use tabulation methods

Chapter four

4.1 Time and cost budget

4.2 Time frame (budget)

No	Activity	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
1	Title section		X								
2	Search of literature			X							
3	Proposal develop				X						
4	Question develop					X					
5	Data collection						X				
6	Data processing and analysis							X			
7	Report writing								X	X	
8	Presentation										X

4.3 Cost budget

Conducting this proposal study according to work plan design the amount of to be summerise the following table form.

No	Item description	Unit measurement	Quantity	Unit cost in birr	Total cost in birr
1	Transportation		2		280

	cost				
2	Typing proposal				120
3	Printing			200	200
4	Binding			20	20
5	Stationary material			110	110
	Paper		1	10	10
	Pen		4	5	20
	Ruler		1	15	15
6	Refreshment		3	120	120
	Tea		3		
	Coffee		2		
S	Food				
	Total				875

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APPENDEX
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Dear respondents the objective of this questioner is to assess the working capital management of DH Geda flour share company. The information you give will be kept all confidential with the researcher and it will be used for the research purpose only. The researcher would like to thank in advance for your valuable information.

INSTRUCTION

There is no need to write your name. Please indicate your answer with “√” make and write important information when it is needed.

Background of the respondent

1. Age

A.18-25

B.26-40

C.41-60

2. Sex

A. Male

B. Female

3. Level of Education

A. Certificate

C.BA

B. Diploma

D. Msc

4. Year of experience

A. < 5 years

B.5-8 years

C.10-15 years

5. How do you control your working capital?

Using working capital ratio analysis

Using cash operating cycle

Just on time system

Other, specify -----

6.Do you reserve a desired minimum cash balance?

A. Yes

B. No

7.If there is cash deficit how does the factory overcome (finance) it?

A. Short term borrowing

B. Use trade credit

Other, specify -----

8.When the DH Geda flour share company working capital requirement reach maximum?

during inflation

during growth

during operating efficiency

10. Does the company face with liquidity problems so far (risk of unable to pay short term obligation)

A. Yes

B. No

11. Does the DH Geda flour share company offer credit sales?

A. Yes

B. No

12. Is DH Geda flour Share Company profitable?

Yes

B. No

13. IS there factors that influence or affect the proper working capital management of the firm.

Yes

B. No

14. IS there strategies of the firm used to manage various components of its current asset.

Yes

B. No

15. Is there the company investigate the source of finance for current asset and their cost.

A .Yes B. No

16. Does the company use source of finance?

A. Yes B. No

17. Does the company used different strategies to manage different components of working capital.

A. Yes B. No

18. what are the main raw materials of the factory?

.....
.....
.....

19. From where does the factory get the raw materials?

.....
.....
.....,

THANK YOU