ASSESSMENT OF LIQUID ASSET MANAGEMENT PRACTICE

(IN CASE OFAWASH BANK IN EMDEBIR BRANCH)

A SENIOR RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF REQUIREMENT FOR THE BACHELOR OF ARTS DEGREE (BA) IN ACCOUNTING AND FINANCE



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DECELARATION

I, Yordanos fikremariyam , declare that this research entitled as ‘’assessment of liquid asset management practice (in case of Awash bank in Emdebir branch)” is my own work. I have carried out the research work independently with the guidance and support of my advisor. This research has not been submitted to any degree or diploma in this or any other institution. It is done in partial fulfillment of BA degree in Accounting and finance.

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This student research paper has been submitted for examination with my approval as university advisor.

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ABSTRACT

The term liquid asset management is one of the most fundamental topics in the field of corporate finance. It refers to the firm's investment in inventory, accounts receivable, cash and liquid securities, all of which constitute short-term assets. This study would attempt to examine the assessment of liquid asset management practices in the case of Awash Bank in Emdebir !branch. One of the major problems of financial institution was improper management of liquid asset which were have greater impact for the survival of the company, because of liquidity problem. This bank engages in provide different kinds of financial service like domestic and international banking service. The study would attempt to address the research questions having attention in the statement of the problem and objective of the study. The main objective of the study was to assess the liquid asset management technique, the bank policies and procedure to manage liquid asset, loan authorization and collection. The research design was descriptive type. More over primary data from the bank was collected. The primary data sources were from interview. The respondents of interview were selected with non-probability sampling using judgmental sampling. The respondents were finance (liquid) assets manager and credit manager of the bank. The data from sources were analyzed and interpreted using table, figure and Percentage. Based on the analysis and finding, conclusions and recommendation were made.

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ACRONYMS

AB Awash Bank

IFC International finance corporation

FRB Federal reserve bank

CM Credit manager

ROE Return on equity

NIM Net income margin

NOM Net operating margin

EPS Earning per share

NBE National bank of Ethiopia

ATM Automatic teller machine

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Liquid assets are any item that can be converted quickly and easily into cash, typically within few days, without losing much of their value. These assets are among the most basic types of financial resources used by consumers, business, and investors. Cash, checking account, receivables, inventories and short-term investment are the most obvious forms of liquid assets (rose, 2000).

Liquid asset management refers to abroad area of finance involves the receipt, payment, collection, handling and usage of liquid asset. It involves that the assessing of market liquidity, liquid asset flows and investments in business sector. It also abroad term that covers the number of functions that helps individual and businesses for the process of receipts and payments in an effective and efficient manner (Soyemi, 2004).

The liquid asset management process consists of determining the appropriate target liquid asset balance, collecting, disbursing of liquid asset efficiently, and investing excess liquid asset in marketable security. The determining of appropriate target liquid asset balance involves an assessment of the tradeoff between the benefit and cost of liquidity. The benefit of holding liquid asset is the convenience in liquidity it gives to the firm. The cost of holding liquid asset is the interest income that the firm could have received from investing in treasury bills and other marketable securities (Stephen, 2007).

Liquid asset management lets companies process and use their money in such a way that they have adequate funds available for regular costs like paying employees. It ensures that the company has some money for the things they did not plan on, such as a higher than expected increase in the cost of materials. In general, small businesses do not always have the ability to obtain the credit they might need. They have to rely on their own money to meet expenses.

Being unable to handle these situations puts a company at risk for loss of revenue or in the worst-case scenario, going out of the business (Rose, 2012).

The objective of liquid assets management is to maximize returns while maintaining risk to International Finance Corporation within acceptable levels of all the ensuring that funding for International Finance Corporation (IFC) investments in available as needed, Assets are held in several distinct portfolios depending up on the held initial sources of funds paid up capital and retained earnings are managed against an immediate bench mark. And likewise, is to deploy the canter's liquid assets in a such a way that prod lent strikes a balance between protecting against loss, ensuring adequate liquidity for day to day operation and investing surplus cash profitability. There are tradeoffs to be made among these objectivities (Owolabi&Ibida, 2012). Impact for the survival of the bank, because of liquidity problem. Loss of profit, unable to fulfill customer demand, and fear to survive. The banks more likely fail due to liquidity problem unable to honor its promise to redeem deposit demand lacks of adequate liquidity is often one of the first sign that a bank is series financial trouble. The Bank begins to lose a deposit, which erodes its supply of cash, and force the institution to dispose fits liquid asset (Rosse, 2003One of the major problems of financial institution is improper management of liquid asset, which would have greater).

1.2 Organizational Back ground

Awash bank is a privately owned commercial bank of in Ethiopia After the downfall of the military regime and Introduction of market economic policy in 1991 it was established by 486 founder shareholders with a paid up capital of birr 24.2 million. Licensed on November 10, 1919 it started banking operations on February 13, 1995. Awash bank S.C provides full-fledged banking services the major services of the banking among other are mobilization of despots,

provision of credit services money transfer services and safe deposit services, International banking, Saving and account, International money transfer, Core banking system, ATM banking post service is among it performs service to its customers. In accordance with Art 312(2) of the commercial code, the bank was not allowed to operate the blocked bank accouter relating to share subscriptions until its registration in the commercial register was effected.

The company's registration in commercial register was affected on 23 June 2008 and the board by its 11th resolution dated 24 June 2008 delegated the president to operate jointly the bank accounts with the credit manager or the international banking department manager. The bank obtained its license from the national bank of Ethiopia (NBE) on 17 one 2008 and stated its business activities on 2 October 2008, in accordance with the NBE's letter of 2008 September 2008.

The banks operational strategy is based mainly on the provision of unique banking products with multi-channel banking form one branch in Addis Ababa and the NBE's a fore said letter stated that "we need time to assess risks related to products have verify that an appropriate risk management system has been put in place. In the mean time we understand that bank us incurring substantial overhead cost that may negatively affect its short-term profitability. This, there appears a need to commence operation initially by accepting deposits granting fully collaterally formed that the NBE will shortly communicate to the bank its decisions as to the other bank products" these restriction on the Awash Bank's operations are still in place

1.3 Statement of the Problem

Liquid assets are sensitive assets that require proper control and great flows attention management because; these assets are easily spendable and highly subject to theft. The management of liquid assets generally centered on forecasting and focusing of internal controls. The responsibilities of management with respect to liquid assets are to carry on the operations, to invest idle liquid asset and to prevent loss of liquid assets due to theft or misappropriation. Excess investment in current asset impairs the firm profitability and inadequate amount of working capital threatens solvency of a firm. Furthermore, a weak liquidity possesses a threat to the solvency of a firm and makes it unsafe or unsound; a negative working capital also means a negative liquidity.

Other major difficulties of the bank come across, however, is the issue of access to liquid asset. The bank suffers from lack of access to appropriate assessment (term and cost) of liquid asset. This is due in part to the perception of higher risks resulting in high mortality rate of the business, poorly prepared project proposals, inadequate collateral, absence of verifiable history of past credit(s) obtained and lack of adequate historical records of the company's transaction. (Brigham & Huston, 2003).In addition to the problem stated above the I am going to address the following problems that related to liquid asset management of the bank.

- The major constraints that hinder the proper liquid asset management of the bank.
- The procedure being implemented for liquid asset management of the bank is inconsistent with proper functioning of the bank.

- The commitment of employee of the bank for liquid asset management is low.

- The concern of internal management of the bank for liquid asset management is poor

Research Questions

To assess liquid assets management practice, the following related questions are raised.

What are the techniques used by bank to manage its liquid assets?

What are the problems that bank faces in liquidity, short-term investment, and its credit management procedures?

How banks examine its loan performance, collection rates and liquid turnover rates in it's control?

1.4. Objective of the study

1.4.1. General Objectives

To assess liquid assets management practice of the Awash bank (in case of Emdebir branch).

1.4.2. Specific objectives

- To assess the policies and procedures of bank in the management of liquid asset.
- To examine liquidity position, short-term investment, and credits management policies.

- To examine loan performance, collection rates and liquid asset turnover rates management system of the bank.

1.5. Significance of the study

Liquid assets (such as: cash, account receivable, inventory, short-term investment, and others) are a very important thing for the day-to-day activities of the banking system. Having this in mind, this study contributes the following significances.

- It helps the bank to take corrective actions based on suggested solution and recommendation.
- Give a way for other researcher who wants to make further investigation in the area of liquid asset management practice and to conduct detailed research on issue.
- It creates awareness to the organization about liquid asset management and control.
- It can be laid down a starting point for other researchers in order to incentive study on liquid asset management.
- It can be used as supplementary material for other researchers.

1.6. Scope of the study

To identify and investigate problems as much as possible that related to the liquid assets management, it requires extensive research, much more time, sufficient information, knowledge and enough money. The study focuses on the assessment of liquid asset management of awash bank, Emdebir Branch.

1.7. Limitation of the study

The success of every study greatly depends on the availability of resource with conductive environment. Therefore the researcher faced some of the limiting factors while conducting this research paper were the following. The unwillingness of the respondents to give information needed to collect from them, Lack of sufficient written document with full information in concerned office and shortage of time to conduct this study are some of the limitation of the study.

1.8. Organization of the paper

The research was contain five chapters. The first chapter highlights introduction of the study. The second chapter consists of related literature review and the third chapter deals about methodology of the study and the fourth chapter deals with about data analysis and interpretation. The fifth chapter provides major finding, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Theoretical literature review

2.1.1 Definition of liquid Asset Management

The term liquid asset management is one of the most fundamental topics in the field of corporate finance. It refers to the firm's investment in inventory, accounts receivable, cash and liquid securities, all of which constitute short-term assets. Liquid asset management is essential due to many reasons. The holding of excess current assets in a business might lead to unrealized opportunities. On the other hand firms with less liquid assets in their books may encounter shortages and expect difficulties in running their operations. Therefore, many firms want to maintain an optimal level of investment in the liquid/ current assets and current liabilities. This is done in order to eliminate the risk that emanates from the inability of the business to meet its short term obligations (Ashraf,2012).

Liquid asset management is derived from the problems that occur in trying to manage cash, accounts receivable and inventory and the interrelationship that exists between them. If the organization is not able to maintain an optimal level of liquid assets it is most likely to become insolvent and may go into bankruptcy. Altman's (1968) multivariate predictor that was modelled on the companies domiciled in the USA includes liquid assets as one of the model components.

Short term assets securities are securities that brought and solid in the primary or secondary securities market these securities are reaching to maturity within one year and are noted for their low risk and ready marketability, These

securities are considered appropriate investment in the liquid asset management non-financial bank acceptance and money market mutual fund are suitable as short such treasury bill securities short term or term temporary investment after negative the researcher tribe to see only treasury bill because the restore not applicable in Ethiopia context (neveu, 2013).

Treasury bill: commonly referred to as T- balls are her direct obligations of the state government bill are particularly attractive to bank because of their high degree of safely. Bill are supported by taxing power of the federal governments, their market price are relative stable and they readily marketable bills are issue and trade as discount from their part value without promised interest rate (neveu, 2002).

The minimum purchase size is $10,000 new issue of T- balls are sold by state treasury and are available in three original maturities 91 days, 185 and 52 weeks other maturities can be obtained by purchasing previously issued t- bill in resale markets. They yield the smallest rate of return among short term investment because they have no default risk. The short term manures of T- bill serve to maize interest rate risk (neveu, 2004).

In financial terms, inventory constitutes a paramount portion of liquid asset management and its prudent management mitigates the risk of work or supply stoppages. Inventory ensures that the firm has excellent customer relations and this therefore, ensures demand for the firm's products leading to higher sales and increased profitability (Danuri and Satoto, 2011).

Inventory in accounting is an estimate of the appropriate monetary value of the goods to be held by a company. Raw material inventory is the free on board price that is paid during the time of the purchases, while finished goods are the value of the cost of sales or the cost of goods sold. The inventory turnover period is a vital component of the current asset management. It indicates the

approximate length of time it takes for products to be sold. A low frequency turnover generally implies a high investment in inventory. If the business is sub-optimal in maintaining products, this will result in financial; resources being held captive in non- productive cases (DanuriandSatoto, 2011).

2.2. Objective of liquid asset Management

An organizations hold liquid assets to satisfy three objectives. First, to meet customers' regular transactions needs. The minimum amount of liquid asset vault corresponds to demand of customer. Second, regulatory agencies mandate legal reserve requirements that can be met only by holding qualifying liquid assets. Finally, organization use liquid asset balances to purchase services from correspondent organization. They prefer to hold just enough liquid asset to avoid creating transaction problems. Because liquid asset doesn't generate interest income, excess holdings have a high opportunity cost, represented by the interest that could be earned an alternative investment. As the level of interests rates rises, so does the opportunity cost and the incentive to economize on liquid assets (Altman's).

In addition, a bank must keep enough deposit balances at other banks and the Federal Reserve to cover deposit outflows; or it will be forced to replenish its balances under duress. Owing too few liquid assets potentially creates liquidity problems and increases borrowing costs continued deficiencies are attributed to poor management, which ultimately leads to close regulatory scrutiny and deteriorating business relationships. Fortunately, vault liquid asset needs are fairly predictable local business make regular liquid asset deposits, and bank customers generally withdraw liquid asset at predictable intervals near weekends, holidays, and when they receive their pay checks. Vault liquid asset shortage can be avoided by requesting accuracy shipment from the closest

Federal Reserve Bank (FRB) or correspondent bank (Timothy., W. Koch, 2007)..

2.3 Definition of Liquid asset

Liquid asset are current assets that uses in any activities of the business organizations. Liquid asset are the assets which a firm can disburse immediately without any restriction. Liquid asset are the current assets for the operations of the business. They the basic input needed to keep the business running on a continuous basis; it is also the ultimate output expected to be realized by selling the services or products of the firm. In bank, liquid asset are current assets by accepting the deposit from the customer and also offering the loan services to the customer and again liquid assets are the significance current assets and the productive assets that a firm holds. Generally, it's focuses on the asset side of the balance sheet and argues that banks must hold large amount of liquid assets against possible demand or payment cushion of readily marketable short term liquid assets against unforeseen circumstances. This approach is however very expensive in a current world of dynamic money market (Ngwee, 2006, p-58)

2.3.1 Importance of liquid asset

Liquid asset are used to promote the payment systems and the receipt process in the day to day activities of the firms or the business organization. Liquid asset are required to meet a firm's transactions and precautionary needs. The firm needs liquid asset to make payments for acquisition of resources and service for their normal conduct of business.

2.3.2 Control of liquid asset

Liquid asset control is the same as the liquid asset management process which needs a great focuses because of liquid assets are the sensitive and significant current assets of the business organization. Also, it has to prevent from the

misuse of the money by the employees and other individual of the organization. Liquid asset control such as cash is used to meet the payment schedules promptly and to minimize the fund commitment on the liquid asset balance (Ross &Jafre,2003).

Liquid asset presents special management and control problems not only because it enters into a great many transactions but also for these reasons.

1. Liquid asset are asset readily convertible into cash. It is easily concealed and transported, and it is almost universally desired. Correct accounting for liquid asset transactions therefore requires that control be established to ensure that liquid asset belonging to the enterprise is not improperly converted to personal use by someone in, or converted with, the enterprise.

2. The amount of liquid asset owned by an enterprise should be regulated carefully so that neither too much nor too little is available at any time.

2.4 .Empirical literature review

According to Keynes (2011)., cash is held in companies in order to act as a bridge between the sales receipts and the incurred business costs. In summary, companies will hold a significant cash amount to be able to meet their regular obligations. It therefore, follows that if a firm has a higher ability to manage its cash flows that is the more predictable the better, the weaker the transactions motive for holding cash will be. The transaction motive is mostly applicable to bank as it illustrates the cash holding motives of firms. The precautionary motive is in regards to a firm’s ability to provide for unseen expenses and unforeseen opportunities of advantageous gain. Therefore, a firm that operates in a market with volatility will have a higher affinity to be cautious than a firm operating in a less risky operating environment. Firms also hold out cash for the purposes of speculation. The speculation motive is premised on the case that an increase in interest rates will reduce demands of security and vice versa. Thus,

the company will most likely invest it's idle cash in securities during the period when interest rates fall. Due to this speculation the firm will generate additional cash when selling these securities as the prices of these securities will have risen as a result of anticipated decline in interest rates.

Padachi (2006) says that, a well designed and implemented liquid asset management can contribute significantly towards the realization of a firm's value. The results demonstrated that a higher investment in receivables is generally associated with low profitability and as a result leading to the firm requiring having short term current asset financing.

Kithii (2008) explains that, the cash on the books of bank deposits those are either in the bank accounts or are in the certificate of deposits. The cash is a key component of the firm's liquid assets as it's the most liquid. The cash is used in the payment of short- term payables and operational expenses. In the context of current asset management, the deposits in the bank are components of current assets.

Kithii (2008) further notes that, some costs are incurred due to the shortages or excesses of liquid assets. Therefore, the goals of the business become dual. The first goal is to manage the excessive costs and the second goal is to maintain optimal liquidity to fulfil all the current expenses which include petty cash payments to ensure all the operations occur smoothly. The latter goal effectively ensures that the business is able to sustain routine operations. The management of liquidity, that is funds that are available to immediately meet daily expenses while keeping a lid on excesses, affects the profitability of the firm and is like maintain the optimal amount of stock in inventory management (Hofmann 2005). The reason for this is that the cash available and the bank deposits constantly fluctuate, as customer demand for a finished product. This imposes uncertainty and the risk of the business being insolvent.

According to Vural, Sokmen and Cetenak (2012), a firm's profitability is negatively related to the collections of receivables and cash conversion cycle. Therefore if the firm shortens its receivables collection period and therefore reduces its cash conversion cycle is most likely able to increase its profitability. This will render the relationship between other working capital components and firm's profitability insignificant. The relationship between a firm's leverage and its profitability is negative whereas the relationship between a firm size and its profitability is positive.

Bagchi (2013) postulates that, firms in particular bank frequently fail to meet their operational goals as a result of lack of cash liquidity. This is because they constantly need cash and bank deposits to meet routine operational expenses. Therefore, without appropriate liquidity a firm may end up bankrupt. Cash on hand is the cash and bank deposit available on the first trading day. When sales occur, cash is generated and flows in, same with bank deposits. When standing orders are paid, or when cheques are written, cash flows out of the business. The balance of the cash that will be left at the end of the month will be carried over to the beginning of the next month.

Instead of having raw cash and bank deposits, firms may also put excess cash into marketable securities. These are very liquid assets that are promptly converted to cash if there is need (Bagchi, 2013). Cash management is geared towards evading cash and bank deposit gaps that exists between incoming and outgoing cash for the operations of the business. During the lifetime of a business, in order for the owners to ensure survival of the business they must always ensure that they have enough cash flow in order to achieve their sales targets, expansion targets, hiring and firing of employees and payment of statutory taxes. A firm which tracks its cash flow can be able to pinpoint when there is need for cash injection, perhaps via a loan without which the business will become insolvent. If the money is being held by the inventory or accounts

receivable, the business might be profitable or illiquid to finance its routine obligations. The remedy is for the business to increase its inventory turnover and to collect their receivables to free cash flow.

According to Bagchi (2013), many businesses confuse cash management with profitability. Cash management is the tracking of cash that flows in and out of the business. The management of cash aims at having sufficient cash and bank deposits to meet a firm's financial mandate in a timely manner. This is ensured by having maximum liquidity. Profits are the residual money from sales and other income transactions (as presented in a firm's annual income statement) after deducting all the operational expenses incurred in that year.

Bagchi(2013), states that accounts receivables are a means of attracting customers and increasing sales for a business. This is because; it allows a customer the privilege to access a service or a product and enjoy its consumption before delivering payment. This kind of arrangement will generally increase the sales but will have the additional effort of increase the receivables that the firm should recover later. If the firm does not collect its receivables, it risks turning it into bad debt, never to be repaid. In addition, slow payment by the customers might end up running the business to the ground. Therefore to minimize this, the business sets up a credit sale policy. In general, an increase in accounts receivable will raise liquid asset requirement.

According to Deloof (2013) the managers can maximize the wealth of their shareholders by minimizing the number of days of accounts receivables and increasing inventory turnover. There is a negative relation between profitability and accounts receivables. This is consistent with the fact that mostly less profitable firms have higher lead times for paying bills.

One of the components of liquid asset management is the accounts receivables collection. In general, the fundamental goal of the firm's managers is to

maximize the shareholder value. With this in mind, optimal receivables management is effective in achieving this goal. An increase in the receivables account of a company leads to an increase in working capital as well as an increase in the cost of receivables account management and maintenance. In principle generally, the collections period is a criterion for the measurement of the time required for the collection of cash from customer sales.

2.5 Research Gaps

The researcher believes that this study minimized the gap found between the previous study that carried out by different and many researchers with in different times. So the gap exists because of the following reasons:

The range of time, that the previous researcher depends on complex figure in order to represent and analysis the data. Due to this, now day there are many changes in organization such as technological change and structural change which affects the whole activities of the organization.

The structure of economic development of the organization : This implies that, the previous researcher depend on few numbers of branches and narrow structure. Due to this, now a days the organization’s change its structure by adding the number of its branches in the country which leads to the change in the control and managements of the organization.

Generally, the researcher believes that, the above mentioned gap minimized by findings of new information and by modifying the researched one in order to provide a better understanding of the management of the bank over its liquid assets.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research design

The researcher used a descriptive method in carrying out this study, because of it pictures out the current situations or it describes briefly the existing events in the company. Also, it shows clearly a much closer to accurate characteristics of a particular situation. Moreover, it also helps the researcher to gather several kinds of data related to the subject to the study.

3.2 Sources of Data.

In the study, the researcher used both primary and Secondary Source of data. In primary sources of data, the researcher interviewed the chief executive of the bank, financial heads of bank and the customer service officer-manager of the bank,while secondary data includes the two years and half of this year audited financial statement or annual reports.

3.3. Data collection methods

The researcher were used both interviews and questionnaires containing closed-ended and open ended questions. The open ended questions were used to clarify the responses provided by participants in the close - ended questions. Interviews were conducted at Awash bank in Emdebir Branch. The questionnaires were prepared in English.

3.4. Sample Technique and Size

To conduct a research with a whole employees is time consuming and financially difficult.Taking this factor in to consideration personal judgment was used to know respondents with required data. Specifically, the judgmental

sampling which was used to gather relevant data and give more concern with whose are deemed to be knowledge about the liquid assets management. So that, sample size of 9 for concerned bodies was selected from total population or employees of 18.

3.5. Data presentation and analysis

In order to present and analyse the finding, the researchers have used Precentage supported by tables and graphs. The data to be gathered quantitatively was analysed, edited, coded and entered into the computer system .

CHAPTER FOUR

4. DATA ANALYSIS, INTERPRETATION AND PRESENTATION

This chapter concerned with the characteristics of sample size, the presentation as well as analysis of data gathered through questionnaire and interviews.

The data collected through questionnaire was to be analysed and presented in the table form and it is seems appropriate to interpret each data which are presented in the table, figure and Percentage.

4.1. Analysis of Primary Data

A total number of 9 copies of questionnaires were distributed to workers of Awash bank Emdebir branch. The questionnaire were distributed to 9 employees of the organization and out of 9 copies, 7 copies which is 77.8% are returned back and analysed and considering 22.2% non-response rate . The data obtained through questionnaires were tabulated, analysed and interpreted by using table and Precentages as given below.

4.2 Personal background of respondent

Table4.1 Gender

Valid	Frequency	Precent	Valid Precent	Cumulative Precent
Male	5	71.4	71.4	71.4
Female	2	28.6	28.6	100
Total	7	100.0	100.0	100

Source:-questionnaire result

As shown in table 4.1 above from, respondent of 7, 5 are males and 2 are a female which means the males take the majority number. In a majority such that (71.4%) of the respondents were male and 2(28.6%) of respondents were female. From this analysis the researchers recognize that the numbers of male workers were greater than number of female workers by more than half. This implies, more than half of the organizational work was performed by male workers.

Table 4.2 Age of the respondents

Valid		Frequency	Precent	Valid Precent	Cumulative Precent
	25-35	5	71.4	71.4	71.4
	36-45	2	28.6	28.6	100

	Total	7	100.0	100.0	100

Source:-questionnaire result

As can be clearly seen the table (4.2) above questionnaire indicated that out of 7 respondents, 5 (71.4) of the respondents were placed in the rang of 26 – 35 years and 2(28.6%) of the respondent were placed in the age of 36_45 years.This implies that, respondents with age between 26-35 are greater in number in organization and this age results profitability in the organization since they are matured.

3. What is your position in the bank?

From the 7 of the sample size, (2) of the respondents are from Teller,(1) of the respondents are from Accountant, (1), (1) of the respondent are from Cashier and Auditor respectively and likewise, (1), and Loan office. This implies that, even if ,there is segregation of duties in the Awash bank in Emdebir branch , by avoiding putting of employees in position of excessive trust and responsibility, there is problem regular training of employees.

Table 4.3 Level of educational

Valid		Frequency	Precent	Valid Precent	Cumulative Precent
	B.A Degree	5	71.4	71.4	71.4

	Master	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

Source: Questionnaire result

As it is indicated in table (4.3), from this researchers recognize that the majority of the workers are BA.degree holders 5(71.4%) and 2(28.6%) are Master. This ensures that, most of the employees are BA. Degree holders, but there is lack of feeling responsibility among them.

Figure: 4.1: Work experience



Source: Questionnaire Result

As it is indicated in figure 4.1, the service respondents are categorized in to four categories. That is from 1 – 3 years, 4 – 6 years, 7 – 10 years and above 10 years. Most of the respondents (38.5%) have 4 – 6 years' service in the organization. This implies that, the employees who have more experienced are small in numbers and these results, improper management of liquid asset.

4.3 General information of Awash in Emdebir branch

Table4.4 Does your organization face any major problem regarding to manage Liquid asset?

Valid		Frequency	Precent	Valid Precent	Cumulative Precent
	Yes	7	100.0	100.0	100.0

Source:-questionnaire result

As shown in table 4.4, above for question 1 concerning problems observed with liquid asset management, 7(100%) of the respondents replied that (Yes).This implies that,there is problem of liquid asset management in the organization that needs careful assessment.

Table 4.5 If your response for question No.1 is "yes" what are those major problems?

Valid	Frequency	Precent	Valid Precent	Cumulative Precent

Lack of proper management	2	28.6	28.6	28.6
Lack of regular training for the workers	1	14.2	14.2	42.8
Lack of feeling responsibility	4	57.2	57.2	100.0
Total	7	100.0	100.0	100.0

Source questionnaire result

On table 4.5,those problem ,2(28.6%) of the respondents said that lack of proper management are the major problem. 1(14.2%) of the respondent said that lack of regular training for the workers for employees on regular basis was one of the problem that they observed, 4(57.2%) of the respondents responded that lack of feeling responsibility on their work was one of the serious problem that observed in managing liquid asset. This indicates that, major problem of the organization in liquid asset management is lack of proper management.

Table4.6What do you think should be done to solve these problems in question No.2?

Valid	Frequency	Precent	Valid Precent	Cumulative Precent
Using clear policy and procedure	4	57.2	57.2	57.2
Hiring experienced personnel on regular time	3	42.8	42.8	100.0
Total	7	100.0	100.0	100

Source:-questionnaire result

On table (4.6) for question #3 the solution to the above problems, 4(57.2%) of respondents responded that to tackle the problem observed above the organization should use clear policy and procedure as well as possible and 3(42.8%) responded that to hire experienced employees should be needed to express. This implies that, clear policy and procedure is the major solution to solve problem that arise in the organization mentioned above.

4. What are the techniques does the organization used to manage its liquid asset?

As the researcher gather information from the respondent the most technique that the organization used to manage its liquid asset are by expanding cash issue centre in a well manner, by using lock box service involve the use of special post office box, by identifying employees who control only the organization asset without additional worker and by write code on every asset and sorting.

5. What are the problem that the bank faces in liquidity position, short term investment and credit management practice?

As the researcher gather information from the respondents, majority of the respondents responded that granting excess loan to customer and that customer not returning it at the appropriate time, bank start losing its liquidity position is the one of the major problem, it clearly affecting the operational aspect of the bank and when loan is unpaid timely its lead to liquidity crisis and affect short term investment and eventually affects its profit.

Table 4.7 What do you think is your suggestion on the overall Liquid asset control policy

and procedure in a proper way?

Valid	Frequency	Precent	Valid Present	Cumulative Precent

Consolidation principle	2	28.6	28.6	28.6
Valuation of Asset and Liability	5	71.4	71.4	100.0
Total	7	100.0	100.0	100

Source:-questionnaire result

As it indicate in the table (4.7), 2(28.6%) of the respondents responded that consolidation principle, because consolidated financial statements incorporate the financial statements of the Bank and of its subsidiaries for the year ended. 5(71.4%) majority of the respondents responded that Valuation of asset and liquidity. This implies that, the proper policy and procedure for controlling overall liquid asset is valuation of asset and liability are the major one.

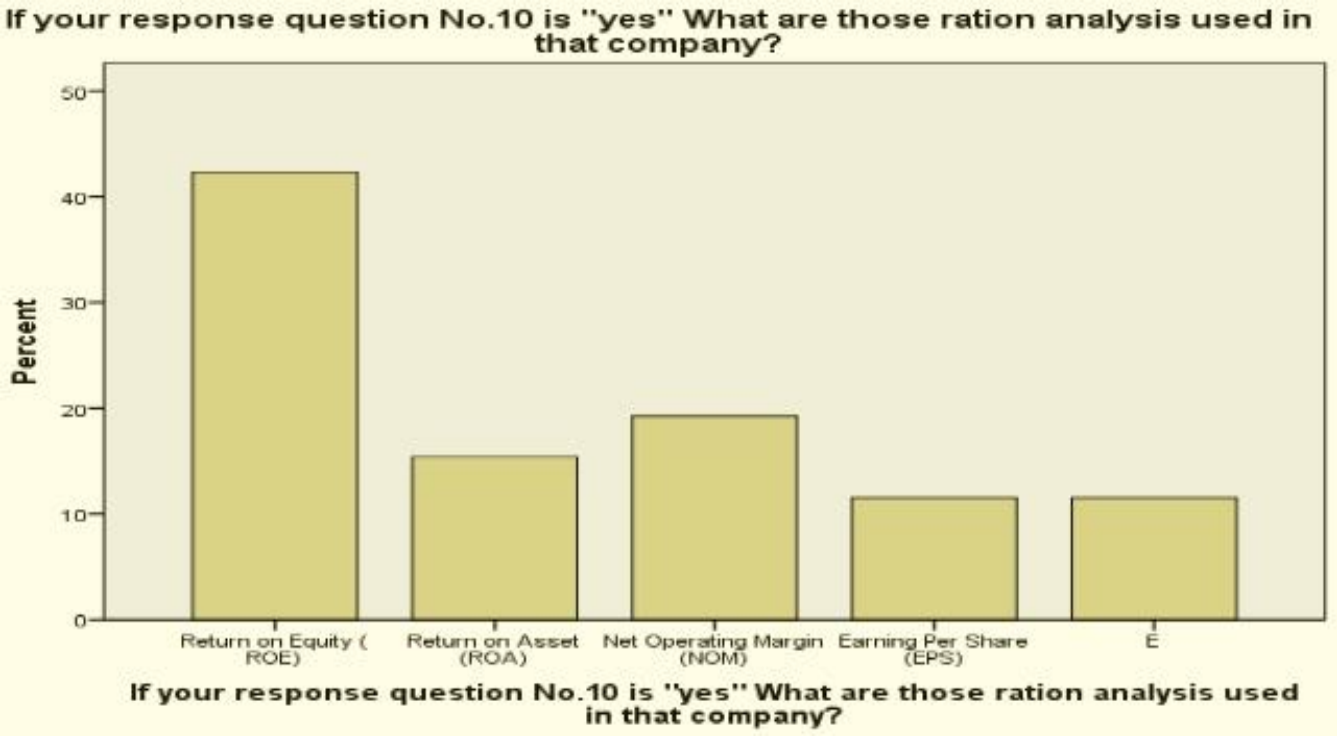
Table 4.9 does your organization uses ratio analysis tool evaluating and decision making with regard to Liquid asset management?

Valid	Frequency	Precent	Valid Precent	Cumulative Precent
Yes	4	57.2	57.2	57.2
No	3	42.8	42.8	100.0
Total	7	100.0	100.0	100.0

Source:-questionnaire result

Based on the above figure (4.9), the bank was prepared and takes responsible at the end the majority of the respondents that is 4(57.2%) were said that the bank uses ratio analysis tool for evaluating and decision making with regard to liquid asset management. The remaining that is 3(42.8%), said the banks does not use ratio analysis tool for evaluating and decision making with regard to liquid asset management. From this the researcher conclude that,the organization used ratio analysis tool to evaluate and make decision regarding liquid asset management.

Figures 4.2If your response question No.10 is "yes" What are those ratio analysis used in that company?



Source:-questionnaire result

On the figure above (4.2) for question 10, 3(33.4%) of respondents responded that the bank used Return on on equity of ratio analysis tool, 2(22.2%) responded that the bank used Return on Asset of ratio analysis tool , 2(22.2%) of respondents responded that the bank used Net income margin of ratio analysis tool , 1(11.1%) of respondents responded that the bank used Net operating margin of ratio analysis tool ,and the remaining (11.1%) of respondents responded that the bank used Earning per share of ratio analysis tool. From this, the Researcher concludes that, the most ratio analysis used by the organization is return on equity mainly because of its flexibility. It is also benchmark of the company, followed by net operating margin and the rest are few Percentages used by the organization.

Table 4.10 Does your organization lend Economic sector in an area?

Valid	Frequency	Precent	Valid Precent	Cumulative Precent
Yes	7	100.0	100.0	100.0

Source:-questionnaire result

As shown in table 4.10, above for question #11, 7(100%) of the respondents replied that (Yes), the bank concerning on lends to economic sector.

Table.4.11If your response for question No.11 is "yes" What types of sector?

Valid	Frequency	Precent	Valid Precent	Cumulative Precent
Agriculture sector	1	14.2	14.2	14.2

Building and Construction sector	1	14.2	14.2	28.4
Domestic trade and loan sector	4	57.2	57.2	85.6
Export and Import	1	14.4	14.4	100.0
Total	7	100.0	100.0	100.0

Source:-questionnaire result

On the table 4.11, the respondents responded that the bank lends 57.2%, 14.2%, 14.2% and 14.2%to domestic trade and loan service, Export and Import sector, Agriculture sector and Manufacturing sector respectively. This implies that, the bank lends to domestic and loan service because it reduces foreign currency and inflation and this result appreciation of domestic firms followed by domestic trade and loan service sector by expecting high return from them.

4.4 Qualitative analysis

4.4.1. Results of Structure Interview

The interview was conducted with different authorized workers of the organization like, manager of the bank, evaluation department, and internal auditing departments of the organization.

Question1. What kind of problems does the bank faces in managing its liquid asset?

Regarding proper management, regular training for the workers, feeling responsibilities are the major problems that face the organization.

Question 2.which technique is the best one to manage its assets in an effective manner? Using limit of cash i.e. above limit and below limit and

expanding cash issue centre are the two best techniques the bank use to manage its liquid asset.

Question3. What are the problems that bank faces in liquidity position and short term investments?

a. The sterility of cash: cash is sterile that is it yields no income but it is the risk is less.

b. The illiquidity of Earning Asset: such as loans, is income yielding but they are illiquidity since they cannot instantaneously be converted into cash without loss of time and value and hence are riskily.

Question4. Does the bank use control policies and procedure to manage its liquid assets?

The banks policies and procedures that are used managing its liquid assets are basis of preparation, consolidation principle and through valuation of assets and liability.

Question5. What Are tha plans of Awash Bank in Emdebir branch ?

The bank has plan to maintain 50% of deposit for credit purpose, to increase amount of limit immediately after dispatch, to decrease amount of limit immediately after idle liquidity is recognized and recording their limit both if increase and decrease by using different techniques .From those ;

By effective planning

By decreasing cost expenditure and

By using different proclamation, guideline and directives that force the organization to assess the liquid asset.

CHAPTER FIVE

5. FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Major Findings

The main objective of data which were collected from the primary source were analysed and discussed by using Precentage and descriptive statements. The data were collected from respondents. The study has come up with following findings, and conclusions presented sub heading, which are target area of the study.

The study has come up with following findings and presented sub heading, which are target area of the study.

There is problem of liquid asset management in the organization.

The sterility of cash and illiquidity of earning asset are the major problem that the bank face in liquidity position.

Most of the time the bank does not hold idle liquid asset because the organization does not have short term investment made by the bank on marketable securities.

The bank does not have good loan authorization procedures and control mechanism.

The other problem faced by the bank is the mismatch between time given to customers and time customer turnover is the major problem that the bank faces in liquidity position and credit management procedure.

The bank use ratio analysis tool such as return on asset, return on equity, net interest margin, net operation margin and earnings per share in order to rate its profitability .

5.2 Conclusion

The issues addressed in this study are concluded in the following manner:

> There is problem of liquid asset management in the organization. Regarding proper management, regular training for the workers, feeling responsibility is the major problems that face the organization.

> The major earning of the bank is mainly from interest and > extended loan. The bank has its own regulation and control over the loan. Based on this the management of the bank decides whether to extend loan to customer or not with suitable criteria

> There is segregation of duties in the Awash bank Emdebir branch but till there is problem of personal responsibility.

> The organization used ratio analysis tool to evaluate and make decision regarding liquid asset management.

> The bank concerns on lending economic sector such as domestic and trade loan sector at the same time Export and Import sector.

> Domestic trade and service loan is the major loan service provided in the bank.

> The organization examine its loan performance collection rate and liquid turnover rate of individual person receive loan starting from the date, the organization receive interest monthly based on interest rate increase bank profitability, it examine regularly by using credit managers and credit offices in well manner and through proceed with interest management.

> The most technique that the organization used to manage its liquid asset are by expanding cash issue centre in a well manner, by using lock box

service involve the use of special post office box, by identifying employees who control only the organization asset without additional worker and by write code on every asset and sorting.

> The organization does not have marketable securities to invest its liquid assets.

5.3 Recommendation

Based on the above conclusions, the researchers put the following recommendations.

For banks, it is better to solve major problems regarding management of liquid asset by using clear policy and procedure, evaluating activities and hiring experienced person on regular time.

It is advisable to broaden its liquid asset management techniques by adopting another method in addition to expanding cash issue centres like using lock box service involve the use of special post office box, by identifying employees who control only the organization asset without additional worker and by write code on every asset and sorting.

The bank had better to implement clear and effective control system on liquid assets by improving the collection policy and procedure practice to make transparent.

The bank had better to search for well trained and experienced financial and credit manager who can critically analysis the credit risk and opportunity cast to be incurred in order to make the bank more effective and efficient.

It is advisable to hire well experienced workers in order to achieve the organization goals and objective to have effective and efficiency utilization of budget.

It is advisable not to restrict the extension of loan services with in some branches. It should make available at all branches with limitation. Hence, based on their sizes and the complexity of their transactions.

It is better to examine its loan performance collection rate and liquid turnover rate by using credit managers and credit offices in well manner and through proceed with interest management.

It is better to provide major loan service to Domestic trade and service, because it reduces foreign currency and inflation and this result appreciation of domestic firms.

It is advisable to use ratio analysis of return on equity mainly because of its flexibility and it is also benchmark of the company, followed by net operating margin.

It is better to narrow the mismatch between time given to customers and time customers turn to reduce problems that the bank faces in liquidity position, short term investment, and credit management procedure.

It’s better to use marketable securities since they are short term and have high return.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF ACCONTING AND FINANCE

Questionnaire to be filled staffs of Awash bank Emdebir branch.

Researcher: Yordanos : Fikremariyam

Research Topic:*assessment* of *liquid asset management* practice in

Awash bank in Emdebir Branch.

Dear Respondents, I would like to show my heartily respect for your generous time and honest as well as important responses.

Objective: This questionnaire is designed to collect information about liquid asset management practice.The information shall be used as a primary data in the research which I am conducting in partial fulfilment of the requirements for the degree of Bachelor of Arts in Accounting and Finance at Wolkite University. Therefore, this research is to be evaluated in terms of its contribution to our understanding of the assessment of liquid asset management practice in your organization and in terms of its contribution in filling the knowledge gap that exists in the area.

Confidentiality: I want to assure you that this research is only for academic purpose authorized by Wolkite University. No other person will have access to the data collected. In any sort of report I might publish, I will not include any information that will make it possible to identify any respondent.

If you have any question, you can contact the researcher by address To Telephone No:+251974001250

Thank you again!!!

General Instructions

There is no need to write your name.

In all cases where answer options are available please tick (×) in the appropriate box.

For questions that demand your opinion, please try to honestly describe as per the questions on the space provided.

Part one: Personal Background of the Respondents

1. Education level

Certificate□ Diploma □ BA/BSc degree □

Master's degree and above□

2.Number of years you have worked in the bank

Below 5 years □ 11-15 years □ 5-10 Years □

Above 15 years □

3. Your Current Position (please specify).

Accountant□ Manager□ Bookkeeper□

Others_____

Part two: Questions related to assessment of liquid asset management practice

1.Does your Organization face any major problem regarding to management liquid asset? Yes □ No□

2.if your answer in the question number (1) is 'no' why?

.....

.....

3.If your answer for question no.1 is "Yes" what are those major problems? (Tick all that apply) .

Lack of proper management□ Lack of regular training forthe worker□

Lack of feeling responsibility □ other if any_____

4.What do you think should be done to solve these problems in question no. 3?

Using clear policy and procedure □

Hiring experienced personnel on regular time □

Other if any ----------

5.What are the techniques does the organization used to manage its liquid assets**?**

By expanding cash issue centre in a well manner □

By identifying employees who control only the organizations set without additional worker and by write & sorting □

Other please specify ----------

6.What do you think is your suggestions on the overall liquid asset control policy and procedure in proper way?

Consolidation principle □ valuation of asset and liability □

other if any □

7.Does your organization uses ratio analysis tool in evaluating its liquidity position?

Yes □ No□

8.If your answer no. 7 is "Yes" what are those ratio analysis?(Tick all that apply) .

current asset ratio□ quick ratio□ operating cash flow ratio□

Other (please specify) _____.

9.If your answer in the question number (7) is ‘no’ why?

.....

.

10.Does your organization lend economic sector in an area?

Yes □ No□

11.If your answer for question no.10 is "Yes" what types of sector?

Manufacturing sector Agriculturalsector□ Building & Construction sector□ export and import sector □ Hotel & tourism sect□ Other (please specify) _____.

12.If your answer for question no.10 is"no"why?

.....

13.Does your organization have Marketable securities that invest its Liquid Asset?

Yes □ No□

14.If your answer in the above question number (13) is ‘yes’ in what way?.....
.....

15.If your answer in the above question number(13) is ‘no’ why?

.....
.....

16.In the operation of the bank how do you rate the liquidity position?

Mostly excessive □ relatively deficit □

Optimum □ mostly deficit □

Other (please specify) _____.

17.How do you rate the liquid asset management system of the bank?

Excellent □ Good □ Average □

Other (please specify) _____

18.Do you think good and effective liquid asset management has any bearing on the survival and growth of your bank?

Yes □ No□

19.If your answer in the above question number (18) is 'yes' in what way ?.. .... 20.If your answer in the question number (18) is 'no' why?

.....…. 21 . Do you have any other view(s) on how liquid asset management practices can be improved in the Ethiopian banks as a whole?

.....

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF ACCONTING AND FINANCE

(To be completed by manager)

part three:Interview Guiding Question for Manager

1.What kind of problems does the bank faces in managing its liquid asset?

2.Which technique is the best one to manage its liquid assets in an effective manner?

3. What are the problems that bank faces in liquidity position and short term investments?

4.Does the bank use control policies and procedure to manage its liquid assets?

5.Any comments?