

**ASSESSMENT OF LIQUID ASSET MANAGEMENT PRACTICE IN
COMMERCIAL BANK OF ETHIOPIA IN THE CASE OF WOLKITE
BRANCH**

**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
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COLLEGE OF BUSINESS AND ECONOMICS

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DECLARATION

The thesis is our original work, has not been presented for a degree in any other university and that all sources of material used for the thesis have been duly acknowledged.

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CERTEFICATION

WOLKITE UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS
UNDER GRADUATE STUDIES DEPARTMENT OF ACCOUNTING

ASSESEMENT OF LIQUID ASSET MANAGEMENT PRACTICE IN
COMMERCIAL BANK OF ETHIOPIA IN THE CASE OF WOLKITE
BRANCH

(In Case of Commercial Bank of Ethiopia in *WOLKITE Branch*)

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ABSTRACT

The term 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 attempts to examine the assessment of liquid asset management practices in the case of commercial bank of Ethiopia Wolkite branch. One of the major problems of financial institutions was improper management of liquid assets, which have a greater impact on the survival of the company, because of liquidity problems. This bank is engaged in providing different kinds of financial services like domestic and international banking services. 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 is to assess the liquid asset management technique, the bank policies and procedures to manage liquid assets, loan authorization and collection. The researcher uses descriptive type design. Moreover, both primary and secondary data from the bank are collected. The primary data sources are from interviews and questionnaires while secondary data includes the 2017-2021 G.C years audited financial statements or annual reports. The data from both sources are analyzed and interpreted by using tables, figures and percentages. Based on the analysis and findings, conclusions and recommendations are provided.

ACRONYMS

CBE- Commercial Bank of Ethiopia

CM - Credit manager

EPS - Earning Per Share

FRB - Federal Reserve Bank

IFC - International Finance Corporation

NIM - Net Increase Margin

NOM - Net Operating Margin

ROA - Return on Assets

ROE - Return on Equity

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CHAPTER ONE

1. 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, 1989).

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, 1999).

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, 1999).

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 is 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 this objectivity (Owolabi & Ibida, 2012).

1.2. 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 possess a threat to the solvency of a firm and makes it unsafe or unsound, a negative working capital also means a negative liquidity.

One of the major problems of financial institution is improper management of liquid asset, which would have greater 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 (Rose, 2003).

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).

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 companies such as technological change and structural change, which affects the whole activities of the companies.

The previous researchers depend on large numbers of branches and broad structure. However, the researcher depends on small number of branch and narrow structure .because in large number of branches it is difficult to assess the company liquid asset management practice. However, the researcher select the specific branch in Wolkite town is easy to assess the company liquid asset in detail and practice.

1.3 Objective of the study

1.3.1 General Objectives

To assess liquid assets management practice of the Commercial Bank of Ethiopia (in case of Wolkite Branch).

1.3.2 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.

1.4 Research Questions

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

1. What does the techniques used by bank to manage its liquid assets?
2. What are the problems that bank faces in liquidity, short-term investment, and its credit management procedures?
3. How banks examine its loan performance, collection rates and liquid turnover rates in its control?

1.5 Significant 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 significance.

- -It was be helps the company to take corrective actions based on suggested solution and recommendation.
- Give away 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 was be creates awareness to the organization about liquid asset management and control.
- -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 researcher

1.6 Scope of the study

This study mainly focus on exploring liquid assets management practice of the commercial Bank of Ethiopia (in case of Wolkite Branch).The scope of this study limited at commercial bank of Ethiopia Wolkite branch. The study goes through investigate how liquid asset manage in the selected area of study and utilize accordingly.

1.7 limitation of the study

When the study conducting, the researcher face some challenges. That is, there is lack of research studies and available of sufficient current literature on the topic. However, the researcher try to navigate from different secondary sources related to budget preparation and implementation problem.

1.8 Organization of the study

In general, this study consists five chapters

The first chapter introduction involves sub-topics such as background of the study, statement of the problem, objectives, research question, and significance of the study. The second chapter deals with literature review of liquid asset management, theoretical literature, empirical literature, summery and knowledge gap. The third methodology of the study involve research design and approach ,data type ,source and method of data collection ,population and sampling design and data analysis .The fourth chapter includes data analysis

and interpretation of liquid asset management practice of study area. The fifth and the last chapter are deals about finding, conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical literature review

2.1.1 Definition of liquid Asset and liquid Asset Management

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 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 is 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 (yhlas sobvetov, 2007-2012). This approach is however very expensive in a current world of dynamic money market (Ngwee, 2006, p-58)

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).

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 (dennis otieno onyango summer 2014). 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 modeled 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, 1985).

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, 1985).

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, 1985).

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 (Danbury 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 (dennis otieno onyango summer 2014). 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 (dennis otieno onyango summer 2014). If the business is sub-optimal in maintaining products, this was result in financial; resources being held captive in non- productive cases (Danuri and Satoto, 2011). 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, 1989).

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2.1.2 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.

2.1.3 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. In addition, 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, 1999).

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.

2.1.4 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 assets to avoid creating transaction problems. Because liquid asset does not 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,1968).

In addition, a bank must keep enough deposit balances at other banks and the Federal Reserve to cover deposit outflows; or it was being 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, 1995).

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 this objectivity (Owolabi&Ibida, 2012).

2.2 Empirical literature review

According to Keynes (1973), cash is held in companies in order to act as a bridge between the sales receipts and the incurred business costs. In summary, companies were holding 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 was be(dennis otieno onyango summer 2014).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 was 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 (dennis otieno onyango summer 2014). The speculation motive is premised on the case that an increase in interest rates was reducing demands of security and vice versa. Thus, the company was most likely investing its idle cash in securities during the period when interest rates fall. Due to this speculation, the firm was generate additional cash when selling these securities as the prices of these securities was have risen because 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 (dennis otieno onyango summer 2014).

Kithii (2008) explains that, the cash on the books of bank deposits those either are 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 is the most liquid. The cash is used in the payment of short- term payable 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 fulfill 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 (Heffeman ,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 (dennis otieno onyango summer 2014).

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 was rendering the relationship between other working capital components and firm's profitability insignificant. The relationship between a firm's advantage and its profitability is negative whereas the relationship between a firm size and its profitability is positive.

Bag chi (2013) postulates that, firms in particular bank frequently fail to meet their operational goals because 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 cheque are written, cash flows out of the business (dennis otieno onyango summer 2014). The balance of the cash that was being left at the end of the month was being 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 (Bag chi, 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(dennis otieno onyango summer 2014). 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 was become insolvent. If the money is being held

by the inventory or accounts receivable, the business might be profitable or liquid 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 (dennis otieno onyango summer 2014).

According to Bag chi (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.

Bag chi (2013), states that accounts receivables is 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 (dennis otieno onyango summer 2014). This kind of arrangement was generally increase the sales but was 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(dennis otieno onyango summer 2014). In general, an increase in accounts receivable was 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 (dennis otieno onyango summer 2014).

2.3 Summery and knowledge gap

The researcher believes that this study fill the gap found between the previous studies that researcher worked by different and many researchers with in different times. Therefore, 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 companies such as technological change and structural change, which affects the whole activities of the companies.
- ✓ The previous researchers depend on large numbers of branches and broad structure. However, the researcher depends on small number of branch and narrow structure .because in large number of branches it is difficult to assess the company liquid asset management practice. However, the researcher select the specific branch in Wolkite town is easy to assess the company liquid asset in detail and practice.
- ✓ Generally, the researcher believes that, the above-mentioned gap fill by findings of new information and by modifying the research one in order to provide a better understanding of the management of the bank over its liquid assets.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH APPROACH

For the purpose of this study, the researcher used a qualitative research methodology. The reason behind using this method is that to investigate liquid asset management practices. To achieve the study goals, a qualitative approach will be used because of the nature of the research question, the rationale for using a qualitative approach is to gain better understanding of the research problem.

3.2 Research design

The researcher used a descriptive method in carrying out this study, because it pictures out the current situations or it describes briefly the existing events in the company. In addition, 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.

3.3 Data type

In order to gather information about the study the researcher referred the financial statements of the bank at most for the past two years and reviewed the liquid assets policies and procedures of the bank. In addition, the researcher referred the credit and collection policies of the bank. Additionally, the researcher interviews the managers: (General Manager and credit manager) of the bank who had direct relationships with control system and repair questionnaire for target population

3.4 Data source

In the study, the researcher used both primary and secondary sources of data. In primary sources of data, the researcher collects data by using questionnaire and interviews. The researcher use - managers of the bank for interview. (General Manager and credit manager) of the bank who have direct relationships with control system. While in secondary sources of data, the researcher use the source documents from databases of the bank, which include financial statements and other policies, and procedures of the bank.

3.5. Data collection Techniques and Tools

In this study, the researcher used both primary data type and secondary data type. The primary data collected through questionnaires make on target population and interview, which is unstructured interview with bank manager. The researcher was used open ended and close-ended questions to gather information in which explanation takes place briefly in sequential manner. Open-ended questions will help the respondents to express their idea in unlimited ways and reasonable manner whereas close ended questions provide “yes” or “No” answers. Therefore, primary data collect to come up with the objective of this study. Secondary data also collected from database of the bank such as financial statement.

3.6. Target population

The target Population of this study is those all are employees of CBE in Wolkite branch.

3.7 Sampling Method/Technique

The researcher was use census survey methods due to small number of total populations. Therefore, there is no need of taking probability or non-probability sampling methods. Therefore, the participants of the study are 25 employees with manager. Therefore, the researcher uses census method to obtain data, the findings to generalize in a very well manner.

3.8 Data analysis

In order to present and analysis the finding, the researcher was use percentage support by tables and graphs.

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 analyzed 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 15 copies of questionnaires were distributed to workers of CBE in Wolkite branch. The questionnaire were distributed to 25 employees of the organization and out of 25 copies, 20 copies which is 80% are returned back and analyzed and considering 20% non-response rate . The data obtained through questionnaires were tabulated, analyzed and interpreted by using table and percentages as given below.

4.2 Personal background of respondent

Table4.1 Gender

	Frequency	Percent
Valid Male	15	75

Female	5	25
Total	20	100.0

Source:-questionnaire result

As shown in table 4.1 above from, respondent of 20, 15 are males and five are a female, which means the males take the majority number. In a majority such that 15(75%) of the respondents were male and five (25%) 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, male workers performed more than half of the organizational work.

Table 4.2 Age of the respondents

	Frequency	Percent
18-25	8	40
26-35	9	45
36-45	2	10
Above 45	1	5
Total	20	100.0

Source:-questionnaire result

As can be clearly seen the table (4.2) above questionnaire indicated that out of 20 respondents, 8(40%) of the respondents were placed in the age (18 – 25), 9(45%) of the respondents were placed in the range of 26 – 35 years and 2(10%) of the respondent were placed in the age of 36_45 years and 1(5%) of the respondent are above 45years.

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 20 of the sample size, (5) of the respondents are from Teller,(4) of the respondents are from Accountant,(3) of the respondents are from the accountant clerk I, (2), (1) of the respondent are from Cashier and Auditor respectively and likewise, (3), (1) of the respondent are

from Journal keeper and Loan office respectively. This implies that, even if ,there is segregation of duties in the commercial bank of Ethiopia in Wolkite 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

	Frequency	Percent
Degree	16	80
Valid Master	4	20
Total	20	100.0

Source: Questionnaire result

As it is indicated in table (4.3), from this researchers recognize that the majority of the workers are degree holders 16(80%) and four (20%) are Master. This insures that, most of the employees are Degree holders, but there is lack of feeling responsibility among them.

4.3 General information of CBE in Wolkite branch

Table 4.4 does your organization face any major problem regarding to manage liquid asset?

	Frequency	Percent
Valid Yes	20	100.0

Source:-questionnaire result

As shown in table 4.4, above for question #1 concerning problems observed with liquid asset management, 20(100%) of the respondents replied that (Yes). This implies that, there is problem of liquid asset management in the organization that needs careful assessment...

		Frequency	Percent
Valid	Lack of proper management	14	70
	Lack of regular training for the workers	3	15
	Lack of feeling responsibility	2	10
	Other if any	1	5
	Total	20	100.0

Source questionnaire result

On table 4.5 ,those problem ,14 (70%) of the respondents said that lack of proper management are the major problem.3(15%) 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, 2(10%) of the respondents responded that lack of feeling responsibility on their work was one of the serious problem that observed in managing liquid asset and 1(5%) of the respondents responded that not followed rules and regulation of the organization was also another problem that they observed in liquid asset management. This indicates that, major problem of the organization in liquid asset management is lack of proper management.

Table 4.6 what do you think should be done to solve these problems in question No.2

		Frequency	Percent
Valid	Using clear policy and procedure	17	85
	Hiring experienced personnel on regular time	3	15

Total	20	100.0
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Source:-questionnaire result

On table (4.6) for question #3 the solution to the above problems, 17(85%) of respondents responded that to tackle the problem observed above the organization should use clear policy and procedure as well as possible and three (15%) 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.

3. 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.

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 center 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. How the organizations examine its loan performance. Collection rate and liquid turnover rate in its control

The researcher gather information from the respondent responded that, as individual person receive loan starting from the date, the organization receive interest monthly based on interest rate increase bank profitability. It examines regularly by using credit managers and credit offices in well manner and through proceed with interest management.

Table 4.7 what do you think is your suggestion on the overall liquid asset control policy and procedure in a proper way?

	Frequency	Percent
Consolidation principle	3	15
Valid Valuation of Asset and Liability	17	85
Total	20	100.0

Source:-questionnaire result

As it indicate in the table (4.7), 3 (15%) 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. 17(85%) majority of the respondents responded that Valuation of asset an 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 4.8 does your organization uses ration analysis tool evaluating and decision making with regard to Liquid asset management?

	Frequency	Percent
Valid Yes	17	85
No	3	15
Total	20	100.0

Source:-questionnaire result

Based on the above table (4.8), the bank was prepared and takes responsible at the end the majority of the respondents that is 17(85%) were said that the bank uses ration analysis tool for evaluating and decision making with regard to liquid asset management. The remaining that is 3(15%), said the banks does not use ration analysis tool for evaluating and decision making with regard to liquid asset management. From this, the researcher concludes that, the organization used ration analysis tool to evaluate and make decision regarding liquid asset management.

Table 4.9 if your response question No.2 is "yes" What are those ratio analysis used in that company?

	frequency	percent
Return on Equity	5	25%

Return on Asset	6	30%
Net Operating Margin	3	15%
Net Income Margin	2	10%
Earnings per Share	4	20%
Total	20	100%

Source:-questionnaire result

On the table above (4.8) for question #10, 6(30%) of respondents responded that the bank used Return on Asset of ratio analysis tool, 5(25%) responded that the bank used Return on Equity of ratio analysis tool, 2(10%) of respondents responded that the bank used Net income margin of ratio analysis tool, 3(15%) of respondents responded that the bank used Net operating margin of ratio analysis tool, and the remaining 4(20%) 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 asset mainly because of its flexibility. It is also benchmark of the company, followed by Return on Equity and the rest are few percentage used by the organization.

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?

According to the response of commercial bank of Ethiopia manager in Wolkite branch regarding proper management, regular training for the workers, feeling responsibilities is the major problems that face the organization.

Question2. What are the problems that bank faces in liquidity position and short term investments?

According to the response of commercial bank of Ethiopia manager in Wolkite branch, the liquidity 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.

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

According to the response of commercial bank of Ethiopia in Wolkite branch ,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 .

4.5. Analysis of secondary data

As mentioned in chapter three financial data of the organization from the period of 2017-2021 were collected. From the Annual report of the organization both actual and planned are collected by researchers to assess whether the organization properly used, not used, liquid asset management in proper way. (See table 4.2.1)

The actual balance sheet of the bank from the year 2017-2021 is analyzed in the following balance sheet.

Balance sheet of the bank

The balance sheet is an essential picture of any organization to determine the financial position of the entity, Physical and financial resources and its activities in a particular day. It also, creates the banks future sales and profit targets. When we return to the bank's financial statement strength or financial capabilities, we mean it has potential to generate the future revenue. Based on this point of angle the researcher gathers different balance sheet related information from the organization and analysis to know its actual result with budgeted one. It also, compares the difference between actual and budgeted.

The actual balance sheet of the bank from the year 2017-2021 is analyzed in the following balanced sheet.

Commercial Bank of Ethiopia					
Balance Sheet					
At year ending June					
(In Millions of Birr)					
Assets	2017	2018	2019	2020	2021
Cash on hand	6,373.91	6,207.04	7,749.22	8,064.53	8,559.67
Cash at Bank	28,404.72	22,622.17	51,092.74	58,245.67	69,839.38
Reserve Account with NBE	18,570.16	23,020.16	26,370.16	30,437.25	37,737.25
Cash Reserve with foreign Banks	235.24	154.42	261.34	776.61	1,029.52
Treasury Bills					
Other Investments/bonds	260,772.31	319,205.75	395,359.05	445,351.62	552,730.90
Non current asset held for sale	-	1,102.35	1,007.15	1,030.52	935.49
Sundry Debtors & Other debit balances	15,960.53	17,429.86	13,892.02	19,883.24	20,295.82
Total Loans Advances (Including Recivable)	157,126.46	179,487.96	215,079.38	255,215.02	302,034.93
Less Provision For Doubtful Debts	6,876.24	6,493.29	9,136.67	13,223.39	15,026.40
Net Loans & advances	150,250.21	172,994.67	205,942.71	241,991.63	287,008.53
Customers' liability for L/C					
Net Fixed assets (Aq.asset,deferred charges)	9,501.17	11,157.87	11,207.84	13,497.76	13,182.46
Total Asset	490,068.24	573,894.28	712,882.22	819,278.84	991,319.02
Liabilities					
Deposits	365,101.91	451,857.62	540,940.80	593,041.14	735,295.98
Demand Deposits	160,839.70	200,867.01	222,697.15	243,198.37	272,192.13
Saving Deposits	183,389.27	224,303.95	270,215.78	302,481.03	402,228.75
Fixed Deposits	20,872.94	26,686.66	48,027.87	47,361.74	60,875.10
Foreign Bank their A/C					
Trust Funds					
Short term loans					
Other credit balances	56,587.81	56,442.21	92,138.78	144,439.21	137,539.41
Margin held on L/C	14,092.35	10,283.79	14,878.15	18,250.97	48,747.91
Long term loans					
Provision for taxation	4,156.52	2,761.83	5,992.45	5,954.27	6,337.24
State dividend payable	5,575.65	5,343.11	8,683.36	7,771.19	9,571.96
Other provisions					
Bank's liability to L/C					
Capital & reserves	44,554.00	47,205.73	50,248.68	49,822.05	53,826.52
Authorized & paid	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00
Legal reserves	5,011.30	6,807.20	9,678.10	12,050.77	15,263.36
General & Special reserves	-457.31	-276.01	-108.65	-2,617.13	-1,287.36
Statutory reserve		666.43	886.66	241.93	236.34
Retined Earning	-	-	-		
Profit & loss A/C		8.11	-207.43	146.48	-385.82
Total	490,068.23	573,894.28	712,882.22	819,278.83	991,319.02
25	0.01	0	0	0.01	-

Annual report

From the above balance sheet budget year of 2017- 2021, we can understand that the total asset has shown as an increment of 17.1% over the budgeted year of 2017-2018, and also in 2018-2019 the total asset of the bank has shown an increment of 24.2% over the budgeted. And in year 2019-2020 The total asset of the bank increased 14.9% and from the year 2020-2021 the total asset of the bank increased by 20.9%, so the total asset of the bank increasing from year to year,.

From the above balance sheet, the researcher concluded that, there is an increase in total asset and this shows decrease in its liquidity position.

CHAPTER FIVE

5. FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Major Findings

The main objective of data, which were collected from the primary and secondary source, were analyzed and discussed by using percentage and descriptive statements. The data were collected from respondents and information obtained from secondary source that are from two year financial statement. 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.
- Liquidity of earning asset is the major problem that the bank faces in liquidity position.
- 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 ration 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 eligible criteria
- There is segregation of duties in the commercial bank but until there is problem of personal responsibility.

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

5.3 Recommendation

Based on the above conclusions, the researcher 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 center 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 collation 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 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.

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APPENDIX
WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent:

The purpose of this study to, assess the liquid asset management practice on commercial Bank of Ethiopia in case of Wolkite branch. Therefore, you have to know the successfulness of my Research is based on your response to structured interviews. I hope fully expect that your response is careful and appropriate. Great full thanks for your response.

General (personal) information

1. Sex male Female
2. Age under 25- 25-35 36-50 51-60
3. Marital status married single divorce widowed separate not divorced
4. Education status Diploma first degree master & above

5. Does your organization face major problem regarding to management liquid asset?

Yes No

If your answer is “yes”, please specify the reason _____

6. Does your organization uses ratio analysis tools evaluating and decision making with regard to liquid asset management? Yes No if yes what they are?

7. What is the technique does the organization used to manage its liquid asset?

8. does they apply the theoretical aspect of liquid asset management?

Yes No

9. What are the techniques does the organization used to manage its liquid asset? How the organizations examine its loan performance, collection rate and liquid turnover rate in its control?

10. How the organizations examine its loan performance, collection rate and liquid turnover rate in its control?

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

Structure interview

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

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

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