



Wolkite University
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COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**ASSESSMENT OF WORKING CAPITAL MANAGEMENT PRACTICE
IN FIKIR SPRING WATER**

**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING & FINANCE IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF A BACHLER DEGREE IN
ACCOUNTING AND FINANCE**

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Declaration

This research paper entitled “Assessment of working capital management in Case of fikir spring water is my own original work, effort, and study. All sources of materials use used the study have been fully acknowledging. The student researcher has produced it independently except for the guidance and suggestion of the research advisor.

This study has not been submitted for any degree in this university or any other university.

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Abstracts

This study's primary objective was to assess the working capital management practice of Fiker Spring Water, a privately owned company it locate Agena near Wolkite town. This study was conducted by taking the whole target population as respondents (census method) For this study. primary data collection was done by the researcher. The student researcher gathered primary data sources through structured interviews with the finance manager and by distributing an open and closed-ended questionnaire to respondents. Primary data sources were analyzed and interpreted through descriptive research analysis using tables and percentages about working capital management practices in Fiker Spring Water. The researcher uses the descriptive method of data analysis. The finding of the study showed many strengths and weaknesses of the company (Fiker Spring Water). Finally, the finding of this paper showed that even if Fiker Spring Water selects many appealing cash control, inventory control, and receivable management techniques its overall working capital management practice in recent periods is weak and require further work. The student researcher recommends that organization should think of hiring qualified personnel for the position of financial management in their organizations.

KEYWORDS: *working capital*

List of Acronym

CA.....Current Asset

CL.....Current Liability

CR..... Current Ratio

OPM.....Operating Profit Margin

QR.....Quick Ratio

ROA..... Return on Asset

ROE.....Return on Equity

WC..... Working Capital

WCM.....Working Capital Management

Table of Contents

Declaration	ii
<i>Abstracts</i>	iv
List of Acronym	v
List of tables	viii
Chapter one	1
1. Introduction	1
1.1 BACKGROUND OF STUDY	1
1.2 STATEMENT OF PROBLEM	2
1.3 OBJECTIVES OF STUDY	3
1.3.1 GENERAL OBJECTIVE	3
1.3.2 SPECIFIC OBJECTIVES.....	3
1.4 SIGNIFICANCE OF THE STUDY	3
1.5 SCOPE OF STUDY	4
1.6 LIMITATION OF THE STUDY.....	4
1.7 ORGANIZATION OF PAPER	4
CHAPTER TWO	5
LITERATURE REVIEW	5
INTRODUCTION.....	5
2. THEORETICAL FRAMEWORK	5
2.1 THE NATURE OF WORKING CAPITAL MANAGEMENT.....	5
2.2 CONCEPTS OF WORKING CAPITAL	6
2.3 CURRENT ASSET MANAGEMENT	6
2.3.1 CASH MANAGEMENT	6
2.3.2 ACCOUNT RECEIVABLES MANAGEMENT	8
2.3.3 INVENTORY MANAGEMENT.....	9
2.3.4 MARKETABLE SECURITY MANAGEMENT	11
2.4 SOURCES OF FINANCING WORKING CAPITAL.....	11
2.5 APPROACHES TO FINANCING WORKING CAPITAL.....	12
2.5.1 MATCHING APPROACHES	12
2.5.2 CONSERVATIVE APPROACHES.....	12
2.5.3 AGGRESSIVE APPROACH	12
2.6 DETERMINANTS OF WORKING CAPITAL	12

2.7 LIQUIDITY	14
2.8 Importance of Working Capital Management	14
2.9 REVIEW OF EMPIRICAL STUDIES	15
2.9 Conclusions from Survey of Related Literature and Knowledge Gap	16
CHAPTER THREE	17
Introduction	17
RESEARCH METHODOLOGY	17
3.1 RESEARCH DESIGN	17
3.2 RESEARCH APPROACH	18
3.3 DATA TYPE, SOURCE, AND DATA COLLECTION INSTRUMENT	18
3.4 TARGET POPULATION	18
3.5 METHOD OF DATA ANALYSIS	19
CHAPTER FOUR	20
DATA ANALYSIS AND PRESENTATION	20
4.1 Introduction	20
4.2 Analysis of Primary Data (Questionnaire)	20
4.3 ANALYSIS OF PRIMARY DATA (INTERVIEW)	30
CHAPTER FIVE	33
CONCLUSIONS AND RECOMMENDATIONS	33
5.1 CONCLUSIONS	33
5.2 RECOMMENDATIONS	34
REFERENCES	35
Appendix 1	37
Questionnaires	37
Appendix 2	39
Interview check list	39

List of tables

Table 1.1 General profile of the respondents	20
Table 1.2 plan making body of Fikir Spring Water about WCM	21
Table 1.3 Executive responsible body of Fikir Spring Water about WCM	22
Table 1.4 Norms of reviewing working capital.....	22
Table 1.5 working capital shortage situations.....	23
Table 1.6 excess working capital situation.....	24
Table 1.7 Major components of cash balance	24
Table 1.8 internal controls over cash balance	25
Table 1.9 major problems regarding to cash management.....	25
Table 1.10 major problems regarding with inventory management	26
Table 1.11 segregation of duties	26
Table 1.12 credit policy.....	27
Table 1.13 credit analysis.....	27
Table 1.14 credit control technique.....	28
Table 1.15 credit terms of receivables	28
Table 1.16 major components of inventory	29
Table 1.17 Inadequacy of cash.....	29
Table 1.18 Adequacy of working capital	30

Chapter one

1. Introduction

1.1 BACKGROUND OF STUDY

Working capital is the part of finance which enables firm to perform its day-to-day operations. Working capital is concerned with problems that arise in attempting to manage the current assets, current liabilities, interrelationship that exists between them. The term current assets refer to those assets which in the ordinary course of business could be or would be converted into cash within one year without undergoing diminution in value and without disrupting the operation of the firm. Various authors have conducted research in different countries on empowering working capital in an optimal way in order to pursue profitability, but some authors still have different findings on how working capital management in terms of the cash conversion cycle and its components such as number of days inventories, number of days accounts receivable and number of days accounts payable are related the profitability of firm (Deloof et.al, 2003).

According to Milan, (1928), a good financial management involves efficient and effective management of working capital. Working capital management is the process of planning and controlling the level of current assets especially cash, account receivable, inventory and marketable securities as well as financing of these assets. From a finance and operations point of view the development of company comes from its cash flows but not profit. Profitability rate determines the long-term growth of company; the cash flow statement however, shows how much cash we need in short-term to ensure the realization of our long-term strategy in the face of competitive and imperfect markets. Managers should therefore develop working capital strategies they can apply and monitor carefully; maintaining the right level of working capital which was ensure a balance between liquidity and profitability.

Working capital management is a simple and straightforward concept of ensuring the ability of firm to fund the difference between a short-term asset and short-term liabilities (Harris, 2005). Working capital management is vital for manufacturing business, where major part of asset is composed of current asset minimal in fixed asset. As several studies are conducted on different manufacturing businesses most of them experience working capital shortage during their growth

stage. Working capital investment decision has numerous effects in total organizations but there appear to have a direct impact on returns, liquidity, profitability and firms' value (Horne et. al, 1998).

Every organization whether profit oriented or not irrespective of size and nature of business requires necessary amount of working capital. Therefore, it is possible to say that working capital can be regarded as "lifeblood" of the firm and its efficient management can ensure the success and sustainability of the firm while its inefficient management may lead to the firm into pit fall (Hailu, 2000). As a result, I am going to conduct this study about working capital management practice in Fiker Spring Water.

1.2 STATEMENT OF PROBLEM

Effective management of working capital is very important in the successfulness of firms. Thus, firms need to maintain sufficient level of working capital and have to have an appropriate working capital management system because it runs the business operation smoothly and It also helps an organization to accomplish its objective by doing day-to-day business activity efficiently and effectively, because it attempts to manage the current asset, current liability and their relationship that exists between them (Jain 2005).

However, as working capital management is new emerging managing system, the following problems may reduce its importance to organization; lack of effective management of current asset from theft, lack of internal control over current asset especially cash, un collectivity of receivables and absence of skilled personnel to control current asset (Pandey 1995). By considering its significant role in organizational objectives, many researchers have been engaged in this area at different times and places in the world as well as in Ethiopia.

Gebrehiwot and Woodley, (2006) recommended that working capital management is very essential for day-to-day activities, especially in manufacturing companies. But they do not incorporate how to manage working capital. According to their survey, there is also a problem of low productivity and competitiveness, and lack of experience in terms of marketing, production, and financial management. Agegnhu Aregate, (2003); suggested the increased importance of working capital management for the company and he find the problem of holding a low amount of currenassetset over current liability which leads an organization unprofitable and illiquid.

As those prior researchers studied working capital management using various research methodologies at various locations and times, and their perspectives on the role of working capital management varied. Most of such studies are also too old. But their study does not represent the real situation and facts of Fiker Spring Water. By considering the role of managing working capital for the organization, the student initiated to conduct the study of working capital management in the case of Fiker Spring Water.

This study was conducted to answer the following research questions;

1. How is WCM practice planning prepared by Fiker Spring Water?
2. How is WCM implementation carried out in Fiker Spring Water?
3. What methods does Fiker Spring Water employ to manage the various working capital components?
4. Is Fiker Spring Water's working capital adequate?

1.3 OBJECTIVES OF STUDY

1.3.1 GENERAL OBJECTIVE

The overall objective of this study was to assess working capital management practice in Fiker Spring Water.

1.3.2 SPECIFIC OBJECTIVES

1. To determine the process used to prepare WCM practice planning by Fiker Spring Water.
2. To assess the WCM implementation in Fiker Spring Water.
3. To identify the various techniques used by Fiker Spring Water to manage the various working capital components.
4. To assess whether Fiker Spring Water's working capital is adequate.

1.4 SIGNIFICANCE OF THE STUDY

This study was increasing the attention paid to working capital management at Fiker Spring Water and give the researchers a comprehensive understanding of the subject. In the first place, it gives researchers a deep understanding of how to manage and finance their current liabilities and emphasizes the significance of managing working capital. Second, the discovery also makes a company aware of potential methods and sources of current assets to maintain the excellent level of working capital, as well as the company's

strengths and weaknesses in terms of current assets and current liabilities. Additionally, it was used as a possible resource for upcoming researchers.

1.5 SCOPE OF STUDY

The study was delaminating in title to working capital management practice (needs to analyze different components of working capital. But the study was limited to critical components of working capital in most manufacturing firms: such as cash, accounts receivable and inventory such as raw material inventory, work-in-process inventory, and finished goods inventory, because manufacturing business invests a substantial portion of these current assets.) Especially recognize Fiker Spring Water It also be found in Agena, close to Wolkite,

1.6 LIMITATION OF THE STUDY

- Scope restriction, as various organizations seek to understand how they manage their working capital effectively. But because of a lack of funding, time, and other resources, this study was only conducted in Fiker Spring Water, particularly in the financial department.
- Respondents fill questionnaire negligently especially, open ended questionnaire.
- Lack of full secondary data from organization due to restriction of information by organizations manager.

1.7 ORGANIZATION OF PAPER

The general structure of the research was structured into five chapters. The first chapter contains the introduction part which includes a background of the study, a statement of the problem, the objectives of study, the significance of the study, the scope of the study, and the organization of the paper. The second chapter contains a review of the related theoretical and empirical literature, and the third chapter deals with research methodology which consists of the research approach, research design, source data, Target Population, Method of data analysis, and time and cost budget schedule.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

This chapter's goal is to review the available information on working capital management. Subsequently, there are nine sections in the chapter. The first section presents the nature of working capital management as a background for the research. The second section indicates the concept of working capital. Current asset management and source of financing working capital are in sections three and four respectively. The fifth section shows the approach to financing working capital. Following that section six presents the determinants of working capital. Whereas, liquidity is discussed in section seven. Finally, a review of the empirical study and Conclusions from the Survey of Related Literature and Knowledge Gap is presented in sections eight and nine respectively.

2. THEORETICAL FRAMEWORK

2.1 THE NATURE OF WORKING CAPITAL MANAGEMENT

Working capital management is the process of planning and controlling a level of current assets, current liability, and interrelationships that exist between them with the main objective of maintaining the optimum balance Components of working capital.

Current assets refer to that asset which in the ordinary course of business could be or would be converted into cash within one year without undergoing diminution in value and without disrupting the operation of the firm (Pandey. 1999). The major current assets are – cash, receivable, inventories, and marketable securities.

Current liabilities are those liabilities that are intended at their inception to be paid in the ordinary course of business, within a year, out of current assets. The basic current liabilities account payable, bills payable, bank overdrafts, and outstanding expenses. The goal of working capital management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. This is because if the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into

bankruptcy. The current asset should be large enough to cover its current liability to ensure a reasonable margin of safety (Jain, 2005).

There are two types of working capital, permanent (fixed) and temporary (fluctuating) working capital. Permanent working capital is the minimum amount required to be kept in the form of current assets. It is a fund required for day day-to-day rational activities. Temporary working capital is the amount of working capital required to meet seasonal changing productions. It is created by the firm to meet liquidity requirements that would last only temporarily. The current assets, commonly called working capital represent the portion of the investment that circulates from one form to another in the ordinary conduct of business (Pandey, 1999).

2.2 CONCEPTS OF WORKING CAPITAL

There are two concepts of working capital, gross and net. Gross working capital refers to the firm investments in current assets. It is the total of all current assets whereas net working capital is the difference between the current assets and current liabilities. It indicates the liquidity position of the firm and suggests the existence to which the working capital needs may be financed by the permanent source of funds. Net working capital can be positive or negative. A positive net working capital would arise when current assets exceed current liabilities. Whereas negative net working capital occurs when current liabilities are more than current assets.

2.3 CURRENT ASSET MANAGEMENT

Current asset management is also one concept of WCM. There are two objectives of current asset management; To minimize the cash operating cycle and To finance those assets efficiently. The important element of current asset management includes cash management, receivable management,

2.3.1 CASH MANAGEMENT

Cash is the money that the firm can disburse immediately without any limitations. The term cash includes coins, Currency and check held by the firm, and balances in bank accounts. Cash balances are significantly influenced by a firm's production and sales. Brealey and Myers (2003) indicated that cash is the oxygen which enhances a survival and prosperity, and is the basic indicator of business health.

Cash includes both cash in hand and cash at bank. A company needs cash for transaction and speculation purposes. It also provides the liquidity to the company but the question is why company should have cash reserves when it has an option to utilize it by investing it in short term securities. The answer to this question is that it provides more liquidity than marketable securities. Cash should be considered as an inventory which is very important for the smooth running of the business. No doubt a company can earn some interest if cash is invested in some marketable securities but when it has to pay its liabilities it needs cash and in order to convert marketable securities into cash it has to pay some transaction cost. So, there is a fair possibility that cost of holding marketable securities might exceed their benefit.

Cash refers to coins, currency, checks held by a firm, and demand deposits. Cash is the money which a firm can disburse immediately without any restriction. Sometimes near money such as marketable securities or bank time deposits are also included to define cash.

Cash is the most important current asset for the operation of the business. Cash is 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 service output or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excess will simply remain idle, without contributing anything towards the firm's profitability. Thus, the financial manager should maintain a sound cash position within the firm.

Cash management is concerned with optimizing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds. Holding cash to meet short-term needs incurs an opportunity cost equal to the return which could have been earned if the cash had been invested or put to productive use. However, reducing this opportunity cost by operating with small cash balances will increase the risk of being unable to meet debts as they fall due, so an optimum cash balance should be found.

In addition to this, Cash management is concerned with managing of: Cash flows in to and out of the firm, Cash flows within the firm and Cash balances held by the firm at a point of time by financing deficit or investing surplus cash.

Sales generate cash which must be disbursed out. The surplus cash must be invested while deficit should be borrowed. Cash management assumes more important than other current assets because cash is the most significant and the least productive asset that a firm holds. It is significant because it is used to pay the firm's obligations. However, cash is unproductive, unlike fixed assets or inventories; it does not produce goods for sale. Therefore, the aim of Cash management is to maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way.

2.3.2 ACCOUNT RECEIVABLES MANAGEMENT

Account receivables are the extensions of credit by which the firm gives to its customers. Credit policy is the determination of credit selection, credit standards, and credit terms. Credit selection is the decision of whether to extend a to customer and how much credit to be extended. Collection policy should consider both the firm bad debt, because of the extended collection period and the customer frames. Generally; the objective of the account receivable management is to minimize the time lapse between the completion of sales and the receipt of payment (Brigham, 2002).

Receivables are assets accounts representing amounts owed to the firm as a result of sale of goods or services on credit in the ordinary course of business. They, therefore, represent the claims of a firm against its customers and are carried to the "assets side" of the balance sheet under titles such as accounts receivable, customer receivables or book debts. They are, as stated earlier, the result of extension of credit facility to customers for a reasonable period of time in which they can pay for the goods purchased by them.

When a firm sells goods and services, it can demand cash on or before the delivery date or it can extend credit to customers and allow some delay in payment. The next few sections provide an idea of what is involved in the firm's decision to grant credit to its customers. Granting credit is making an investment in a customer—an investment tied to the sale of a product or service. Why do firms grant credit? Not all do, but the practice is extremely common. The obvious reason is that offering credit is a way of stimulating sales. The costs associated with granting credit are not trivial. First, there is the chance that the customer will not pay. Second, the firm has to bear the costs of carrying the receivables.

The credit policy decision thus involves a trade-off between the benefits of increased sales and the costs of granting credit. From an accounting perspective, when credit is granted, an account

receivable is created. Such receivables include credit to other firms, called *trade credit*, and credit granted consumers, called *consumer credit*.

2.3.2.1 Components of Credit Policy

Terms of sale: The terms of sale establish how the firm proposes to sell its goods and services. A basic decision is whether the firm will require cash or will extend credit. If the firm does grant credit to a customer, the terms of sale will specify (perhaps implicitly) the credit period, the cash discount and discount period, and the type of credit instrument.

Credit analysis: In granting credit, a firm determines how much effort to expend trying to distinguish between customers who will pay and customers who will not pay. Firms use a number of devices and procedures to determine the probability that customers will not pay; put together, these are called credit analysis.

Collection policy: After credit has been granted, the firm has the potential problem of collecting the cash, for which it must establish a collection policy.

2.3.3 INVENTORY MANAGEMENT

The term inventory refers to the stock of physical goods held for eventual sale or to make up other products. A firm's inventory may take different forms. For instance, consider a manufacturing firms in your area, inventory, in such a firm likely consist of **raw materials**, which are inputs to the production process; **work in progress**, which are unfinished goods that are in the process of being produced at the time the balance sheets are closed. In addition, **finished goods** are goods that the firm has produced and is ready to ship. Moreover, consider retailers in your locality, they typically have only finished goods in their inventory, as they do not add value through a manufacturing process. And service firms generally have no goods to store.

In the management of inventories, the firm's objective should be concerned with the wealth maximization principle. One can achieve this by determining the optimum level of inventory. The basic financial problems are to determine the proper level of investment on inventory and to decide how much inventory must be acquired during each period to maintain that level. All inventories have two characteristics in common Cost must be incurred to acquire inventories called ordering costs and There are costs to holding inventories called carrying costs (Pandey, 2005).

A) Inventory management techniques

To manage inventories efficiently, answers should be sought to the following two questions How much should be ordered? And When it should be ordered?

There first question is relates to the problem of determine economic order quantity and it is answered with the analysis of the cost of maintaining a certain level of inventories the second question when the order arises because of uncertainty and the problem of determining the reorder point.

B) Inventory Control

Usually, a firm has to maintain several types of inventories. The firm should pay maximum attention to those items whose value is the highest. The firm should therefore; classify inventories to identify which items should receive the most effort in controlling. The firm may use the following technique in controlling inventories (Pandey, 2005). ABC analysis -inventories are categorized based on value and volume. Inventories with high value and low volume are grouped under category” A”. Inventories with low value and high volume are grouped under category “c” and inventory in between them are grouped under category “B”. Aging schedule (FSNO) analysis-inventories are classified according to the period of their holding. where,

F – Fast-moving inventories

S - Slow moving inventories

N -Normal moving inventories

D -Dead moving inventories

- VED analysis - inventories are classified based on usage

Where; V -Vital items of inventories

E - Essential item of inventories

D - Desirable items of inventories (Bhalla, 2007).

2.3.3.1 Reasons for Holding Inventory

As indicated in the first part of this chapter, there are several reasons for a company to hold inventory. The most obvious one is that if a company sells a product, it cannot transact business without inventory. Another reason is that goods cannot be manufactured instantaneously. If a company manufactures goods, it is likely to have some inventory in various stages of production. This is referred to as work-in-process inventory.

Management also may want to have some inventory of finished goods in case sales are greater than expected. Or management may want to hold some speculative inventory for dealing with events such as a change in the product or a change in the cost of the raw materials. Further, some companies hold inventory to satisfy contractual agreements. For example, a retail outlet that is the sole distributor or representative of a product in a region may be required to carry a specified inventory of goods for sale.

In general, it can classify motives of holding inventory into three basic points. *Transaction motive*: to meet sales of goods, arising in the ordinary course of business. *Speculative motive*: to take advantage of temporary opportunities, such as sudden increment in the price of goods. *Precautionary motive*: to maintain a safety stock or buffer to meet unexpected need of goods in the market.

2.3.4 MARKETABLE SECURITY MANAGEMENT

Marketable securities are short term interest earning money market instrument used by the firm to obtain a return temporarily idle funds. Marketable Security simply refers shorter-life securities. Some marketable securities have specific life. For example, Treasury bills have original life of 13, 26, or 52 weeks. Other securities like commercial paper and negotiable certificates of deposit can have life tailored to meet specific usually, the longer the maturities, the greater the yield, but the more exposure to yield risk (Jain, 2000).

The yield on marketable securities varies with the difference in default risk in marketability in the length of time to maturity incorporate and in taxability. Marketable securities and time deposits are shown as "cash equivalent" on the balance sheet if their original maturity is three months/ less. Other marketable securities are shown as "short-term investments" assuming their maturity is less than one year. The more prominent marketable securities available for investment is Treasury securities repurchase agreement, agency securities, Banker acceptances, commercial paper, certificate of deposit, and Eurodollar,s and others(Jain, 2000).

2.4 SOURCES OF FINANCING WORKING CAPITAL

A firm can adopt different financing policies visa'-a-Vis' current assets. Three types of financing may be distinguished: **Long-term financing** – The source of long-term financing includes ordinary share capital, preference share capital, debentures, long-term borrowings from financial institutions, and reserves and surplus or retained earnings. **Short-term Financing** – The short-

term financing is obtained for a period, of less than one year. It is arranged in advance by banks and other suppliers of short-term finance in the money market. Short-term finance includes working capital funds from banks, public deposits, commercial paper, factoring of receivables, etc.

Spontaneous Financing - Spontaneous financing refers to the automatic sources of short-term funds arising in the normal course of a business. There is no explicit cost of spontaneous financing.

2.5 APPROACHES TO FINANCING WORKING CAPITAL

Working capital has three approaches options to financing working capital investment, this includes the following: -Matching approaches, Conservative approaches and Aggressive approaches

2.5.1 MATCHING APPROACHES

In this approaches the company hedges its risk by matching the maturities of its asset and liabilities. The company finances seasonal variations in current assets with current liabilities of the same maturity. In most cases, there is a permanent component of current assets. Inventories and receivables would remain above some minimum level. The permanent component of current assets is also financed with long-term capital (Baker H.K and Powel G.E (2005).

2.5.2 CONSERVATIVE APPROACHES

The Conservative approach uses a relatively higher proportion of long-term debt and relatively low proportion of short-term debt, this approach reduced risk associated with interest rate fluctuations (Douglas, (1998).

2.5.3 AGGRESSIVE APPROACH

The aggressive approach uses less long-term and more short-term financing. The goal of this approach is to raise profitability by financing temporary and part of a permanent current asset from short-term sources. The remaining assets are financed with long-term sources (Douglas, (1998).

2.6 DETERMINANTS OF WORKING CAPITAL

There are no set rules or formulas to determine the working capital requirements of firms. The following is the description of factors that generally influence the working capital requirements of the firms. **Nature of Business** The working capital requirements of a firm are influenced by the nature of its business. Trading and financial firms have a very small investment in fixed assets but require a large sum of money to be invested in working capital. Some manufacturing businesses, such as tobacco manufacturers and construction firms, also have invested substantially in working

capital and a nominal amount in fixed assets. Public utilities have a very limited need for working capital & have to invest abundantly in fixed assets. Their working capital requirements are nominal because they may have only cash sales and supply services, not products (Lakew D.M and Rao D.P (2013).

Sales and demand condition the working capital needs of a firm are related to its sales. It is difficult to precisely determine the relationship between volumes of sales and working capital needs. In practice, current assets were have to be employed before growth takes place. It is, therefore, necessary to make advance planning of working capital for a growing firm on continuous basis. A growing firm may need to invest funds in fixed asset in order to sustain its growing production and sales. A sale depends on demand conditions. Most of the firms experience seasonal and cyclical fluctuations in the demand for their products and services. Their business variations affect the working capital requirement, specially the temporary working capital requirements of the firm. When there is an upward saving in the economy, sales increased; correspondingly, the firm's inventories and debtors increased Under the boom, additional investment in fixed assets may be made by some firms to increase their productive capacity this act of was required further additions of working capital (Pandey, 2005).

Technology and Manufacturing policy The manufacturing cycle (or the inventory conversion cycle) comprises the purchase and use of raw materials and the production of finished goods. Longer the manufacturing cycle, largthe e was the firm's working capital requirements (Pandey, 2005). **Credit Policy** The credit policy of the firm affects the working capital by influencing the level of debtors. The credit terms to be granted to customers may depend on the norms of the industry to which the firm belongs. But affirm has the flexibility of shaping its credit policy within the constraint of industry norms & practice. To ensure that unnecessary funds are not tied up with debtors, the firm should follow a rationalized credit policy based on the credit standing of customers and other relevant factors (Ross, 2006).

Availability of credit The working capital requirements of affirm are also affected by credit terms granted by its creditors. A firm was need less working capital if liberal credit terms available to it. Similarly, A firm, which can get bank credit easily in favorable conditions, was operate with less working capital than a firm without such a facility (Pandey, 2005).

Operating Efficiency The operating efficiency of the firm relates to the optimum utilization of resources at minimum costs. The firm was be effectively contributing to keeping the working capital investment at a lower level if it is efficient in controlling operating costs and utilizing current assets. Better utilization of resources improves profitability and, thus, helps in releasing the pressure on working capital. Although it may not be possible for a firm to control the prices of materials or wages of labor, it can certainly ensure efficient use of its materials, labor, and other resources (Pandey, 2005).

2.7 LIQUIDITY

Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Liquidity may be an emergency savings account or the cash lying with us that we can access in case of any unforeseen happening or any financial setback. The main objective of the use of liquidity ratios is to give the external analysts to measure the firm's capacity to meet short-term obligations. But liquidity ratios are very useful to a firm's short-term creditors such as banks and suppliers. Their attention is usually focused on the relationship of the firm's liquidity asset to its maturing liability.

Two popular liquidity ratios are the current ratio and the quick ratio (Ross, 2006). **Current ratio-** The current ratio is defined as the ratio of a current asset to current liability current asset includes all the firm's asset which is expected to be converted to cash during the firm operating cycle. This ratio is a measure of the formality to meet its mature obligation out assets. It can be calculated as $CR=CA/CL$ **Quick acid test ratio-**The quick ratio or acid test as some analyst calls it. It is calculated the same way as the current ratio but after deducting inventories and prepaid expenses. Such a, next year's insurance, acid test reflects a feeling among analysts that inventory and prepaid expenses cannot be relied upon to meet short term obligations. The proposed measure focuses, therefore, an asset that can easily be converted to cash. The quick ratio is a much stricter test of liquidity than the current ratio (Ross, 2006). It can be calculated as, $QR=CA-INVENTORY/CL$

2.8 Importance of Working Capital Management

It helps to manage firm's current assets e.g. debtors, receivables, cash in hand, cash at bank, stock etc. and firm's current liabilities like creditors, bills payable etc. in best possible manner. If working capital is not maintained in good manner, it is likely to cause insolvency. It helps to maintain

optimal levels of current assets and liabilities. The current assets should be large enough to cover current liabilities in order to ensure a reasonable margin of safety.

It helps to maintain the liquidity of a firm while not keeping too high level of any one of them. The efficiency of firms will also increase by the good management of working capital. If the firm manages a good working capital flow, it can utilize its fixed assets more effectively. Effective and efficient management of working capital supports growth of sales because there is close relationship between sales and working capital needs. It also has a technical role that play in maximization of the rate of return by Proper management of working capital.

2.9 REVIEW OF EMPIRICAL STUDIES

Many researchers have studied working capital from different views and in different environments. The following was very interesting and useful for the research. Moyer et al. (2003) found that working capital consists of a large portion of firm investment in assets 40% in manufacturing and 50-60% in retailing and wholesale industries. They found that cash helps to keep the firm liquid. It enables the firm to pay its obligations and also protects the firm from becoming bankrupt.

Sheer (1989) analyzed that by implementing best practices in working capital companies can strengthen strong cash flow levels, improve profitability, budgeting, and forecasting process, predictability and manageability of results, heighten risk visibility, and reduce reaction time. Shin and semen (1998) highlighted that efficient working capital management is very important for creating value for shareholders.

Mohammed (2011) studies the effect of working capital investment and financing policies on firm's profitability a sample of 11 manufacturing plc in the tigray region, Ethiopia for a period of 2005-2009. The study used ROA, ROE, and OPM, as dependent profitability variables and accounts receivable period, inventory holding period, and accounts payable period are used as independent working capital investment policy variables.

Gebregiorgis, (2004) analyzed the working capital practice and efficiency in managing the same in keren metal, wood and cement work manufacturing firms operating under joint ventures in Eritrea. The study reveals that the firm only managed the working capital to ensure that internal control of the firm is maintained and not create value by optimal utilization of working capital.

Qayyum (2012) investigate the relationship between working capital management and profitability of manufacturing companies. In this study he has emphasized figuring out significant relationship between profitability and working capital management and try to explain the necessity of optimizing the level of working capital management efficiency and in that way, management takes productive action to maximize their profitability. As a result, his study showed that the significant relation between profitability and working capital management varies from industry to industry.

Ahmad (1991) investigate the evaluation of current asset management in private owned manufacturing enterprise and he analyzed that the management of current asset particularly cash is important because it brings into sharp focus on the trade-off between risk and return.

2.9 Conclusions from Survey of Related Literature and Knowledge Gap

Above all, the literature review indicates that working capital management has impact on profitability and performance of firm. The efficiency of company working capital has a lasting impact on company performance, cash conversion efficiency, days operating cycle, and day's working capital overall working capital performance criterion not only helps in performance evaluation but also was capture the dynamics of risk-return trade-off. Indeed, a company's inventory management, debtor management, and creditor management policy play an important role in its profitability performance.

Most of the study participants are too old. But their research does not accurately reflect the reality of Fiker Spring Water. By taking into account the importance of managing working capital for an organization, I've decided to research working capital management in the context of Fiker Spring Water.

CHAPTER THREE

Introduction

This study aims to assess the working capital management practices used by Fiker Spring Water. This chapter seeks to explain how a researcher was carry out their investigation and develops a methodical strategy to deal with a research problem. There are five sections in the chapter. the research design is covered in the first and the research approach is covered in the second section. Sections three and four cover data type, source, data gathering method, and target population. The fifth section contains the data analysis methodology.

RESEARCH METHODOLOGY

Research Methodology is a systematic way to solve the research problem and it may be understood as a science of studying how research is done scientifically (Creswell, 2009). It encompasses the research approach, research design, source of data, target population, and method of data analysis.

3.1 RESEARCH DESIGN

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. A research design is a set of methods and procedures used in analyzing and interpreting the variables specified in the research problem and it is also a plan and a blueprint for conducting a study with maximum control over factors that may interface with the validity of the findings (Burns and Grove, 2003).

This study was conducted by using a descriptive research design because it enables to describe of the current status of Fiker Spring Water's working capital and its components accurately without making changes to the conditions of the study and it also describes casting light on the current problems by a process of data collection that enables them to identify the situations, conditions, and events that exist in particular study area more completely than without employing this method (cress well 2005).

3.2 RESEARCH APPROACH

To address the objective of this study was used both qualitative and quantitative research approaches. A qualitative approach is a process of collecting, analyzing, and interpreting non-numerical data by observing what people do and say in the form of words, pictures, or objects and also interpreting the meanings, definitions, characteristics, symbols, and descriptions of things.

A quantitative approach is a process of measuring numerical data in terms of quantity or amount by using tables, ratios, and percentages (Booth 2006). As a result, this study was conducted by a mixed research approach, because to provide the best understanding and comprehensive analysis of the problem, to analyze and interpret numerical and non-numerical data about the raised problem, and also to obtain more suitable and consistent results compared to what would have been achieved by using single method (Creswell, 2003).

3.3 DATA TYPE, SOURCE, AND DATA COLLECTION INSTRUMENT

To fulfil the criteria of my studies, the student researcher was gathering information from primary sources. A primary source; refers to those that are written by the people directly involved in the research and collected by the researcher for the first time (Yin. K 2004).

In this study, the primary source of data is collected through distribute questioner of managers of the selected department (i.e. finance department), by preparing essential questions in advance of the student researcher needs to promote the reliability of raw data. the student researcher used closed-ended questionnaires to save employees' time filling them out, as well as open-ended questionnaires that allow respondents to express their wants and feelings in response to the questions.

3.4 TARGET POPULATION

Target populations are a total of the population who are mainly concerned about the specified study and they were expected to give full information about raised problems (Milan .2009). As a result, the target populations for the study are 40 which are managers, accountants, and auditors of finance departments. To address the objective of this study, the student researcher took the total target population as respondents what I want to ask (i.e. census method) because it is a complete enumeration of all the respondents, the number population is small, to increase the accuracy of the data and for meaningful analysis, no need of sample from the 40 respondents.

3.5 METHOD OF DATA ANALYSIS

Data analysis is the process of systematically applying statistical and /or logical techniques to describe and evaluate the collected data (Shamoo, A.E. (1989). After gathering data from the accessible population, the student researcher was analyzing the studies using the descriptive method of data analysis, which identifies and describes conditions, situations, and events precisely as they are without making any changes to those that already exist in a given study. Qualitative data was analyzed by defining the meanings, and characteristics of collected data, and interpreting the symbol and what it wants to say by the statement. Quantitative data were also analyzed by using tabulation and percentages.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter analyses the data collected from the field and presented in such a way that would easily understand by readers. As indicated earlier both primary and secondary sources of data were used to investigate WCM practice in Fikir Spring Water. The primary source of data was collected through distributing close and open-ended questionnaires to the respondents of finance manager of Fikir Spring Water and secondary source of data are collected from company's audited financial statement and other relevant sources. After necessary and sufficient data were collected from above mentioned sources, the student researcher analyzes and interpret by descriptive type of data analysis using tables, percentages to draw conclusions and recommendations about WCM practice in Fikir Spring Water.

4.2 Analysis of Primary Data (Questionnaire)

the student researcher distributes 40 questionnaires to employees of finance department of Fikir Spring Water. All questionnaires are returned back and respondents are answer both open and close ended questionnaire as much as possible.

Table 1.1 General profile of the respondents

Age	Frequency	Percentage
20-30	9	22.5%
31-40	19	47.5%
41 and above	12	30%
Sex		
Male	27	67.5%
Female	13	32.5%
Educational Background		
Certificate	1	2.5%
Diploma	4	10%
BA degree	15	37.5%
MSC and above	20	50%

Work Experience			
	Less than 5 years	12	30%
	Between 5-9 years	20	50%
	Greater than 9 years	8	20%

Source: census survey, 2023

Table 1.1 indicates that out of 40 respondents 47.5% (19) are under age group of 31-40, 27.5% (9) under age of 20-30 and 17.5% (12) are under age of 41 and above. The majority of the respondent employees, as I can tell from their profiles of 31-40. This shows that all age groups are participated in the management area.

Regarding their sex, out of 40 respondents, 67.5% (27) are male and 32.5% (13) are females. This implies that no equal participation of female and male in management area. As indicated in Table above 1.1, out of 40 respondents 50% are MSC and above, 37.5% are BA degree holders, 10% are diploma holders, and 2.5% certificate of educational level. This indicates that Fikir Spring Water almost all literate and only needs individuals with at least certified.

To analyze their work experience 50% of employees, have work experience of 5-9 years, 30% of employees have work experience of fewer than 5 years, and 20% of employees have work experience of greater than 9 years. This implies that employees in the management area of an organization are more experienced that contribute to best performance of the organization. From respondent's general profile the student researcher believed to have substantial information for further analysis of the data.

Table 1.2 plan making body of Fikir Spring Water about WCM

1) Who Is Plan Making Body About WCM In Your Organization?

NO.	Response	Frequency	Percentage
1	General manager	40	100%
2	Middle manager	0	0
3	Finance manager	0	0
4	Total	40	100%

Source: census survey, 2023

As indicated in the table above 1.2, all 40 (100%) respondents responded that the plan-making body about WCM in Fikir Spring Water is the general manager of the organization. A plan is the first element of the management process, it was made by the head of an organization, and after that, as per the plan all activities like; implementing, operation, etc. were carried out by the general manager's subordinates to the extent of their authority.

Table 1.3 Executive responsible body of Fikir Spring Water about WCM

2) Who Is the Executive Responsible Body for The Implementation of WCM In Your Organization?

NO.	Response	Frequency	Percentage
1	Finance manager	27	67.5%
2	Middle manager	5	12.5%
3	General manager	8	20%
4	Total	40	100%

Source: census survey, 2023

As shown in above table 1.3, out of 40 respondents 67.5% (27), 20% (8), 12.5% (5) respondents responded that the executive body for implementation of WCM in Fikir Spring Water is finance manager, general manager, and middle manager respectively. This shows that even if finance manager has main executive manager WCM, all of the managers as per their capacity have responsibility of executing WCM in Fikir Spring Water.

Table 1.4 Norms of reviewing working capital

3. Do you have norms of reviewing your WC?

NO.	Response	Frequency	Percentage
1	Yes	38	95%
2	No	2	5%
3	Total	40	100%
if yes, how often;	Monthly	24	63%
	Quarterly	8	21%
	Annually	5	13%
	Any other (weekly)	1	3%
	Total	38	100%

Source: census survey, 2023

As shown above in Table 1.4 respondents asked to reply on organization's norm of reviewing of working capital. Out of 40 respondents, 38(95%) respondents are replied as their organization have norm of reviewing working capital and 2(5%) of respondents replied that our organization do not have norm of reviewing working capital. almost all of the participants, as the student researcher was demonstrating from their responses, said that our firm has a norms procedure for reviewing working capital. This shows that Fikir Spring Water has a norm of reviewing WC in order to minimize fraud, errors, and theft of current assets. Next, regarding the frequency of reviewing working capital norm respondent's response indicates that, 63% were monthly, 21% quarterly, 13% annually, and 3% weakly. This shows that the company has a norm procedure for reviewing WC in accordance with requirements. However, it mostly conducts monthly evaluations.

Table 1.5 working capital shortage situations

4. Do you experience a WC shortage?

NO.	Response	Frequency	Percentage
1	Yes	14	35%
2	No	26	65%
3	Total	40	100%
if yes; how often	Frequently	2	14%
	Sometime	12	86%
	Total	14	100%

Source: census survey, 2023

Table 1.5 summarizes respondent's intentions regarding working capital shortage situations in their organization. Out of 40 respondent 65% (26) of respondents are replied that no experience of a working capital shortage and the remaining 35%(14) of respondents replied that yes experience a working capital shortage, out of these 14 respondents, 12(86%) respondents said that yes our organization experience working capital shortage occasionally but the rest of 2(14%) respondents said that yes our organization experience working capital shortage frequently. This indicates that there was no significant operating capital shortage at Fikir Spring Water. But working capital shortages did occasionally happen.

Table 1.6 excess working capital situation

5. Is there any excess WC situation in your organization?

NO.	Response	Frequency	Percentage
1	Yes	36	90%
2	No	4	10%
3	Total	40	100%
if yes, how was surplus (excess) utilized?			
	invested short term security	2	5.5%
	invested in fixed asset	28	77.7%
	utilized for repayment of debt	6	16.8%
	TOTAL	36	100%

Source: census survey, 2023

As indicated above in Table 1.6, out of 40 respondents 90% (36) of respondents responded that their organization experience surplus (excess) working capital and 10% (4) of respondents responded that there is no such situation. This shows that Fikir Spring Water has encountered situations with an excess of working capital. But having extra WC is not properly use. Where and how to utilize excess is basic question. The Respondents who agree with the statement are asked to put their response on utilization of excessive working capital. Their response shows that 5.5% of respondents said that invested in short term security, 16.8% of respondents said that for repayment of debt, and 77.7% of respondents said that they invested in fixed asset. According to their response, I am able to confirm that Fikir Spring Water makes use of excess working capital as needed.

Table 1.7 Major components of cash balance

6. Which cash balance does your organization consists of?

NO.	Response	Frequency	Percentage
1	Cash at bank	17	42.5%
2	Cash on hand	23	57.5%
3	Cash in transit	0	0%
4	Total	40	100%

Source: census survey, 2023

As shown in above table 1.7, Out of 40 respondents, 57.5% (23) cash on hand, 42.5% (17) cash at bank, and 0% cash on transit. the student researcher concluded from this remark that Fikir Spring Water has cash on hand and in the bank., but as most of the respondents said that major component of cash in Fikir Spring Water company is cash on hand. This indicates that there is no effective internal control over cash, because cash on hand is easily fraud and theft.

Table 1.8 internal controls over cash balance

7. How Do You Control the Cash Flows of Your Organization?

NO.	Response	Frequency	percentage
1	By reviewing periodically	22	55%
2	By using the bank account	13	32.5%
3	By maintaining a minimum cash balance	5	12.5%
4	Total	40	100

Source: census survey, 2023

As shown above Table 1.8, out of 40 respondents 55%(22) of respondents replied that their organization controls cash inflow and outflow through reviewing periodically, 32.5%(13) of respondents replied that their organization's cash flow control is exercised through using bank account and 12.5%(5) of respondents replied that their organization's cash flow control is exercised through maintaining minimum cash balance. Based on their response, it is possible to say that Fikir Spring Water controls its cash flows through periodic auditing of available cash balances, using bank accounts, and maintaining a minimum cash balance. This shows there is no effective internal control over cash flow because as most of the respondents said the main controlling method of cash flow was periodic auditing, but auditing does not give absolute assurance of cash balance.

Table 1.9 major problems regarding to cash management

8) what are the major problems for your organization regarding cash management?

NO.	Response	Frequency	Percentage
1	Lack of computerized internal control	17	42.5%
2	Lack of segregation of duties	11	27.5%
3	the fluctuation of cash flow with production	12	30%
4	Total	40	100%

Source: census survey, 2023

As shown in above table 1.9, out of 40 respondents 35% responded that lack of computerized internal control, 35% lack of segregation of duties, 30% volatility of cash flow with production. This shows that Fikir Spring Water do not have effective internal control over the cash. Because, if not internal control over the cash, it is easily fraud.

Table 1.10 major problems regarding with inventory management

9. what are the major problems regarding inventory management in your organization?

NO.	Response	Frequency	Percentage
1	Lack effective inventory management technique	12	30%
2	Inadequate inventory	11	27.5%
3	Lack of warehouse to store in safe place	17	42.5%
4	Total	40	100%

Source: census survey, 2023

As shown in above table 1.10, out of 40 respondents 42.5% lack of warehouse, 27.5% inadequate inventory, 30% lack of effective inventory management technique. This shows that Fikir Spring Water do not have adequate inventory, safe place to store inventory and effective inventory management technique. As a result, in Fikir Spring Water there is poor inventory management.

Table 1.11 segregation of duties

10. Is there any segregation of duties for proper internal control over cash?

NO.	Response	Frequency	Percentage
	Yes	7	17.5%
	No	33	82.5%
	Total	40	100%

Source: census survey, 2023

As shown above table 1.11, out of 40 respondents 82.5% (33) of respondents responded that their organization do not have segregation of duties to control over cash balances and 7% (17.5) of respondents responded that their organization do have segregation of duties to control over cash

balances. This response indicates that there is no duty segregation within the organization for proper control over cash from the fraud or theft. This leads to misappropriate use of cash balance.

Table 1.12 credit policy

11. what is your organizations credit policy?

NO.	Response	Frequency	Percentage
1	restricted	4	10%
2	unrestricted	36	90%
3	No credit at all	0	0
4	Total	40	100%

Source: census survey, 2023

Table 1.12 summarizes about over all receivable management practice of Fikir Spring Water. Out of 40 respondents 90% (36) of respondents replied that Fikir Spring Water adopts unrestricted credit policy, 10% (4) of respondents replied that the Fikir Spring Water adopts restricted credit policy. Researcher able to conclude from the respondents' responses of Fikir Spring Water have unrestricted credit policy without credit limit and approval. This shows that having unlimited credit policy decrease collectability of receivables.

Table 1.13 credit analysis

12. Is a credit analysis performed before credit approval?

NO.	Response	Frequency	Percentage
1	Yes	8	20%
2	No	32	80%
3	Total	40	100%

Source: census survey, 2023

Table1.13 addresses about practice of credit analysis prior to granting credit. Out of 40 respondents 20% (8) of respondents responded that there is credit analysis before granting credit and the rest of 80% (32) of respondents responded that there are no such activities involved explicitly. This shows that since its credit policy unrestricted, it does not more emphasize on evaluating the ability of creditor before granting credit i.e. their credit worthiness. As a result, not evaluating creditworthiness of creditor before granting leads to increase default risk.

Table 1.14 credit control technique

13. Is the credit control technique applied in your organization?

NO.	Response	Frequency	Percentage
1	Yes	15	37.5%
2	No	25	62.5%
3	Total	40	100%

Source: census survey, 2023

Table 1.14 summarizes respondent's intention regarding credit control techniques adopted by organization. As shown above out of 40 respondents 37.5% (15) of respondents responded that Fikir Spring Water have a credit control technique, 62.5% (25) of respondents responded that Fikir Spring Water do not have credit control technique. researcher able to conclude this based on respondents' responses Fikir Spring Water do not have effective credit control technique. This shows that Fikir Spring Water have high amount of allowance for doubtful account. As a result, receivables are understated.

Table 1.15 credit terms of receivables

14. Does your organization collect receivable within credit term?

NO.	Response	Frequency	Percentage
1	Yes	14	35%
2	No	26	65%
3	Total	40	100%

Source: census survey, 2023

As shown in table above 1.15, out of 40 respondents 35% (14) of respondent's replies that Fikir Spring Water collects receivable within credit terms, 65% (26) of respondent's replies that Fikir Spring Water does not collect receivable within credit term. researcher able to conclude this based on respondents' responses Fikir Spring Water do not collect its receivables from creditor within credit term. This also, shows there is no collectability of receivables on due date. As a result, allowance for doubtful account also increase.

Table 1.16 major components of inventory

15. What are the major components of inventory in your organization?

NO.	Response	Frequency	Percentage
1	Raw material	11	27.5%
2	Work in process	22	55%
3	Finished good	7	17.5%
4	Total	40	100%

Source: census survey, 2023

In table 1.16 above, out of 40 respondents 17.5% (7) of respondents replied that their organizations major components of inventory are finished goods, 27% (11) of respondents replied that raw material and 55% (22) of respondents replied that work in process inventory. Based on this response it is possible to say that organization have all components of inventory. But, majorly work in process, company's partially finished goods waiting for completion. This shows that an organization has no adequate inventory ready to sale in a short period of time in order to generate profit and maximize wealth.

Table 1.17 Inadequacy of cash

16. Is There Any Cash Inadequacy Situation In Your Organization?

NO.	Response	Frequency	Percentage
1	Yes	34	85%
2	No	6	15%
3	Total	40	100%

Source: census survey, 2023

As shown table 1.17 above, 85% of respondents responded that there is cash inadequacy in Fikir Spring Water, 15% of respondents responded that there is cash no inadequacy in Fikir Spring Water. researcher able to conclude this based on respondents' responses cash in one time adequate but in one time become inadequate. As shown above table 1.7 and 1.8 Fikir Spring Water have major component of cash balance was cash on hand, it reviews its cash flow majorly through

periodic auditing and have lack of effective internal control mechanism of cash. As a result, in Fikir Spring Water there is no adequate cash balance.

Table 1.18 Adequacy of working capital

17. Do you believe that WC in your organization is adequate?

NO.	Response	Frequency	Percentage
1	Yes	8	20%
2	No	32	80%
3	Total	40	100%

Source: census survey, 2023

As shown table 1.18 above, 80% of respondent’s response that WC in organization is not adequate and the rest of 20% respondents responded is adequate. This response implies that WC in Fikir Spring Water is inadequate because, adequacy of working capital depends on management of its components like cash, inventory, receivables etc. As the student researcher can see from the study above, nearly all of its components are not effectively controlled and managed in accordance with the responses provided by the respondents.

4.3 ANALYSIS OF PRIMARY DATA (INTERVIEW)

The student researcher conducts a systematic interview with the finance manager of Fikir Spring Water by pre-writing seven questions about general working capital management issues. This structured interview fills in any unanswered questions from respondents and overcomes certain gaps in understanding around working capital management at Fikir Spring Water.

1. Who is executive responsible body for WCM of your organization? What about others contribution regarding this?

As finance head responded that “finance manager” is executive responsible for overall working capital management of Fikir Spring Water company at its business level activity. At a corporate level, top manager of organization plays important role in reviewing an auditing overall working capital activity of companies for smooth functioning of organization. General Manager of organization has less participation on such functional issues; rather he is responsible for overall activities of organization.

2. How often did your organization review working capital norms?

As per finance manager response that Fikir Spring Water reviews working capital “weekly” sometimes daily. This reflects there is some variation between response of employee and finance manager due to lack of awareness regarding question raised, especially cost and budget department informants. I believe that finance manager best understands such issues than employees, it is possible to conclude that Fikir Spring Water review its working capital norms weakly to control its operation from disruption due to working capital shortage and to avoid carrying costs.

3. Did your organization face working capital shortage/excess situations in recent period?

The finance head replied that “yes” our organization face excessive working capital situations in recent period that cause from excessive investment current asset. To generalize, excessive working capital requires wise utilization of current asset in different investment alternative, as his response it is utilized in different investment areas like in short term securities, in fixed assets, for repayment of debt, etc.

4. what type of credit policy is adopted by your organization?

There are two major types of credit policy open credit and restricted credit policy. Both of them have their own merit and demerit. Restricted credit reduces possibility of receivable default but, discourage customers. Open credit facilitates sales by granting unlimited credit but, its default risk is high. However, as finance manager replied that their organization most of the time applied open (unrestricted) credit policy for both government agencies and private organizations. Basic rationale for this is, even if open credit policy facilitates sales, it has high default risk.

5. what are the major components of inventory in your organization?

As finance manager replied the components of inventory in Fikir Spring Water are finished goods, work-in-process and raw material because all they have significant influence in working capital management practice. However, the dominant components of inventory in our organization is work-in-process. This shows inventory in their organization is inadequate. Because, it is still in process to generate profit.

6. what are the major inventory control systems in your organization?

There are two major inventory control systems. These are Periodic and perpetual inventory systems. However, as finance manager replied, their organization use only periodic inventory control system. That means periodic inventory control system uses an occasional physical count to measure the level of inventory and the cost of goods sold (CGS). This shows that since organization often carry products in the thousands, performing a physical count can be difficult and time-consuming. For these reasons, an organization under a periodic system, inventory account and cost of goods sold.

7. what is importance of managing working capital in general for organization and who was the main responsible body for managing working capital in your organization?

Finance manager replied that successful working capital management allows a business to pay all debts as they mature, or come due, while continuing profitable business operations. Managing working capital is one of the most important jobs for business managers and accountants. Proper working capital management proves essential in the avoidance of bankruptcy by helping a business balance needs with obligations. However, their organization has weak to manage WC, due to lack of different control techniques like; computerized internal control system over all components of working capital.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

The goal of this study was to assess the working capital management methods used by certain Fikir Spring Water organizations. The WCM practice at Fikir Spring Water was examined as a whole in the preceding chapter, and the primary working capital components were examined separately to support the conclusion. According on the study's findings, the following conclusions were drawn:

As shown in above analysis, finance manager replied that Fikir Spring Water reviews working capital “weekly” sometimes daily. However, respondents relied that Fikir Spring Water reviews working capital mostly monthly. This reflects there is some information variation between response of employee and finance manager due to lack of awareness regarding question raised. the student researcher believe that finance manager best understands such issues than employees, it is possible to conclude that Fikir Spring Water review its working capital norms weakly to control its operation from disruption and to avoid carrying costs and as shown in above analysis, the Fikir Spring Water face excess working capital in recent period and it utilize this surplus WC in in different investment areas, but majorly in fixed assets.

As shown in above analysis, researcher can conclude that Fikir Spring Water major cash balance was cash on hand. This shows that Fikir Spring Water does not have effective internal control over cash flow i.e. cash balance was inadequate and credit policy of the Fikir Spring Water has open credit policy that means sales an inventory or other thing to customer on account without limiting amount of credit and due date of the credit. As a result, Fikir Spring Water does not collect receivables on time, because it does not analyze creditworthiness of the customer before granting the credit. This Shows that Fikir Spring Water does not have effective credit control technique. As finance manager replied, their organization use only periodic inventory control system i.e. periodic inventory control system uses an occasional physical count to measure the level of inventory and the cost of goods sold (CGS). This shows that since organization often carry products in the thousands, performing a physical count can be difficult and time-consuming. For these reasons, an organization under a periodic system, inventory account and cost of goods sold

figures are not necessarily very accurate. In general, Fikir Spring Water's working capital management practices and implementation were insufficient and still need improvement. due to the lack of procedures for managing and controlling its components that are effective.

5.2 RECOMMENDATIONS

The student researcher came to the conclusion indicated above after thoroughly analyzing various sorts of data from various sources. Now, researcher comment for the organization to use the most appropriate types of methods to improve their working capital management practice.

- ✓ My main and first recommendation to Fikir Spring Water is, it should provide adequate training to employees on creating awareness regarding techniques of working capital control and their practice on working capital management practice. It is shown that there is some information gap among employees and manager.
- ✓ When you first start a business, you need start-up working capital since the business is not yet making money to sustain itself. The number one reason most businesses fail during their first year of operation is due to a lack of working capital. Having working capital not only helps you to meet your obligations, it is vital to growing your business. Sound working capital management is essential to the success of businesses. Successfully managing current assets is important in new as well as expanding business. So, time should be taken to develop and implement proper working capital management practices that ensure success of business enterprises.

From the descriptive analysis part of the study, it can be seen that there are problems in working capital management practice of the firms' that needs to be improved. First, most of the working capital management practices are performed based on experience and intuition instead of scientific management techniques. Second, most of the working capital management practices are not supported by computerized system which will have a negative impact on the accuracy and timely processing of information used in managing the business and finally business enterprises are found to be poor in credit sales which have an impact on their revenue. The researchers recommend that firms should think of hiring qualified personnel acquainted with scientific working capital management techniques and computer application for the position of financial management in their firms.

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Appendix 2

Interview check list

1. Who is executive responsible body for working capital management of your organization? What about others managements contribution regarding this?
2. How often did your organization review working capital norms?
3. Did your organization face working capital shortage/excess situations in recent period?
4. What type of credit policy is adopted by your organization?
5. What are the major components of inventory in your organizations?
6. Who is the plan making body in your organization about how to manage working capital?
7. What is importance of managing working capital in general for organization and who was the main responsible body for managing working capital in your organization?