



**COLLEGE OF BUSINESS AND ECONOMIC**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**ASSESSMENT OF WORKING CAPITAL MANAGEMENT OF NIB INTERNATIONAL BANK (A  
CASE IN GUBRE BRANCH)**

**SINEAR RESEARCH SUBMITTED TO THE DEPARTEMENT OF ACCOUNTING AND FINANCE  
IN PARTIAL FULFILLEMENT OF THE REQUIREMEN FOR (B.A) DEGREE IN ACCOUNTING  
AND FINANCE**

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### **ABSTRACT**

The study was under taken on assessment of working capital management of Nib International Bank in Gubre branch. The overall objective of the study was to evaluate the working capital management of bank in case Gubre branch. The major area that the study concerned was evaluating what the efficiency and effectiveness of working capital management in Nib International Bank in Gubre branch was. To accomplish the designated objective, the researchers used research methodology that comprised different sub sections. In this study both primary and secondary source of data were used. The primary data was collected through both open ended and close ended questionnaires to collect date from the employees. The secondary data was collected from annual report of the bank. And also the researchers used descriptive method of data analyzing. From a total population 20 employees in Nib international bank in Gubre

branch. The researchers took 14 employees as sample size by using judgmental sampling techniques. The data gathered was analyzed and interpreted by using descriptive statically methods like percentage and ratios. And also the data was presented by using tables. The main finding in this research under study networking capital showed the greater margin by which banks current asset covers its short term obligation and cash ratio showed the Nib International Bank cannot cover its short term obligation. It should be advisable if bank should have adequate amount of cash balance by reducing the amount of investment investing on long term assets. To have sufficient working capital the responsible person of the bank should be developing sound techniques of managing current assets.

[Key word: Cash, inventory, receivable and short-term credit management.](#)

## **ABBREVIATION**

**WCM= Working capital management**

**ACP = Average collection period**

**CA = Current asset**

**CL= Current liability**

**NWC= Net working capital**

**CR= Cash ratio**

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## **CHAPTER ONE**

### **1. Introduction**

#### **1.1. Back ground of the organization**

Nib International Bank was established in 1999 in Ethiopia as a result of the country's economic reform and privatization of the banking sector. The bank was formed by a group of prominent Ethiopian business people, in collaboration with the Development Bank of Ethiopia and the International Finance Corporation (IFC), a member of the World Bank Group. The establishment of Nib International Bank was part of the government's efforts to modernize the financial sector and increase competition in the banking industry. The bank aimed to provide a wide range of financial services to both individual and corporate clients, contributing to the growth and development of the Ethiopian economy. Since its inception, Nib International Bank has expanded its network of branches and services, becoming one of the leading banks in Ethiopia. The bank has also embraced modern technology and digital banking solutions to improve its offerings and enhance customer experience. Over the years, Nib International Bank has played a significant role in supporting various sectors of the Ethiopian economy, including agriculture, manufacturing, trade, and infrastructure development. The bank has also been involved in promoting financial inclusion and providing access to banking services for underserved communities. As Ethiopia continues to experience economic growth and development, Nib International Bank remains a key player in the country's financial landscape, contributing to the overall progress and prosperity of the nation.

#### **1.2. Background of the Study**

Working capital management is the process planning and controlling the level of current asset, specifically cash, account receivables, and marketable securities as well as financing asset. It involves the management of current asset of the firm and the appropriate financing of the assets. Working capital has been defined as the firm is investment in current asset. Current assets comprise all asset that the firm expects convert into cash with in the year, including cash, account receivables, and marketable securities managing of the firms working capital. Cash is the most liquid asset of a company. Account receivables are listed as assets on a company is balance sheet, but they are not actually assets until they are collected. The management of a corporations sources and use of short term funds is known as working capital management. This are of managerial finance contributes to be overall goal of public enterprise and private organization profit as well as wealth maximization by meeting the liquidity of the organization (Khan, Jain. 2001).

Working capital represent the portion of investment that circulates from one form to another in the ordinary conduct of business this idea embraces the recurring transition from cash to inventories to receivables and back to cash (Lawrence J. Gltman .2003). Spontaneous current assets and current liability are generating when the company sells its service. These spontaneous sources and uses of funds are major components of a corporations current assets and current liabilities. In addition, financial managers set the desired level of investment in each current asset category and amount of needed to support current asset. Working capital policies assume that the corporation has previously decided on its product lines or service line and has obtained the capital needed to finance its fixed asset with in this context working capital management as a specialized of managerial finance is important due to the repetitive decision making required to manage constantly changing current assets and current liability levels. These levels must be monitored in order to bring actual working capital to the desired level, avoid uncollectable receivables and remain solvent.

This study is investigate working capital management practice of nib bank in Gubre branch

### **1.3. Statement of the problems**

In every private and public enterprise, the management of working capital is crucial, because working capital maintain the detail necessary to conduct the day to day activities. Failure in working capital management resulted in ultimately bankruptcy. The effective management of each component of working capital is essential for the enterprise to sustain its regular operation and to maintain satisfactory level of liquidity. The proper working capital management can help control cost of financing and adequate level of realizable cash (Impanday. 1997).

Proper working capital management avoids the losses caused by inadequate working capital management. If the level of working capital is inadequate, it becomes difficult to implement operating plans and achieve organizations goals; one of the problems in working capital is difficult to have optimum current asset. The day to day activities of working capital management is essential for the bank to control the cost of holding current asset, ensure adequate level of working capital and to control technical insolvency. Hence the research has been conducted by some researchers to analysis the size and the composition of working capital in Nib International Bank, but they did not show current performance of working capital of the bank. Due to this fact, the researcher is conduct a study in Nib International Bank in Gubre branch on working capital management specifically cash, account receivables and account payable position of the bank.

1. How well does the bank working capital strategy support its overall bank goals and financial performance?
2. What are the factors that influence the working capital management of the bank?
3. What strategies and tactics are implemented to optimized the bank working capital management ?

### **1.4. Research Questions**

The following are the research questions that the researcher would be attempts to answer;

1. Does the bank effective and efficient in managing working capital?
2. What are the factors that affect working capital of a bank?
3. How can the bank improve working capital management?

### **1.5. Objective of the study**

#### **1.5.1. General objectives**

The general objective of the study is to assess the working capital management practice of Nib International Bank in Gubre branch.

#### **1.5.2. Specific objectives**

The specific objective of the study would be;

- To evaluate the efficiency and effectiveness of working capital management.
- To examine the key factors that affects working capital of the bank.
- To suggest ideas to improve the working capital management of a bank.

### **1.6. Significance of the study**

Under this research the researcher investigates the real world application of on assessment of working capital management by selecting Nib International Bank in Gubre branch. The study was the following significances to the bank and for future researchers.

- It would act as starting point for other researchers who would like to conduct research on the same areas. The study can be stepping stone for other researcher to study on issue and it can taking as secondary data.
- This study is useful in bringing into light the strong and weak point in managing of working capital. Hence it takes appropriate action in its weak point and makes associational procedure in managing working capital to Nib International Bank.

- Finally, the study helped for further researchers as reference who wanted to conduct the study on working capital management of financial institution particularly banks.

### **1.7. Scope of study**

The scope of study was conducted to assessed working capital management of Nib Bank in Guraghe Zone, Gubre sub city. It's important to study about all component of working capital management, due to time and cost constraint the researcher assess only in Nib International Bank in Gubre branch management of cash, receivable and liability for the year coverage (2022-2024).

### **1.8. Limitation of the study**

- There were some limitations to conduct the study, since the study did not cover all branches of Nib International Bank. There was also some metrology gaps were researcher use. Because of:
- Financial source was not sufficient to gather all relevant information.
- The time allocated for data collections was not sufficient to gather all the relevant information.
- The manager was not willing to give fact information about the bank and language problem.
- Lack of experience on conducting research on the side researcher.
- The study lack availability of internet based information because of there is no good internet service the college but the researcher tries his best to overcome those problems through reading of different book.

### **1.9. Organization of the paper**

This research contained five chapters. The first chapter contained an introduction to the study which as different parts. Background of the study, statement of the problem, and objective of the study, scope and limitation of the study, significance of the study . The second chapter deals with literature review. The third chapter consists of research methodology, the forth chapter with analysis of the study and the final chapter contains reference of the study.

# CHAPTER TWO

## 2. LITERATURE REVIEW

### 2.1. Introduction of working capital management

Working capital management is the process of planning and collecting the level and mix of current asset of the firm as well as financing of these assets. It involves the use of certain prescribed aids such as the risk return tradeoff, credit standards, and inventory models. The objective of WCM is to determine the optimal amount of investment in various current asset accounts. The optimal amount of the investment in various current assets is the level of the current asset holding that maximized return on investment. The basic objectives of working capital are to provide various current assets and short term credit necessary to support the anticipated sales by minimizing the investment in current assets. The motives power of a business enterprise is provide by its working capital components cash short term investment receivable and current liability measurement of these components for balance sheet representation also involves the recognition of revenue and expenses of measuring periodic net income (Lawrence j.Gitman. 2009).

### 2.2. Definition of working capital management

One of the most important areas in the day to day management of the firm deals with the management of working capital, which is defined as all the short term assets used in daily operation. These consist primarily of cash, marketable securities, accounts receivable and inventory. The balance in these accounts can be highly volatile as they respond quickly to changes in firms operating environment. The effective management of working capital requires both medium-term planning and immediate reactions to change in for cost and conditions.

NWC may be defined as the difference between current assets (working capital) and current liabilities. It is a measure of liquidity, which is defined as the adequacy of near-term cash to meet the firm's obligation. A highly liquid firm has sufficient cash to pay its bills when due. Working capital management is the functional are of finance that covers all the current account of the firm. It is concerned which the adequacy of current asset as well as the level of risk posed by current liabilities. It is a discipline that seeks proper policies for managing current asset and liabilities and practical techniques for maximizing the benefits from managing working capital (Van Horne. 2011).

#### 2.2.1. Current assets

CA relatively "liquid" resources this category includes cash investment in marketable securities receivable, inventories and prepaid expenses. To qualify as current asset, asset must be capable of being converted in to cash with in a relatively short period of time without interfering with normal business operation.

#### 2.2.2. Liabilities

Liabilities may be defined as debt or obligation from past transaction or events requiring settlement of a future date.

### **2.2.3. Current liabilities**

CL are obligation that must be paid with one year or within the operating cycle, whichever is longer. The time period used in define current liability parallel that used in defining current asset divided by current liability are valuables indicator or company ability to pay its debts in the near future. Among the most common example of current liability are account payable short term not payable and accrued liabilities (Robert F merigs and Walter B.meigs .1992).

### **2.3. Concept of working capital**

These are two concepts of working capital, such as networking capital and gross working capital. When accountant use the term working capital, they are generally referring to net working capital which is the dollar difference between current asset and current liabilities. This is one measure of the extent to which firm. It protected from liquidity problems. From the management view point, however, it makes a little sense to talk about trying to activity manage a net difference between current asset and current liabilities, practically when the difference is continually changing. Financial analysis, on the other hand, means current assets when they speak of working capital. Therefore, there focus is on gross working capital. Because it does make sense for the financial manager to be involved with providing the current amount of current assets for the firm at all times. We will adopt the concept of gross working capital. As the discussion of working capital management unfolds. Our concern will be to consider the administration of the firm's current assets namely cash and marketable securities, receivable and inventory and the financing (especially current liabilities) needed to support current assets (James Coven horne.2003).

### **2.4. Nature of working Capital**

Working capital management is concerned with the problem that a rose in attempting to manage the current asset, this current liabilities and inter reaction ship that exist between them. The term current assets refer to hose assert which in the ordinary course of business can be or will be turned in to cash within one year with undergoing administering in values and without disrupting the operation of the firm. The goal of working capital management is to manage the firm's current asset and current liability in such a way that a sat is factory level of working capital maintained. This is so because if the firm cannot maintain in sat factory level of working capital it likely to become insolvent and may even be forced into bankruptcy. The current asset should be large enough to cover it current liability in order to ensure a reasonable may in of the safety each of the current asset must be managed efficiently in order to maintain the liquidity of the firm which not keeping too high a level of any one of them.

### **2.5. Components of Working Capital Management**

Often the interrelationships among the working capital components create real challenges for the financial managers. Working capital has to be managed because the firm cannot always control how quickly the customers will buy and once they have made purchases, exactly when they will pay. The different components of working capital management of any organization are:-

Cash and cash equivalent

Inventory

- Debtors/account receivables

-Creditors/account payables

### **2.5.1 Cash and Cash Equivalent Management**

Cash is the money which the firm can disburse immediately without any limitations. The term cash includes coins, currency and check held by the firm and balance in bank account. Near cash asset which can be readily converted in to cash are also included in cash (Aarihahina daty.2005).

### **2.5.2. Cash ratio**

The cash ratio is the ratio of accompanies total cash and cash equivalents to its current liabilities (Padachl.k.2006). The cash ratio is most commonly used as a measure of company's liquidity. The company's liquidity that further refines both the current ratio and the quick ratio by measuring the amount of cash, cash equivalents or invested funds there are in current asset to cover current liabilities.

$$\text{Cash ratio} = \frac{\text{cash} + \text{cash equivalents}}{\text{current liabilities}}$$

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

### **2.5.3 .Management of Receivables**

Account receivables are the extensions of credit by which the firm gives to its customers. Receivables contribute to a significant portion of the current assets. For investments into receivables there are certain costs (opportunity cost and time value) that any company has to bear, along with the risk of bad debts associated to it.it is therefore necessary to have a proper control and management of receivables which helps in taking sound investment decision in debtors. Thereby, for effective receivables management one needs to have control of the credits and make sure clear credit practices are a part of the company policy, which is adopted by all other associated with the organization. One has to be vigilant enough when accepting new accounts, especially larger ones. Thereby, the principle lies in establishing appropriate credit limits for every customer and stick to them.

#### **Effectively managing accounts receivables;**

- Process and maintain records efficiently by regularly coordinating and communicating with credit managers and treasury in-charges.
- Prepare performance measurement reports
- Control accuracy and security of accounts receivable records
- Captive finance subsidiary can be used to centralize accounts receivable functions and provide financing for company sales.

### 2.5.3.1. Receivables management techniques

- There is several method of evaluating how well you are managing your account receivables. The most common method involves computing two ratios.
- Account receivables turnover ratio
- Average collection period

#### **Account receivables turnover ratio**

- Account receivables turnover ratio means you are attempting to determine how many times, during the year, your company is turnover or collects its receivables. It is the measures of how many times all receivables are collected and replaced by new receivables. Account receivables turnover ratio is calculated by dividing net credit sales (revenue) to average account receivables.
- Notice that sales here are that total sales in certain period and average account receivables are the average account receivables balance, for the period. It is calculated as total account receivables balance, and then divided by total number of months (12 month if the company adapts annual reporting. Proper account receivable involves balancing the desire to extend credit in order to pay of your own bills. Another good way to determine whether your account receivables good or not, is by doing what is called account receivables turnover bench mark in some organization(Brigham. 2002).
- Account receivable turnover ratio is an accounting measure used to quantify firms effectiveness in extended credit and I collecting debt that credit.

The receivable turnover ratio is an activity ratio measuring how efficiently a firm uses its asset (Rahim a.s.a, 2008). It can be calculated by dividing the net value of credit sales during a given period by the average account receivable during the same period.

Account receivables can be calculated by dividing the value of accounts at the beginning of desired period to their value at the end of the period and dividing the sum by two.

Account receivable turnover ratio= Net credit sales / Average account receivables

The receivables turnover ratio is most often calculated on annual basis, though it can be broken down in to find quarterly or monthly account receivable turnover as well. (Mukhopanayay. d.2004).

#### **Average collection period**

ACP is the average number of days between '1' the date that credit sales is made, and 2(the date money received from customer. The average collection period is the reoffered to as they sales in account receivables or loan to customers. Like receivables turnover ratio, average collection period is of significant importance when used in conjunction with liquidity ratios. Whether collection period good or bad depend on the credit term allowed by the company. (Omesa.n.w.2003).

Average collection period can be calculated as follows

Average collection period= Number of working days/ Debtor turnover ratio

### 2.5.4. Management of Account Payables

Creditors are a vital part of effective cash management and have to be managed carefully to enhance the cash position of the business. One has to keep in mind that purchasing initiates cash outflows and an undefined purchasing function can create liquidity problems for the company. The trade credit terms are to be defined by companies as they vary across industries and also among companies.

### **Factors to consider;**

- Trade credit and the cost of alternative forms of short term financing are to be defined.
- The disbursement float which is the amount paid but not credited to the payers account needs to be controlled.
- Appropriate methods need to be adopted for customer to business payment through e-commerce.
- Company has to centralize the financial function with regards to the number, size and location of vendors.

## **2.6. Liquidity**

Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the assets price. Liquidity may be emergency savings account or the cash lying with us that we can access in case of any unforeseen happening or any financial setback. Liquidity also plays an important role as it allows seizing opportunities. A liquid asset is therefore one that can be quickly converted to cash without a sustainable price reduction. The amount of cash a company has on hand or can generate quickly reveals how healthy the company is financially. High level of available cash indicate that the business can pay off debt easily when due dates occur. The types of assets a company has and the marketability of those assets are where a discussion of financial liquidity begins.

The main objective of the uses of liquidity ratios is to give the external analyst to measure of the firm's capacity to meet short term obligation. Financial manager have more refined to work with such as detailed cash budgets. But liquidity ratios are very useful to firm's short term creditors such as bank and suppliers. Their attention is usually focused on the relationship of the firm's liquidity asset to its maturing liability two popular liquid ratios are current ratio and the quick ratio.

### **2.6.1. Current ratio**

The CR is defined as the ratio of current asset to current liability current asset includes all the firms' asset which is expected to be converted to cash during the firm operating cycle. They are usually considered the reserve out of which maturing short term one year or less liable can be paid it follows that a large current ratio consists assert of safety margin for the firm's short term creditors. This ratio is measure of the formality to meet its mature obligation out assets.

### **2.6.2. Quick acid test ratio**

The quick ratio or acid test as some analyst calls it. It calculated the same way as the current ration but after deducting inventories and prepaid expense. Such as, next year insurance, acid test reflects a feeling

among analyst that inventory and prepaid expense cannot be relied up on to meet short term obligation. The proposed measure focuses, therefore, an asset that can easily be converted to cash. The quick ratio is much stricter test of liquidity than the current ratio (Ross Wester field Jordan. 2006).

## **2.7. Gross working capital or current assets**

Gross working capital represents the aggregate of current assets that are converted in the ordinary course of business in to cash within one accounting year.

Examples of as follows: - stocks, sundry debtors, bill receivables prep payments, accrued income and case at bank and in hands.

A mentioned earlier, current asset constantly changes from one form to other. For example in a manufacturing enterprise cash is used to procure raw materials, pay wages and expense. The raw materials are put in the process for conversion in to finished goods that are then on sale credit and become debtors.

Finally debtors are converted in to cash. Current assets are therefore short-lived and their life span does not normally exceed one year.

## **2.8 Net working capital or net current assets**

In this case, working capital is represented by the excess of current assets over current liabilities it is also known as “net current assets: thus

Net working capital =current assets-current liabilities

Earlier, we have itemized the components of current assets, current liabilities are those which are liquidated, in the ordinary courses of business within the accounting year normally out of the current assets or fund from operations.

The net current assets concepts of working capital is considered superior to the current assets or gross concepts because, in the long run, what matter is the surplus of current assets over current liabilities to show the financial strength or liquidity of the firm according, this concepts is widely used. Normally, the aggregate of current assets should exceed the aggregate of current liabilities to leave a surplus or positive balance in the company. Conventionally, when the current assets are twice the current liabilities, the position of a firm is considered satisfactory, in practice, however, the margin maybe dependent on many factors via, the nature of the business, efficiency with which various components of current assets and liabilities are managed, Credit reputation rather the above conventional approach.

In extreme situation, when current liabilities exceed current assets, then working capital is negative and gives a danger signal. In such a case firefighting measured need to be taken to remedy the abnormal situation (Bhabatoshbanerjee. 2008).

## **2.9 Factors influencing working capital**

### **I. nature of the business**

Working capital requirement affirms are basically influenced by the nature of business. Trading and financial firms have very small investment in fixed, but require large sum of money to be invested.

## **II. Sales growth**

The working capital needs of firms increase as sales growth. It is difficult to precisely determine the relationship between volume of sales and working capital needs.

## **III. Production policy**

We just noted that strategy constant production may be maintained in order to resolve the working capital problem arising due to seasonal change in demand for the firm's product. Steady production policy will cause inventory to accumulated during the off season periods and the firm's will can be exposed to greater inventory cost and risks.

## **IV. Price level charge**

The increasing shift in price level makes function of financial manager difficult. He should anticipate the effected price level charge working capital requirement of the firm. Generally, rising level will require firm's to maintain higher amounts working capital.

## **V. Availability of credit**

The word credit means the creditors believes that the debtor's will return the loan and so decides to give the loan. Advancing credit or loon essentially decides to give the loon, confidence, character, capacity, capital or collateral of the debtor. In economics the term credit refers to promise by one party to pay another for money borrowed or goods or services received. It is medium of exchange to receive money or goods on demand at some future data.

The working capital requirement of a firm also affected the credit terms granted by its creditor. Firms will need less working capital it liberal credit terms are available to it similarly, the availability of credit from bank also influence the working capital needs of the firm. (Impandey.1997).

### **2.10 working capital ratio analysis**

The working capital ratio, also called the current ratio, is a liquidity ratio that measures a firm's ability to pay off its current liabilities with current assets. The working capital ratio is important to creditors because it shows the liquidity of the company. Current liabilities are best paid with current assets like cash, cash equivalent, and marketable securities because these assets can be converted into cash much quicker than fixed assets. The faster the assets can be converted into cash, the more likely the company will have the cash in time to pay its debts. The reason this ratio is called the working capital ratio comes from the working capital calculation. When current assets exceed current liabilities, the firm has enough capital to run its day-to-day operations. In other words, it has enough capital to work. The working capital ratio transforms the working capital calculation into a comparison between current assets and current liabilities. The value of a corporation's current ratio is a direct function of its net working capital.

The working capital ratio is calculated by dividing current assets by current liabilities.

Working capital ratio = Current assets / Current liabilities

- If current assets exceed current liabilities net working capital is positive and the current ratio is greater than one. Therefore this shows the company can pay all of its current liabilities and still have current assets left over or positive working capital.
- If current assets equal current liabilities net working capital is zero and the current ratio equal one. A ratio 1 is usually considered the middle ground. It's not risky, but it is also not very safe. This means that the firm would have to sell all of its current assets in order to pay off its current liabilities.
- If current assets are less than current liabilities net working capital is negative and the current ratio is less than one. The ratio less than 1 is considered risky by creditors and investors because it shows the company isn't running efficiently and cannot cover its current debt properly (Pandey, 1979).

## **2.11. Working capital financing approaches**

### **2.11.1. The aggressive approaches**

Short – term interest rates are not many lower than long-term interest rates. Borrowing short-term is riskier than borrowing long-term because the loan must be paid off or refinanced sooner rather than later. The aggressive working capital financial approach involves the use of short-term debt to finance at least the firm's temporary assets some of its long-term fixed assets and the amount of debt due in short – term.

If the firm managers financial all working capital from short-term debt the current assets would equal current liabilities and the firm would have zero net working capital no cushion at all. Managers may go even further and financial a portion of firm's long-term asset (plant and equipment) with short-term debt creating a negative net working capital however, such an approach if short-term interest rates rose UN expectedly).

Usually lower interest rates tempt to manager to take the aggressive approaches and use a relatively large amount of short-term debt for making capital financing managers will take a risk if the promise of return is highly enough to justify it.

### **2.11.2. The conservation approaches**

Borrowing long-term is considered less risky than short-term this is because the borrower has a longer time to use the loan proceeds before payment is due. Furthermore, if interest rates should go up during the period of loan, the long term borrower has another advantage. The long term borrower has locked in fixed interest than the short-term borrower who must review the loan each time it comes due at a new interest rates.

If market rate fall, the long-term borrower has locked in a fixed interest than short-term borrower, who must renew the loan each time it comes due at a new higher interest rate. If market rates fall, the long term borrower can usually refinance. The conservatives working capital financing approaches involves the use of long-term debt and equity to finance all long-term fixed assets and permanent current assets, in addition to some pore of temporary current assets.

All the firm's permanent current assets and most of its temporary current assets are being financed with long-term debt or equity. As a result, current assets exceed current liabilities by a wide margin and the firm has a large amount of working capital. Having a large amount of working capital is a relatively low-risk position because the firm has many assets that could be liquidated to satisfy short-term debts.

A financial manager who applies an ultra-conservative approach would use cash from the owners to finance all assets financing needs (higher cash balance supported by equity), and incur no debt by using only liability capital. The firm would also have the maximum amount of working capital possible because it could have no current liabilities.

The safety of the conservative approach has a cost. Long-term financing is generally more expensive than short-term financing, so relying on long-term debt and equity sources to finance working capital consumes funds that could otherwise be put to more productive use.

### **2.11.3. The moderate approach**

The accounting concept known as the matching principle states that the cost of an asset should be recognized over the length of time the asset provides revenue or benefit, to the business. The concept of matching principle can be applied to define a moderate position between the aggressive and conservative working capital financing approaches. According to the matching principle, temporary current assets that are only going to be on the balance sheet for a short time should be financed with short-term debt that is current liabilities. Permanent current assets and long-term fixed assets that are going to be on the balance sheet for long time should be financed from long-term debt and equity sources.

Some firms have matched their long-term temporary current assets to their current liabilities. It has also matched its long-term permanent current assets to its long-term financing sources. It calls for a relatively low amount of risk balanced by a relatively moderate amount of expected return.

### **2.12. Advantage of and disadvantage of short-term finance**

The three possible financing policies are distinguished by the relative amount of short-term debt used under such policy. The aggressive policy called for the greatest use of short-term debt. While the conservative policy is called for the least. The moderate policy falls in between although using short-term credit is generally riskier than using long-term credit, short-term credit does have some significant advantage.

The pros and cons of short-term financing are considered in this section.

#### **Speed**

A short-term loan can be obtained much faster than long-term credit.

Lenders will insist on a more thorough final examination before extending long-term credit and the loan agreement will have to be spelled out in considerable detail because a lot can happen during the life of a 10 to 20-year loan. Therefore, if funds are needed in a hurry, the firm should look to the short-term markets.

## Flexibility

If its needs for funds are seasonal or cyclical a firm may not want to commit to long-term debt for three reasons.

- If a floatation costs are generally high when raising long-term debt but trivial for short-term credit.
- Although long-term debt can be repaid early, provided the loan agreement includes a prepayment provision, prepayment penalties can be expensive. Accordingly, if a firm thinks its need for funds will diminish in the near future, I should choose short-term debt for the flexibility it provides.
- Long-term loan agreement always contains provision or covenants which constrain in the firm's future action. Short term credit agreements are generally much less in this regard.
- Cost of long term versus Short term debt

The yield curve is normally upwards sloping, indicating that interest rates are generally lower on short term than long term debt. Thus under normal conditions, interest costs at the time the funds are obtained will be lower if the firm borrows on a short-term rather than on long term basis.

Risk of long term versus short term debt

The yield curve is normally upwards sloping, indicating that interest rates are generally lower on short-term than on long term debt. Thus under normal conditions, interest costs at the time the funds are obtained will be lower if the firm borrows on a short-term rather than on a long term basis.

Risk of long term versus short term debt

Even though short-term debt is often less expensive than long term debt, short term credit subjects the firms to more risk than long term financing.

This occurs for two reasons:-

If firms borrow on long term basis, its interest expense will be relatively stable overtime, but if it uses short-term credit; its interest expense will fluctuate widely, at times going quite high. Many firms that had borrowed heavily on a short-term basis simply could not meet their rising interest costs, and as result, bankruptcies hit record level during that period.

If a firm borrows heavily on a short-term basis, it may find itself unable to repay this debt it may be in such a weak financial position that the lender will not extend the loan, this too could force the firm into bankruptcy (Brigham and Houston. 2004).

## 10 Empirical review

examined the effects of working capital management on the profitability and liquidity of selected deposit money banks using descriptive statistics, regression and Pearson's correlation coefficients. It will be found that there is a significant positive relationship between bank performance and bank size; there is a significant negative relationship between profitability and cash conversion cycle, which supports the findings. found that profitability and risk-adjusted returns are inversely related to the cash conversion

cycle, further suggesting that aggressive working capital policy improves firm performance as cited in ALShubiri (2011). Hoque et al. (2015) examined working capital management and profitability in a cement industry of Bangladesh and revealed that profitability position and working capital position over the period under study were not satisfactory. Bandara (2015) also examined the impact of working capital management policy on market value addition in Sri Lankan companies. Descriptive statistics, correlation and panel regression analysis were adopted as the tool for measurement and analysis. According to the overall panel regression model, working capital investment policy and working capital financing policy both recorded a negative relationship to market value addition.

One study by Eljelly (2004) examined the relationship between working capital management and firm profitability using data from 37 Saudi firms. The results showed a significant negative correlation between cash conversion cycle (CCC) and firm profitability, indicating that firms that manage their working capital well can improve their financial performance.

Another study by Deloof and Jegers (1996) investigated the relationship between working capital management and firm profitability in Belgium. The study will found that maintaining a lower level of net working capital positively affects firm profitability.

Moreover, a study by Shin and Soenen (1998) explored the relationship between WCM and firm value in the United States. The study will used a sample of 365 firms and reported that better management of working capital leads to an increase in firm value.

Lastly, a study by Raheman and Nasr (2007) examined the relationship between working capital management and firm profitability in Pakistan. The study's results indicated a negative association between CCC and profitability, which suggests that firms that manage their working capital well can improve their financial performance.

Nazir, Iqbal and Akram (2011) studied the working capital management practices of 250 largest non-financial firms in 12 different sectors listed at Karachi stock exchange in Pakistan using previously survey method that in four studies (Smith and Sell, 1980, Belt and Smith, 1991, Belt and Smith, 1991 and Koury et al., 1998). The response rate in this survey was 41.6% and 104 were useable responses received for analysis, which is good as compare to similar previous surveys.

There are also some other studies on working capital management practices such as (Burns and Walker, 1991); (Deresse and Abiy, n.d); (Perera and Wickremasinghe, 2010); (Nyabwanga et al, 2012) and (Padachi and Carole, 2014). Though they didn't extend their studies for comparison to indicate similarities and dissimilarities on working capital management practices between respective firms that may exist due to the various time factor, country specific, and some other cultural differences in the social, economic, legal and governmental affairs.

Deloof (2003), Surveyed on Belgian Firms to find out whether the working capital management affects profitability, using correlation and regression tests he found a significant negative relationship between corporate profitability and number of days accounts receivable, inventories and accounts payable of Belgian firms. Based on these he suggested that manager could increase corporate profitability by reducing

the number of day's accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

## **CHAPTER THREE**

### **3. Methodology of the research**

#### **3.1 Research design**

The types of research that was employ under this study are a descriptive research design; because descriptive research aimed at describing a situation or a set of circumstances. It is also answer such as how many, how, and what is happening. The study would focus on the assessment of working capital management of Nib international Bank (in case of Nib International Bank in Gubre branch). The study was use both qualitative and quantitative research technique in order to achieve the research objective.

#### **3.2. Research technique**

**Quantitative research techniques** involve systematic investigation and analysis of phenomena through the collection of numerical data. These techniques focus on measuring variables, testing hypotheses, and identifying patterns or relationships using statistical methods. Quantitative research is often used to generalize findings across larger populations and provide objective, reliable results.

**Qualitative research techniques** involve exploring and understanding phenomena through non-numerical data such as interviews, observations, and textual analysis. They focus on interpreting meanings, experiences, and concepts from participants' perspectives, often providing deep and detailed insights.

#### **3.3. Population and Sample size**

Sampling is a statistical process where you select a subset of a larger population to represent the whole. The total population of a bank is 20. Therefore the researchers select 14 respondents from the total population, through establishing judgmental sampling techniques, because selected those respondents who have direct relation to the study.

#### **3.4 Sample size**

The sample size is the number of individuals or observations included in a study. It ensures the results are statistically reliable and representative of the population, the researchers was select the samle to use

judgmental (non probability) sampling design. Because this method avoid bias and allowed the researchers to get date from selected employees. And the respondents who have direct relation with the study.

### **3.4. Data type and sources**

The researchers was use a mixed (both quantitative and qualitative) type of data .The researchers was collect the necessary data from primary and secondary source of data.

#### **3.4.1. Primary Data**

For collecting data from primary sources two types of data gathering tools was employed. These include questionnaire and interview. The questionnaire was prepared in the form of close and open ended. Interview was another instrument of data collection used in the study; a specifically semi-structured interview was employed in the study to collect data. The researcher hence used both tools data collection i.e. questionnaire and interview.

#### **3.4.2. Secondary Data**

The secondary data which gathered from published and unpublished materials of study case area such as relevant document and book was used as information. But not included in the analysis part independently

### **3.5. Data collection techniques**

The data will be collected from employees of Nib international bank in Gubre branch. The necessary primary data collected through questionnaire from employees of the bank (the questionnaire is both open ended and close ended questionnaire).The secondary data collected annual report in income statement and balance sheet of the bank.

### **3.6. Data analysis techniques**

After collecting the relevant data descriptive method of data analysis was be used because the main purpose of such research is description of working capital management of Nib international bank in Gubre branch .The researchers was use tabulation and percentage to facilitate the process of comparisons on various data analysis.

## **CHAPTER FOUR**

### **4. 1.DATA PRESENTATION AND ANALYS**

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In this chapter the data collected through questionnaire by distributed to employees of the bank and the secondary data obtained annual report of the bank, were presented and analyzed by using different tools like; tabulation, percentage and simple statements.

#### **4.1 Sex Distribution of Respondents (demographic characteristics of respondent)**

*Table 1: sex distribution of respondents*

Attributes	Frequency	Percentage
Sex		
Male	10	71.43%
Female	4	28.57%
Total	14	100%

Sources: questionnaire 2025

The result of the study showed that the sex distributions of the respondents were fairly distribution. According to the above table 10(71.43%) of respondents were male and 4(28.57%) of respondents are female. From this easily understand majority of the organization of employees are male, this information used us general information of the respondent.

#### **4.2 Age structure of the respondents (demographic characteristics of respondent)**

*Table 2: Age distribution of respondents*

Item	Frequency	Percentage
Age		
20-35	11	79%
36-45	2	14%
Above 45	1	7%
Total	14	100%

Sources: questionnaire 2025

As it can be showed in the above table 11(79%) of respondents were included in the range of 20-35 year and 2(14%) of respondents included in the range of 36-45 years and also 1(7%) of respondents have an age above 45 year. From the above table the researchers understand most of employees of the bank are grouped in the productivity age (20-35 year). This showed the respondent were the ability to have managing working capital management of the bank.

### 4.3. Work experience of respondents (demographic characteristics of respondent)

*Table 3: work experience of respondents*

Attributes	Frequency	Percentage
Work experience		
Less than 5 year	9	64%
6-10 year	3	22%
Above 10 year	2	14%
Total	14	100%

Sources: questionnaire 2025

From table 4.3 work experience of employees 9(64%) of the respondents has less than 5 year experience, 3(22%) of respondents has 6-10 year work experience and 2(14%) of respondents has above 10 year work experience. From this researchers understand majority of employees has less than 5 year work experience, this shows the employee of the bank have knowledge in related to working capital management practice.

#### 4.4 Educational statuses of respondents (demographic characteristics of respondent)

Table 4: educational background of respondents

Attributes	Frequency	Percentage
Educational statuses		
Diploma	—	—
BA Degree	11	78.57%
MSc degree	3	21.43%
Total	14	100%

Sources: questionnaire 2018

Knowing educational status of the respondents was important to know their performance. In the study area was 11(78.57%) of the respondents are BA degree holder whereas 3(21.43%) of respondents were MSc degree holders. There is no respondent with diploma holder. From the above table the researcher understand that most of the bank employees were BA degree holder. This showed employee of the bank has good knowledge in relation to working capital management of the bank.

#### 4.5 effective environments in Nib International Bank at Gubre branch

Table 5: Respondents view towards effective environment in WCM of the bank.

Items	Frequency	Respondents in percentage
Do you think that there is effective environment for WCM in your bank?		
Yes	9	64.29%
No	5	35.71%
Total	14	100%

Sources: questionnaire 2025

As shown from the above tables 4.6: 9(64.29%) of respondents respond that there was effective environment for working capital management in the bank, while 5(35.71%) of the respondents responded that there were not stilled effective environment for working capital management in the bank. From the above table most of the respondent replied that there was an effective environment for working capital management in Nib International Bank in Gubre branch, but still some problems in related to working capital management problems like, the bank give some loans to customers who have less amount of collateral, this led the bank un able to collect its receivables in due date.

#### **4.6. Major source of short term finance**

*Table 6: view of respondents towards source of short term finance*

What are the major source of short term financing in your bank?	Frequency	Respondents in percentage
Interest from loan	2	14%
Saving from account holder	12	86%
Others	-	-
Total	14	100%

As shown from the above tables 4.6 2(14%) of respondents respond that interest from loan was source of finance, while 12(86%) of respondents responded that saving from account holders. From the above table researchers understand that, saving from account holder was the major source of short term finance for a bank, and the customer were interested deposit any kinds of assets to the bank, this led to increase the capital of bank.

#### 4.7 The cash balance follow up

*Table 7: respondents view towards cash balance follow up*

Items	Frequency	Respondents in percentage
Is there any designed system of daily cash balance follow up?		
Yes	12	86%
No	2	14%
Total	14	100%

Sources: questionnaire 2025

In the above table 12(86%) of the respondents responded that the bank has designed system of daily cash balance follow up. While 2(14%) of respondents were responded that there is no systematized follow up of daily cash balance in the bank. From this researchers understand that the bank have designed daily cash balance follow up system in order to manage their cash properly through the system itself and physical counting.

#### 4.8 The related problem to WCM

*Table 8: Respondents response towards WCM problems*

Items	Frequency	Respondents in percentage
Is there any problems related to WCM in your bank that are not solved yet?		
Yes	9	64.29%
No	5	35.71%
Total	14	100%

From the above table 9(64.29%) of respondents were respond that the entire problem related WCM in the bank are not solved. While 5(35.71%) respondents also responded that there are no problems in the bank with regarding to WCM. From this questions the respondent said there some limitations standard rule on working capital on management of current asset like, at what time of duration to collect its receivables and the bank un able to give discount who pay liability before due date.

#### 4.9 The organizations major current assets

Table 9: Views of respondents towards the bank current assets

Items	Frequency	Percentage
What are your organization major current assets?		
Cash	8	57.15%
Account receivable	4	28.57%
Others	2	14.28%
All	-	-
Total	14	100%

Source: questionnaire 2024

In table 4.9 above indicate that 8(57.15%) of respondents were responded that the largest current asset of the bank is cash. While 4(28.57%) of respondents also responded that account receivable was the current asset of a bank and 2(14.28%) of respondents respond that other current asset like, marketable securities is major asset of the bank. From this understood cash is the major current asset of a bank, because bank was service organizations that involved deposit and payment activities to perform this activities the bank depend on cash as compared to other current assets.

#### 4.10. Positive factors of WCM of a bank

Table 10: views of respondents towards positive factors of WCM

Items	Frequency	Respondents
Which factors affects the WCM of your bank positively?		
Organization structure	3	21.43%
New technology	8	57.14%
Interest rate	2	14.29%
Borrowing and investing	1	7.14%
Total	14	100%

Source: questionnaire 2024

According to the above table, 21.43% of respondents responded that organization structure affects the working capital of the bank positively, while 57.14% of respondents of a bank employees also responded that new technology affects positively the bank working capital, 14.29% of respondents responded that interest rate affect working capital of the bank positively and 7.14% of respondents responded that borrowing and investing also affects the working capital of the bank positively. The researchers understand in the above table new technology has a great contribution to the bank. The researchers interpreted behind this that when new technology invented the bank easily managed its current asset and liabilities of the bank and collect its receivables easily.

#### **4.11. Information about important guidelines**

*Table 11: Respondents' view about important guidelines*

Items	Frequency	Percentage
Is there any important guideline in providing information about good quality of managing working capital?		
Yes	11	78.57%
No	3	21.43%
Total	14	100%

Source: questionnaire 2024

As it is showed in above table 11(78.57%) of respondents responded that they do have important guideline in providing information about the good quality of working capital management, while the rest 3(21.43%) of respondents responded that they have no guideline to provide information about good quality working capital management. From this researchers understand that the bank has guidelines in providing information about good quality of working capital management. The response of respondent behind this questionnaires' the bank have their own guidelines related to the amount of cash needed, the number of days the receivable collected, but practically still not fully implemented.

#### 4.12. The proper WCM relation to control cost of holding current asset

Table 12 :WCM in relation to control cost of holding current asset

Items	Frequency	Percentage
Do you think that proper WCM can control cost of holding current asset?		
Yes	10	71.43%
No	4	28.57%
Total	14	100%

Source: questionnaire 2024

As stated in the above table 10(71.43%) of the respondents reported that proper WCM can control cost of holding current asset. while 4(28.57%) of the respondents responded that proper WCM cannot control the cost of holding current assets. From this we can understand that proper working capital management can control the cost of holding current assets. The response of respondent said that working capital management is reducing the amount of ideal cash; according to this response working capital management can reduce cost of holding current asset.

#### 4.13. The organization ever face cash shortage (deficit)

Table 13: Views of respondents related to cash shortage/deficit

Items	Frequency	Percentage
Does your organization ever face cash shortage or deficit?		
Yes	1	7.14%
No	13	92.86%
Total	14	100%

Source: questionnaire 2025

The above table portray that most of the respondents responded that the bank does not have any problems related with the cash deficit. From this understand that the bank have not ever face cash shortage or deficit. The respondent replied to these questions that bank was managing cash by invested less risk marketable securities, this means easily captured cash when the bank needed.

#### 4.14. Efficiency and effectiveness of working capital

Table 14: Views of respondents towards efficient and effectiveness of WCM

Items	Frequency	Percentage
Does your bank efficient and effective in managing working capital?		
Yes	13	92.86%
No	1	7.14%
Total	14	100%

Source: questionnaire 2024

As shown in the above table 13(92.86%) of respondents of the bank employees respond that the working capital of a bank is effectively and efficiently managed. While the rest of 1(7.14%) of respondents were respond that working capital is not managed properly. From the above table understand the bank was efficient and effective in managing working capital. The response of the respondent behind this the bank have efficient working capital management related to the amount of cash, receivables, liabilities and at what period the liabilities pay, and the receivables receipt, this condition can increase working capital management of the bank.

#### **4.15 The mechanism followed by Nib bank to estimate working capital**

*Table 15: mechanism followed by the bank to estimate needed amount working capital*

Items	Frequency	Percentage
What is the mechanism followed by your bank to estimate the needed amount of working capital?		
Previous report	8	57.14%
Easy prediction	1	7.14%
Operating cycle method	4	28.58%
All	1	7.14%
Total	14	100%

Sources: questionnaire 2024

The above table portray that the mechanisms followed by the bank to estimate the needed amount of working capital. According to the above table 8(57.14%) of respondents responded that previous report, 1(7.14%) of respondents also responded easy prediction and 4(28.58%) of respondents responded that Operating cycle method, While the rest of 1(7.14%) respondents responded that the bank used all the above mechanisms to estimate the needed amount of working capital. From this study the bank can easily estimate the amount of budget needed asper of the bank previous year report or performance, this was easily estimate the amount of budget needed.

#### **4.16. Mechanisms to attract customers and easier their service delivery**

*Table 16:views of respondents towards the mechanisms*

Items	Frequency	Respondents
Do you have mechanisms that makes your bank service delivery easier and to attract customers?		
Yes	12	85.71%
No	2	14.29%
Total	14	100%

Source: questionnaire 2024

As shown in the above table, 85.71% of respondents responded that there are mechanisms that makes the bank service delivery easier and to attract customers or depositors, While 14.29% of respondents responded that there is no a mechanism in the bank to initiate customers. From this study understand that the bank use mechanisms to attract customers by giving reward and prize(medals) when they deposit more and supporting their service by mobile banking.

#### 4.17. Liquidity measures

Liquidity position of the organizations is shown using different liquidity ratio which was useful to judge a bank to meet short term obligations that means liquidity measures a firm ability to pay operating expense and other short term, or current liabilities.

The basic liquidity measures used to compare financial position of Nib bank for the past three years.

#### 4.18. Net working capital

Net working capital (NWC) is a measure of a company's liquidity, efficiency, and overall financial health. It represents the difference between a company's current assets and its current liabilities. Essentially, it tells you how much readily available cash a company has to meet its short-term obligations.

Formula:

- Net Working Capital = Current Assets - Current Liabilities

Table 17: • Net Working Capital = Current Assets - Current Liabilities

Years	2022	2023	2024
Current asset	6,231,895	7,085,984	8,254,992
Current liabilities	3,807,672	4,587,161	5,040,012
Net working capital	2,424,223	2,498,823	3,214,980

Source balance sheet from (20022-2024)

As the above table 4.17 shows the bank (NWC) for the past three years were positive, the positive net working capital shows the asset is greater than liabilities. From a liquidity and bankruptcy point of view it is always desirable to have positive net working capital. This showed the current assets of the bank are ability to pay its current liabilities of the bank.

#### 4.20. Quick ratio

The quick ratio is commonly used liquidity ratio that measures a bank ability to pay its current liabilities with its quick assets. It expresses the relationship of banks current assets to current liability.

- 4.18. quick ratio of the bank (quick asset/ current liabilities)

*Table 18: quick ratio of the bank (quick asset/ current liabilities)*

Years	2022	2023	2024
Current assets	6,231,895	7,085,984	8,254,992
Current liabilities	3,807,672	4,587,161	5,040,012
quick ratio	1.63	1.54	1.63

Source balance sheet from years (2022-2024)

Quick ratio 1:2 or 50% means a bank was in good shape. But as the above table shows the current ratio of the bank was less than the standard. Researchers understand from this table problem ineffective standard for collecting receivables, and less amount of cash in the bank.

#### 4.21. Current ratio

The presentation analysis of quick or current ratio was similar that of the quick ratio previously explained. Since the bank had not inventory, every figure used in the calculation and explanation was the same. So that was not needed to present here because in the absence of inventory current ratio was equal to quick ratio.

#### 4.22. Cash ratio

Cash ratio is an indicator of the bank short term liquidity it measures the ability to use its cash and equivalents to pay its current financial obligations.

*Table 19: Cash ratio of the bank (cash/ current liabilities)*

Years	2022	2023	2024
Cash	1,349,694	2,989,328	3,311,922
Current liabilities	3,807,672	4,587,161	5,040,012
Cash ratio	0.35	0.65	0.66

Source balance sheet from years (2022-2024)

The ideal cash ratio is 1:2 or 50%, as the above table, shows this ratio in Nib bank is less than the standard, lower cash coverage ratio indicates that the bank was lower liquidity and cannot easily fund its debt. The reason behind this the bank invests in marketable security or other current assets.

#### 4.23. Activities ratio

Activities ratio are accounting ratios that measures a firm ability to convert different accounts with in its balance sheet in to cash or revenues. Activities ratios are used to measure the relative efficiency of a firm based on its assets leverage or other such balance sheet items. These ratios are important in determining whether a bank management is doing a good enough job of generating revenues cash etc. from its resources.

## Receivable turnover ratio

It shows how quickly accompany collects what is owed to it and indicates the liquidity of receivables.

### Receivables turnover ratio

*Table 20: Receivable turnover ratio of the bank (revenue/average receivables)*

Years	2022	2023	2024
Revenue	20,973,790	28,867,045	37,563,600
Average receivables	116,588,250	118,941,500	120.505,000
Receivables turnover ratio	0.17	0.24	0.31

Source Balance sheet from the year (2022-2024)

As the above table showed receivables turnover ratio of the bank had been lower. This ratio showed the bank unable to collect its receivables from its customers at stated time of period. As compared receivable turnover ratio over past three years receivable turnover ratio was increased period to period by smallest rate.

### Average collection period

The average collection period is the average number of days between the date credits loan is made and the date that the money received from customers

*Table 21: Average collection period (number of working days/receivables turnover ratio)*

Years	2022	2023	2024
Number of working days(360)	360 days	360 days	360 days
Receivables turnover ratio	0.17	0.24	0.31
Average collection period	2117	1500	1154

## **CHAPTER FIVE**

### **5. Conclusion and recommendation**

#### **5.1. Conclusions**

The study assessed the working capital management of Nib International Bank by using liquidity and activity ratio analysis for three years and through collecting data from respondents of Nib International Bank in Gubre branch.

The ratio analysis of the bank most widely used working capital analysis techniques. This included current ratio, quick ratio, cash ratio, receivable turnover ratio, and average collection period.

Generally, based on the data collected and analyzed, the researchers concluded as the follows;

- To summarize the characteristics of the respondents; majority of the respondent were found in the age of 20-35 years, therefore most of employees were belonged in the productive age, of which 78.57% were BA degree holders and had work experience less than 5 years, so it was important that employees had significant role in managing working capital management in Nib International Bank.
- In all three years under study net working capital showed the greater margin by which bank's current asset cover its short term obligation, the better ability to pay its debt as they come due.
- Quick asset ratio of the bank was showed decreased from years to years; this showed the bank was unable to pay its current obligation by quick assets.
- Cash ratio for three years showed the Nib International Bank cannot cover its short term obligation only by its cash and cash equivalents because the current asset is mostly receivables and marketable security.
- Receivable turnover ratio the three years was unattractive which shows the bank unable to collect its receivable and this resulted inadequate collection effort of receivables.
- Average collection period of three years was not good. Because receivables were collected within 30-60 days but our analysis shows Nib International Bank average collection period was above these days.

- Cash is the major current asset to the bank, which is Nib bank mostly, used cash to transfer and receive from branch to the other.
- Interest rates are major factors that affect working capital of a bank negatively because when interest rates are high it becomes expensive to borrow funds and the cost of paying back the loan is also high.
- There is effective environment in managing working capital through introduction of wide area network in the bank which is Nib International Bank at Gubre branch it to be continued for the future that makes the bank profitable.
- The bank has designed daily cash balance follow up system in order to manage their cash properly through the system itself and physical counting.
- New technologies have great contribution to the working capital management of a bank positively.
- The major short term source of finance of the bank which is saving from account holders that deposited at the bank by different depositors. It enables to ensure the survival and profitability of the bank.
- To provide information about good quality of working capital management the bank use guidelines and the proper working capital management can control the cost of holding current assets.
- To estimate the needed amount of working capital the bank uses previous reports of the bank because these shows reliable evidence the needed amount of working capital needed as compared to other estimation method.

## **5.2. Recommendation**

Since Nib International Bank was a financial institution in Gubre town, it had to create its own core competency and had to improve working capital management of the bank to attract customers.

According to the finding, the following recommendation was presented.

- To carry out the effectiveness and efficiency of working capital management of the bank the networking system between the head office and branch relations among employees should be well organized and strong in order to enhance good working capital management.
- Net working capital of the bank was good that shows the bank's current asset meets its current obligation, so the bank should continue this performance, in order to increase its operation.
- Cash ratio and quick ratio were not in good performance implying that the bank liquidity is magnified by holding much of its asset on long term investments. So the Nib International Bank should increase the amount of cash and receivables rather than invested long term investment.
- As compared the three years receivable turnover ratio of the Nib International Bank was increased at lowest rate, in order to increase more this rate the bank should increase receivables turnover ratio by reducing average receivable and give discount to customers, who pays its debt before due date.
- Average collection period of receivables of the three years decrease in small number of days, so in order to decrease average collection period at large number of days, the bank should develop its own strategies, like increasing the amount interest rate when customers delay to pay their obligation within the due date.
- The bank should have adequate amount of cash balance by reducing the amount of investment investing on receivables and long term assets.

- To have sufficient working capital the responsible person of the bank should be developing sound techniques of managing current assets.
- When the bank wants to borrow money, it borrows with minimum amount of interest rate because it enables the bank to be liquid in paying its obligation.

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## **APPENDIX**

### **Questionnaire**

- Dear respondent: I would like to express my heartfelt thanks and appreciation for your time and since cooperative to fill this questionnaire. The questionnaire is designed to collect data on working capital management in case of Nib international bank of Ethiopia in Gubre branch. So you are kindly requested to compute this questionnaire sincerely and honesty. All information provided by you will be kept confidentially and will not be used for other purpose except for the academic purpose
- Questionnaire
- Instructions: - there is no need to write your name make in thick mark (√) in the box which you think an appropriate response.
- 1. Sex    male

- female

- 
- 2. Age 20 -35

- 36 -45

- above

- 
- 3. Work experience: less than five year

- 6 -10 year

- above 10 years

- 
- 4. Educational background: diploma

- BA degree

- MSc degree

- 
- 5. Do you think that there is effective environment for working capital management in your Bank?  
Yes

- No

- 
- If No, why.....?
- 6. What are the major sources of short term financing in your bank?
- Interest from loan

- saving from account holders

- others

- 
- 
- 7. Is there any designed system of daily cash balance follow- up?
- Yes

- No

- 
- If yes, what are the system? \_\_\_\_\_

- 8. is there any problems related to working capital management in your bank that are not solved yet?
- Yes

- No

- 
- If yes, what are the problems?
- \_\_\_\_\_

● 9. What are your organization major current assets?

- Cash

- Account receivables

- Securities

- all others

- 
- 
- 10. Which factors that affect the working capital of your bank positively?
- Organization structure

- interest rates

- 
- New technology

- Borrowing and investing

- 
- 11. Is there any important Guideline in providing information about good quality of managing working capital? Yes

- No

- 
- If yes, what is the guideline? \_\_\_\_\_
- 12. Do you think that the proper working capital management can control cost of holding current asset?

Yes

No

- 13. Does your bank ever face cash shortage or deficit?

- Yes

- No

- 
- If your answer is yes, how do you solve?

• \_\_\_\_\_

• \_\_\_\_\_

- 14. Does your bank efficient and effective in managing working capital?

- Yes

- No

- 
- If yes, from what point of view?

• \_\_\_\_\_

- 15. What is the mechanism followed by your bank to estimate the needed amount of working capital?

- Previous report

- Easy prediction

- 
- Operating cycle method

- All

- 
- 16. Do you have a Mechanism that makes your bank service delivery easier and to attract customers?  
Yes

- No

- 
- 
- If yes, what are those mechanisms?
- \_\_\_\_\_.