

ASSESSMENT ON EFFECTIVENESS OF CURRENT ASSET MANAGEMENT

(IN CASE OF COMMERCIAL BANK OF ETHIOPIA IN WOLKITE BRANCH)

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DECLARATION

I here declare that this senior essay entitled " assessment on effectiveness of current asset management case study on Commercial bank of Ethiopia Wolkite branch. Submitted in partial fulfillment of the requirement for bachelor degree in accounting and finance at Wolkite university through department accounting and finance is my original work and has not been presented for a degree in any other university and all source of material used for this research has been dully acknowledged

Advisor:

Name _____

Signature _____

Date _____

Examiner:

Name _____

Signature _____

Date _____

STATEMENT OF CERTIFICATION

This is to certify that I have carried out this research work on the topic entitled assessment on effectiveness of current asset management (case study on Commercial bank of Ethiopia Wolkite branch) this work is original nature and suitable for submission for the reward of the BA degree in accounting and finance.

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ABSTRACT

This study under the title of effectiveness of current asset management practices on commercial bankof Ethiopia in Wolkite branch wants to know the practice for effectiveness of current asset management. The general objective of this study designed to assess and investigate the practice and performance of the bank. Both the primary and secondary data would use, primary data in which more information would obtain from observation and unstructured interview, while secondary data in which more information would obtain from available literature from published and unpublished documents. The sampling technique to use for this study was non-probability sampling technique i.e. judgemental sampling. The collected data would analysis by both qualitative and quantitative analysis especially descriptive type of analysis. finally, based on the result of finding, conclusion and recommendation wiould be forwarded.

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

In financial sector current asset management is important to their liquidity and profitability. Current asset involves investment in cash, account receivable, and inventory which are non interest between profitability and liquidity. This is particularly true as the major role of financial manager of a bank business is to spend great deal of their time managing current asset and current liabilities. In addition, the financial manager is involved in managing for term fund, negotiating credit term, monitoring the usage of cash, managing account receivables (Delof, 2003).

If cash comes faster back into the company and be invested in a new cycle of procurement, production and sale of goods, it generates a greater return to the initial cash investment if cash does not come fast enough back into the company, the company has borrow more cash from bank to carry business process. In line with this idea Rose S.A (2000) states that financial intermediaries provide variety of service, economies that make the transformation of claim in doing this financial intermediaries composition by interest rate, bank in general expected to undertake effective asset management particularly current asset for the fact current assets are the basic existence of customer in banking system. Current assets are generally listed first on a company' s balance sheet, any will be presented in the order of liquidity that means they will appear in the following order cash(which includes currency ,checking account ,petty cash, temporary investment, account receivable, inventory, supplies and prepaid expense ,as well it strength motivates banking process of saving promotes investment. In light of this benefit the Ethiopian banking policy of 1994 E.C gives due emphasis to strengthening the public and private banking companies in and outside country among those Abyssinia bank is one of them. However, enhancing the company capacity

through the use of its current asset depends on sound full asset management. Thus the realization of organization performance and development, however, is strongly linked with various factors

like organizational polices are banking technology, resource (asset management undoubtedly the management matters to customer and

further destiny of existence (Pandy, 2007), thus, it is crucial that the management of current asset are responsible for the goals, process and outcome of the organization .This indicates that the success of the business organization. Therefore, this study is going to make careful analysis on current asset management of the bank.

1.2 Statement of the problem

A current asset is cash and any other company asset that would be turn into cash with one year from date shown in the heading of companies' balance sheet (if company has operating cycle that length of its operating cycle considered to be a current asset (Roose1999). One of the major problems of financial sector is improper management of current asset that would have greater impact for the survival of the company, because of liquidity problem, loss of profit, unable to full fill customer demand on fear to survive unlike other financial institution bank more likely to fail due to liquidity problem unable to honor their promise to redeem deposit demand, lack of adequate liquidity is often one the first sign that bank is serious financial trouble(Rose,1999.page.350). Bank may begin to lose deposit which erodes its supply of cash and force the institution which dispose first more liquid asset (Rose, 1999).

Accountability bank a sound current asset management their ensuring of problem may have critical impact on bank day to day operation. Assessing of the current asset management helps to the management to know the liquidity of the bank and composition of current asset of the bank. Commercial bank of Ethiopia Wolkite branch currently uses different technique to manage its current asset such as liability, asset limit, payment and settlement account and reserve account.

However, liquidity problems in Commercial bank of Ethiopia Wolkite branch arise from outside the bank as result of financial activity of its customer. In effect customer liquidity problem gravitate toward their bank.

1.3 Research Question

1. How the banks control cash receipt and payment?
2. Does the bank have idle cash?
3. How many the bank give loan and advance to the customer?

1.4 Objective of the study

1.4.1 General objective

The general objective of the study is to assess the effectiveness of current asset management of Commercial bank of Ethiopia Wolkite branch.

1.4.1 Specific objective

1. To assess the internal control of cash receipts and payment.
2. To identify and assess idle cash and its investment area.
3. To evaluate and assess the bank collect it's receivable effectively.

1.4 Significance of the study

The study has been useful in current asset management in light strong and weak point of Commercial bank of Ethiopia Wolkite branch. The study is initiating other new researchers in the area for further study and for current asset manager, financial analyst. It also helps the company to evaluate its strength and weakness in their current asset management practice and to minimize its weakness. The study would also initiate other researchers for further study.

1.5 Scope of the study

The scope of the study was delimited this area to investigate the effectiveness of current asset management of Commercial bank of Ethiopia in Wolkite branch . However only single bank are consider in this study which creates a concern in generalizing the finding of this study to other banks because if the researcher study all types of asset of the bank the study is broad. Therefore we are limited to the effectiveness of current asset management that is cash, short term note receivables of the bank.

1.6 Limitation of the study

Study was undertaken by individual, lack of sufficient time for data collection, existence of non-respondents. The study therefore all the limitation of the individual study exists here also it is secondary data-based study so the limitation of the secondary data reveals with this study.

1.7 Organization of the study

This paper would be organized in five chapters; Chapter one provides an introductory overview of the full study including the statement of the problem, objectives of the study, significance of the study, scope of the study, limitation of the study and organization of the study. The second chapter provides literature review on current asset management. Chapter three presents the research design, population size and sampling design,source of data and method of data collection and data presentation techniques. Chapter four data analysis and discussion and finally chapter five includes the conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVEIW

2.1 Theoretical Literature Review

2.1.1 Concept of current asset

Current assets like cash and any other company asset that would be turn into cash within one year from the date shown in heading of the company' s balance sheet.

Current asset are generally listed on companies balance sheet and will be presented in the order of liquidity. That means they will appear in the following order: (cash which includes currency, checking account, petty cash), temporary investment, account receivable, inventory, supplies, and prepaid expense. Supplies and prepaid expense will not literally be converted to cash; they are including because they will allow the company to avoid paying cash for these items during up going year (Bringham, 1995).

2.1.2 Types of the Current Asset

Cash is an asset that is currency from coins. Any currency on hand and in checking account balances. Because cash is non-draining asset, first usually attempt to keep their cash balances to the minimum level required to sustain the operation.

Cash equivalents are the most liquid current asset. Money that can be withdrawn from regular bank account or money market account qualifies as cash.

Assets that can be quickly converted to cash, such as Treasury bill, any short term municipal bonds are cash equivalent. Two general criteria to determine, if current asset is a cash equivalent is if it matures in less than three months if it can be converted quickly (Rose, 2000).

Short term investments that Mature in more than three months but under year are also considered as current asset. If company has more money on hand than it needs for near future, it may invest some of its cash in short term investment. This fund can be liquidated but it takes more effort than with drawing cash. The companies' money is working front and increasing the overall revenue. (Rose P.S, 1999)

Account receivables are one step further removed from cash in terms of liquidity once a company delivers its product or service. The customer owes the Company money, until that money is paid, it is considered as receivable. Not all customers will pay for the service or product they receive of those customers that do pay, not all them will do so in timely fashion. If a company' s account receivable is growing faster than its revenues, it has not been paid for many of its goods or service (Neven R.P, 1985).

Inventory is also viewed as a current asset, any items or services that have already been completed but not sold are considered inventory. Companies that sell physical goods usually carry an inventory. Less liquid than the first three current assets inventory ties up cash items need to be sold in order to add cash to the company revenue, the companies that provide service don't carry inventories.

A prepaid expense is considered as current asset. Because it reduces the amount of the future expenses .Generally a company can pay in advances for advertising services. It may choose to purchase more supplies than currently needed. There are examples of the prepaid expenses although this are really liquid assets they don't reduces future expenses in the future can equal a better revenue bottom line (Neven R.P, 1985).

2.1.3 Importance of Current Asset

Current asset are important to business because they are asset that are used to fund day to day operation and pay ongoing expense depending on the nature business current asset can range from bares of crude oil to back goods to foreign currency. Current asset are important because they indicate how much cash company essentially has accesses to within the next 12 months outside of third party sources. It is indicative of how the company fund is ongoing day to day operation and how liquid firms. The ratio of current asset to current liability is particularly important in judging liquidity current asset on accounting balance sheet represent the total value of all assets that can readily to cash (Rose, 1999).

2.1.4 Current Asset Management and Its Benefits

Current asset management is concerned with the problems that arise attempting to manage the current asset and interrelation ship that exist between them. The current asset management is the handling of current asset of a company. The main principle in current asset management is to keep the proper flow of income, any liability in managing current asset also into account the long term investment of a company but short term asset another name for current assets is important in determining liquidity of a company (Pandy, 2007).

Khangh et al (2015) posit that the short term financing needs of a business are closely related to efficient management current asset. If the firms optimize its current asset management it will have leverage to make available additional capital in order to conduct more strategic objectives, increase profitability and minimize interest cost.

Khang say that the fundamental objectives of the management of current asset are as follows; to maximize the amount of current liability in order for the company to working capital and improve the return on capital of the business.

2.1.4 Principles and Components of Current Asset Management

The following are the general principle of current asset management.

Principle of risk variation; Risk here refers the ability of firm to meet its obligations when they become due for permanent. Larger investment in current asset become less dependences on short term borrowing increase liquidity reduce risk and there decrease the opportunity for gain or loss.

Principle of equality position; the principle is concerned with planning the total investment in current asset.

Principle of maturity payment; this principle is concerned with planning the sources of finance for current asset and the component comports comprises.

2.1.6 Cash Management

Cash is one of the current assets of the business; it is needed at all to keep the business going. Business concern should always keep sufficient cash for meeting its obligation. For some person cash is money in the form of currency or cash in hand for other person.

Motives of holding cash

Transaction motive; Accompany need cash formatting transaction in the day to day operations to make purchase, pay expenses, tax dividends. In order to meet business obligation in such situation it is necessary to maintain adequate cash balances thus, the firm with the motive of meeting root line business payment keeps cash balances (Pandy, 1999).

Transaction motives

Transaction motive refers to the holding of cash to meet routine cash requirement to finance the transaction which a bank carries on in the ordinary courses of business.

Precautionary motive; Accompany required to keeping cash for meeting various contingencies through cash inflows and cash out flows are anticipated but there may be variations.

Speculative motive; it related to handling for investing in profitable opportunities, such as opportunities do not come in regular manner. Factors deterring cash balances.

Short cost; Even with carefully constructed cash budget the company should have short fall in its cash need. The all could be expected and to cover the impact the cash budget is designed to cover the shortage.

2.1.6 Account Receivable Management (loan and advance)

Account receivable represents amount owned to business. These are the companies as result of sale goods and services in the ordinary course of business. This claims of the firm against its customers and part its current asset. The purpose of maintaining or investing receivable is meet competition and to increase the sales and profit.

Account receivable management is the process of decision relating to investment in trade debtors. We have already stated that certain investment in receivable is necessary to increase the sales and profit of the company (Bringham, 1996)

2.1.4.1 Objective of Receivable (loan and advance) Management

To promote borrowers and profit entitled that point is reached where the return on investment is further funding of receivable where the further funding of receivable is less than the cost of funds raised to fences that additional credit. Receivable management involves the careful consideration of the following aspects this are forming of credit policy, executing of credit policy and formulating and executing credit policy. Account receivables also known as trade policy.

2.1.4.2 Principle of Collection

Certain principles have been found especially used in field of collection and maybe grouped in the following area.

Collect the money; The primary objective a person is responsible for collection is to collect the money cloth to the term of the obligation as possible .there should never be any doubt as to the individuals is engaged in particular task . The debtor has an obligation to pay with in term of agreement.

Systematic follow up:-after initial contact with delinquent customer, it is important to keep additional contact on strict schedule.

Discus the account: - Once the collector gets the customer to talk the delinquent account. The collector is well on the way to receiving payments. That is why emphasis is placed on investing the debtor to talk. The objective of the discussion is to get the debater explanation of the delinquency.In consideration extension of credit there are three primary policy variables; Credit standard, Term of trade, Collection policy

Credit standard of the firm determines the nature of credit risk on the basis of payments, financial ability currently worth and other factors. When an account receivables is edit has been Extended to the term trade.

Term of trade; the stated term credit extension will have strong impact on the eventual size of the account receivable balances.

Credit policy; in assessing credit policy number quantitative measures may be applied to the credit department of the firms (Credit research foundation, 1990).

2.1.5 Short Term Investment Management

Credit management

Credit management refers to the process of deciding whether or not extends credit to particular customers. It usually involves two steps gathering relevant information and determines credit worthiness (Sinkey, 2002).

Once customer requests a loan, a bank offers by analyze all available information to determine whether the loan meets the bank risk returned objectives. Bank get information on borrowers through various sources such as loan application ,borrowers account with bank of statement of account with other bank ,statement of asset and liabilities in the case of companies their balance sheet and profit and loss account for three years, record of the register of companies, personal contact including personal interview. Some of the above sources are discussed below (Sinky, 2002).

Loan application

Some bank requires borrowers to fill in answer to detail questionnaire the customer have to sate some their concern, its constitution when they established, place of the business, name bankers with detailed of assets owned and particular of charges there on. They must also state in the application the purpose and period for and source as well as the term of repayment.

Financial statement

The borrower should be requested to supply the latest statement, preferably audited of his liabilities and asset it will be very helpful to banker it of three previous year statement are available. A copy his income tax return will be help full in enabling the bank to know the detail of its net income it will be harem possible to form the capital resources of the borrower. His wealth tax statement will similar enable a bank to form an estimate of his assets, his tax sales return will indicate the figure of his sales. In case of limited company, the audited balance sheet and profit and loose account for the last three years should be liked in two (Pandy, 2007).

Safety

“ Safety is the most good lending principle, when a banker lends he must feel certain that advance is safe; that is the money will definitely come bank it for example, the borrower invests the money in unproductive or speculative venture, or the borrower himself is dishonest, the advance would borrower in jeopardy similarly if the borrower suffers looses in its business due

to his incompetence the recovery the money become difficult to the banker.

Business development and credit analysis

Business development is the process of marketing at banks service of existing and potential customers with lending; it involves identifying new credit customer and soliciting their banking business as well as maintaining deanship with current customers and cross selling.

Not credited service. Every bank employees, from ruler up to member of board of directors is responsible for business development .each employ regularly comes in to contact with potential customer and can sell bank service. To encourage marketing efforts, many banks in developed countries use incentive plans to reward employees who success fully cross-sell service or ring new business into bank (Thomas, 1999).

Credit execution and administration

The formal credit desertion can be made individual or by committee depending on banks organizational structure this structure varies with banks size number of employees, and type of loan handled. A banks board of director normally has the final say for approving loans which are large in amount. Typically lending officers has independent authority to approve loan up to some fixed amount. larger loans are formally reviewed by committee made of the bank senior officer and presented by the loan officer and supporting analysis, as presented by the loan officer and supporting analysis and make collective decision .loan committee meet regularly to monitor the credit approval process and once loan has been approved formalized the purpose the loan the terms repayment schedule by the borrower. These conditions may include late principal and interest repayment on the sale of substantial assets, a declaration of bankruptcy, breading any restrictive loan covenant (Fried, 1995).

The officer than check that all loan decantation are presented and in order the borrower signs the agreement along with other guarantors, collateral if necessary and receive the loan proceeds.

2.1.7 Liquidity Management

Bank can experience illiquidity when cash out flow (due deposit withdrawal, loans etc.) exceeds cash inflow (new deposit loan repayment etc.) they can resolve cash deficiency either by creating additional liabilities or by selling asset .bank have access to various forms of borrowing such as federal funds market or discount window (Rose, 2000).

They also obtain funds some asset can be readily in secondary market. The decision on how to obtain to funds depends on the situation.

If the need or fund is tempura, an increase in short term liabilities (from the federal fund market or this count window) may be Appropriate. However, if the need is Permanente a policy for increasing deposit or selling liquid asset may be approached, because some assets are marketable than other in the secondary market. Banks asset compaction can affect its degree of liquidity. At an extreme bank could ensure sufficient liquidity with achieving reasonable return on their asset which conflicts with liquidity objective. Although treasury securities are liquid, their yield is low relative to bank loans investment in other need securities. Bank should main the level of liquid asset that will satisfy their liquidity needs but uses their remaining fund satisfy their objective.As the secondary market for loans has become an active bank more able to satisfy their liquidity needs with higher proportion of loans while striving for higher profitability (Jeff Mandura, 2008)

Strategies for liquidity managers

Liquidity managers have developed several board strategies for dealing with bank liquidity problems.

Asset liquidity management (or asset conversion) strategies

The old approach to meeting liquidity needs is known as asset liquidity management /in its purest form, this strategy marketable security. When liquidity is needed selected asset predominantly in cash banks for funds are this liquidity management straggle is often called asset conversion because liquid funds are raised, by converting non cash assets into cash among the most popular liquid assets are treasury bill, federal fund loans deposit held with other banks, municipal to banks bond assets liquidity are treasury securities bankers acceptance and Eurocurrency loans. To liquid management than relying on borrowing, finally liquid asset generally carry the lowest rates of return of financial asset. Bankers investing heavily in liquid not have to be so well prepared or liquid demand (Bring ham, 1995)

Borrowed liquidity (liability) management strategies

In the 1960s and 1970s many banks led by the largest industry, began to raise more their liquid funds through borrowing in the money market. This borrowed liquidity strategies; often called purchased liquidity or liability management. It is purest from calls for borrowing enough immediately spendable funds to cover all anticipated demands for liquidity.

Borrowing liquid funds able to a number of advantages baked can choose to borrow any when actually needs funds unlike strong liquefy in.

Balance sheet (asset and liability) management strategies

Due to the risk in hornet in relying and the cost of storing liquidity in asset, most banks compromise in choosing their liquidity management strategy and use both asset management and liability management. Under balanced liability management strategy some of expected demand for liquidity are stored in asset, while other anticipated liquidity needs are backstopped by advance management for lines of credit from corresponding banks or supplier of funds. Under expected cash needs are typically met forms near term borrowing. Long term liquidity needs can be planned for and fund to meet them parked in short term and medium term loans and securities that will roll over in to cash as those liquidity needs arise. The demand for and supply of bank liquidity

Bank need for liquidity: - immediately spend able fund can viewed with the demand supply frame work. For most banks the most pressing demand for spend able fund come from two source.

Customers withdrawing money from their deposits and Credit request from customers the bank wishes to keep, there in the form of new loan request, renewal of expiring loan agreement for drawing up on existing credit lines. Other sources of liquidity demand include paying obligation arising from bank borrowing, such as loan they may have received from other bank or central bank (I .e the federal reserve) similarly cash dividend to the bank stockholders periodically gives rise to demand of immediately spend able cash to meet the forgoing demand liquidity: banks can draw up on several potential sources of supply. The most important source normally is receipts of new customer deposits, both from newly opened accounts and from new deposits placed opened accounts and from new deposits placed in existing account. Another important element in the supply of bank liquidity comes from customers repaying their loans which provides fresh fund for meeting liquidity needs as do sales of bank asset especially marketable securities from the bank investment portfolio. Liquidity also comes from revenue generated by selling no deposit service and from borrowing in the money market. Timing is critical to liquidity management bankers must plan carefully now, when and where needed liquidity fund can be raised. Most of the liquidity problem in the bank and from outside of the bank is as a result of financial activities

of its customers. In effect customer liquidity problems gravitate towards their bank.

The essence of liquidity management problem for a bank may be described in two ways. Rarely the demand for bank liquidity and particular moment in time the bank must continuously deals with either liquidity deficit or liquidity surplus.

There are tradeoff between bank liquidity and profitability. The more bank resource it tied up in readiness to meet demand for liquidity the lower is that bank expected profitability (other fact on constant) that will have significance implications for the bank profitability

2.2 Empirical Review Literature

Mohammed (2009) conducted a study titled "effect of working capital management on profitability of listed companies in Tehran stock exchange" he investigated 92 companies between the year (1996-2005). In his study the current asset criteria will the variables of collection period, the inventory turnover period and the conversion cycle while the portion of profitability was gross profit to total assets ratio. The study results pointed to significant inverse relationship between the company's profitability and account receivable collection period, of inventory turnover period and the cash conversion days.

Khangah et al (2005) posit that short term financing needs of business are closely tied to the efficient management of current asset. If the firm optimizes its current asset management, it will have the leverage to make available additional capital in order to conduct more strategic objectives, increase profitability and minimizes the interest cost. Khagah said that the fundamental objectives of the management of current asset are as follows; to maximize the amount of current liability in order for the company to working capital and improve the return on capital for the business.

Dennis otieno onyango (2014) make a research on current asset management practices which was a case study of the small and medium enterprises in Kenya. Evidence was collected from selected enterprise in Nairobi. In this research methodology he employed the survey method to collect data from the respondents. The study also engaged in the use of structured questionnaires that was pilot tested in order to ensure that the questions asked will relevant, data validity as well as reliability.

Tesema and Abebe (2005) conducted a research on the assessment of current asset management of commercial bank in case of Arbamich branch. The Study investigates the data depending on

the year (2001-2006). This Study employed interview questions as primary data and unpunished Annual report of the bank as well as published audited financial statements of the bank branch as secondary data. Sampling technique was used to answer the research question and to analyze the result table and percentage was used. The result of the findings indicates that in year 2005 greater cash on hand from the total current asset as compared with the whole year. So there was opportunity cost due to lack of investment area for idle cash. Therefore, the bank has no liquidity problem. The major source of for the bank is the interest charged and collected from loans and advance extended to clients. Finally the Study forwarded the following recommendations. The bank should assess the short term investment to be made, the banks cash asset deposit in foreign banks are higher than local bank's therefore in order to decrease the risk that may be occurred and the difficulties litigating for potential problems the bank should decrease depositing its cash account in foreign banks and increase depositing in the local bank.

2.3 Research Gap

As the Study observe from other studies, there are both area and time gap. For instance Dennis otieno onyango (2014) was conducted a study and focused on current asset management practices which was a case study of the small and medium enterprises in Kenya. On the other hand Tesema and Abebe (2005) was conducted a study on current asset management in case of commercial bank of Ethiopia. So there is a gap to study area and time gap.

CHAPTER THREE

3. RESEARCH METHDOLOGY

3.1. Research Design

This research has been used descriptive research design. Descriptive research will be employed as a main research method of this study to describe effectiveness of current asset management practice at the bank. As described by C.R. Kothari, (2004) Descriptive research includes censes and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present.

3.2 population size and Sampling Design

The study populations drowning from Commercial bank of Ethiopia Wolkite branch professionals and clerical employees those are working at wolkite town select one branches. There are 25 professional employees working on the bank and throughout one branches.

In order to select relevant respondent will be used censes method for all professional staff members of the bank. According to C.R. Kothari, (2004) Censes method is a complete enumeration of all items in the population. It can be presumed that in such an inquiry, when all items are covered, no element of chance is left and highest accuracy is obtained. This method is selected by the researcher Because, such measure will enable the researcher to get accurate data from small population.

3.4 Source of Data and Types of Data

The study would conduct on primary and secondary source of data. The interview gives as detail information about specific objective of the study and questioner is bringing us general information about general objective of the study.

3.4 Methods of Data Collection

For conducting an effective study accurate and reliable data are very important. Therefore, the necessary information collect through survey method of data collection. In this study primary source of data collect from questioner and interview. Secondary data collected from unpublished material of Commercial bank Ethiopia credit policies and procedures manual.

3.4 Data Presentation Techniques

The data that would be collect from respondents will be editing for omission, legibility and consistency before moving tabular presentation. After obtaining of the necessary data or information from different source, the study would analyze by using percentage, tables and figures to more meaning full and relevant information as to depending on the analysis if tools the categories ,so that the general analysis of data would facilitate and for relevant information are analysis though descriptive method . This method also would help the researcher to draw basic conclusions on the study and enable to make valuable recommendations based on the findings.

CHAPTER FOUR

4. DATA ANALYSIS, INTERPRETATION AND PRESENTATION

The analysis and interpretation of this paper is based on primary and secondary data by using non–probability sampling technique which is judgmental sampling based on their experience. The questionnaire was distributed for 25 employees the cashier, accountant, secretary and others. The bank's manager was also selected to evaluate the current asset management practice of commercial bank of Ethiopia Wolkite Branch .

4.1 Educational back ground of respondent

Table 4.1 Educational back ground of respondents

No	Educational status	No of respondents	Percentage%
1	Diploma	0	0%
2	Degree	21	84%
3	Above first degree	4	16%
4	Total	25	100%

Source: Questionnaire, 2023

As it is shown in the Above table 4.1 the respondent educational back ground is leveled in to above first-degree categories 16%, diploma 0% and degree holder 84% most of the respondents are degree holders while one of the them are diploma are holder.

From the above table the researcher understands that in commercial bank of Ethiopia in Wolkite Branch there is educated employees. Therefore, the bank can serve its customer on time because of educated employees give their service to the customers when they need. This implies that the customers are initiated to deposit their cash in this branch. As a result, the bank gets efficient amount of cash to serve its customer.

4.2 Respondents department in the bank

Table 4.2 Respondents department in the bank

No	Department	No of Respondents	Percentage %
1	Cashier	14	56%
2	Accountant	10	40%
3	Manager	1	4%
4	Total	25	100%

Source: - Questionnaire,2023

In the table above 4.2 56% of the respondents are from cashier, 40% of the respondents are from the accountant, 4% from the manager. From the percentage shared by looking the number of respondents the researcher decided that, there is segregation of duties in the commercial bank of Ethiopia in Wolkite branch by segregating duties, that is, by avoiding putting of employees in position of excessive trust and responsibility. Avoiding giving of one-person control over all stage of process the banks manage current asset effectively.

4.3 Service years of respondents in department that they Working

Table 4.3 Service years of respondents in department that they Working

No	Service year	No of Respondents	Percentage %
1	1 -2 year	4	16%
2	2 -6 year	9	36%
3	Above 6 year	12	48 %
4	Total	25	100%

Source: - Questionnaire, 2023

As it shown in the table 4.3, the service years of the respondents is categorized in three categories that is 1-2 years, 2-6 years, above 6 years. Most of the respondents (48%) have above 6 years given service in the bank. This implies, they are familiar with Jobs and they have been experienced, this has a great advantage for the control of effective current asset management.

4.4. Cash Management Practice

Cash management involves having the optimum (that means neither excess nor deficit amount of cash on hand at the right-time). In order to manage the cash of the company properly, the bank knows how much cash is needed in the operation. To manage the cash appropriately the commercial bank of Ethiopia generally and Wolkite branch particularly set primary goal. These include too provided the cash need to meet the firm's payment and to minimize the amount of idle cash held by the bank.

4.4 Analysis of cash management practice

Table 4.4 Analysis of cash management practice

Does the bank perform theoretical aspect in to actual cash management?	response	Number of employees	Percentage%
	Yes	25	100%
	No	-	
	total	25	100%

Source: - Questionnaire ,2023

According to the response of the respondents all of them said the bank perform theoretical forms in to actual management. In this case the advantage of this to know the bank have effective cash management procedure and maintaining sufficient cash amount in operational activities.

4.5. Investment of idle Cash

Businesses cannot service without cash to pay bills and to finance growth. On the other hand, having too much cash is insufficient because cash earns considerably less than firms cost of capital.

4.6 Idle cash

Table 4.5 Idle cash

Does the bank possess idle cash?	Response	Number of employees	Percentage%
	Yes	18	72%
	No	7	28%
	Total	25	100%

Source Questionnaire, 2023

From the above table 18(72%) of respondents said that yes and 7(28%) said no. this shows the bank has excess amount of cash on hand that is not needed for immediate purpose rather it needed in the future period Hence, the researcher understand that the bank has a problem of cash management.

4.7. Response regarding to investment of idle cash

Table 4.6 Response regarding to investment of idle cash

What criteria the banks consider to invest its idle cash?	Response	Number of employees	percentage%
	Maturity	0	0 %
	Liquidity	9	36%
	Profitability	16	64%
	Total	25	100%

Source Questionnaire,2023

The table 4.7 clearly shows that 64% of respondents select profitability as the criteria that the bank considers to invest its idle cash and 36% of each respondent select liquidity as criteria. From these the researcher understands that, profitability plays a major role in the investment of idle cash because it measures the income level or the operating success of the bank for company ability to develop. And also, liquidity is the next criteria of the bank in order to invest idle cash because it is frequently used as the ultimate test of managements operating effectiveness.

4.8.Managing cash receipts and Payments

Just as cash the beginning of operating cycle. It is often starting point for company's system of internal control. Cash is a liquid asset that are ready convertible in to any other type of asset.

4.8.1 Internal control of cash receipt

In order to protect cash from the theft on misuse business control cash receipts similar to different types of business. As the manager said Wolkite branch bank control cash receipts in different procedures, the bank prepares record of all cash receipts as soon as cash is received, because most theft of cash occurs before record is made. The bank designated cashier is authorized to handle cash receipts different individual receive cash record cash, receipts and deposit and hold the cash.

4.8.2 Control over cash payments

Cash is paid for several reasons, such as to pay expense and liabilities or the purchase asset. The paying teller is only responsibility for making payment and required to check that the signature and the cheque are verified. That the amount bear signature verified machine operator and internal auditors report when every paying teller request for additional cash. The morning cash cheques and vouchers are journalized and be compared with the

total submitted by paying teller cash on hand at the end of the payment from the blotter must agree with the total amount of cash withdrawn from the chief casher. The chief cushier checks the correctness and balancing of the cash by verifying the cash pocket and counting the lose notes.

4.9 Response regarding cash receipt and payment

Table 4.7 Response regarding cash receipt and payment

Did the bank manage its cash Payment and cash receipts properly?	Response	No employee	Percentage%
	Yes	25	100%
	N0	-	-
	Total	25	100%

Source Questionnaire, 2023

As it is observed from the above table, the response of the respondents shows that 100% of respondents said yes. According to the above table the bank arranges it cash receipts and payments properly. Adequate system of internal control provides protection of cash balance and procedure for the management of cash payments to accomplish these objectives each day's receipts and all cash payment made by cheque. From these the researcher understand that the bank has its cash management system and apply giving quality service to practical.

4.10. Account receivable management

Account receivable represents an amount owned by the business. These are the companies as result of Sale of goods and services in the ordinary course of business. This claims of the firm against its customers and part of its current asset. The purpose of managing or investing receivable is meet competition and to increase the sales and profit.

Account receivable management is the process decision relating to investment in trade debtor. We have already stated that certain investment in receivable is necessary to increase the sales and profit of the company.

Table 4.8 Account receivable management

Items	For one-four months		For five-six months		For seven-nine months		for one years		For above one Years	
For how long the bank gives short term loan?	No of respondents	%age	No of responder	%age	No of responders	% age	No respondents	% age	No respondents	% age
	0	0	4	16	6	24	15	60	0	0

Source: questionnaire, 2023

According to the above table (4.8) the bank were not gives a loan for one-four months and for above one years but as indicated from the table 60% (15) of the respondents respond that the bank gives loan for one years and 24% (6) of the respondents said that the bank provide loan for seven-nine months and 16% (4) of the respondents respond that the bank provide short term loan for five-six months. As we know short term loans are the loans that the bank grants to its customers that have short period of time that means one year or less than one year. This result of short period of time is increase control over cash and working capital and increase account receivable management effective. In this table the majority of respondents answered that the bank provide short term loan for one year. So the bank fulfill the theory of that we know long term loan are loans that the organization grants to its customers for more than one year. This type of loan is used for long term investments that generate more profit to the investor.

Table 4.9 Types of the loans

Items	long term loan		middle term loan		Short term loan		other loan		
What type of loan does	No of respondents	% age	No of respondents	% age	No of respondents	% age	No of respondents	% age	Total
Commercial bankof Ethiopia Wolkite branch grants to its customers?	5	20	8	32	12	48	0		100

Source: questionnaire, 2023

According to the above table (4.9) shows that the bank grants loan to its customers. most of the respondent since 20% (5) of the respondents stated that the type of loan that the bank grants to its customers is long term loan, 32% (8) of respondents respond that the bank provide loan to its customers is middle term loan and also 48% (12) of the respondents said that the bank provide short term loan. all the above type of loan are granted by Commercial bank of Ethiopia Wolkite branch but at higher percent the bank provide short term loan to its customers and next to this bank provide middle term loan to its customers. Therefore, the bank has ability to provide short term of loan. This result minimize investor interference

Table 4.10 credit policy

	Items	Credit standard		collection policy		term of trade		Other credit policy		
	What is lending policy of the bank?	No of respondents	% age	No of respondent	% age	No of respondent	% age	No of respondent	% age	Total
		18	72	4	16	3	12	0	0	100

Source: questionnaire, 2023

According to the above table (4.10) indicates that Commercial bank of Ethiopia in Wolkite branch have lending policy. The bank use credit standard policy, collection policy and term of trade then the researchers keep it in percentage credit standard is the most appropriate lending policy in the bank since 72% (18) of the respondents answered it. Credit standard is the guide line issued by the company that is used to determine if the potential is credit worth. Credit standard is often credit after careful analysis of past borrowers and market conditions and is designed to risk of the borrower not making credit payments or defaulting on loaned money. 16% (4) of the respondents said that the bank use collection policy and term of trade. In assessing collection policy a number of quantitative measures may be applied to the credit department of the bank.

Table 4.11 principles of collection

Items	collect money		maintain systematic follow up		Preserve good will		Get the customers to discuss the amount		
Which principle of collection does Commercial bank of Ethiopio use to collect its delinquent accounts?	No of respondent	% age	No of respondent	% age	No of respondents	% age	No of respondent	% age	Total
	18	72	3	12	3	12	1	4	100

Source: questionnaire, 2023

According to the above table (4.11) and the finding indicates that the bank use maintaining systematic follow up in the most form the other principles since 12% (3) of the respondents answered it to collect its delinquent accounts, 72%(18) of the respondents respond that the bank uses collect money and 4% (1) of respondents said that the bank also uses get the customers to discuss the amount and preserve good will. Therefore, the researcher concluded that mostly the bank uses maintain systematic follow up to collect its delinquent account. Then the bank can collect its delinquent account properly using this principle.

Table 4.12 Aspects of receivable management.

	Item	forming of credit policy		executing credit policy		Both		other policy		
	Which aspect of receivable management does Commercial bank of Ethiopia use?	No of respondent	% age	No of respondent	% age	No of respondent	% age	No of respondent	% age	Total
		3	12	5	24	16	64	0	0	100

Source: questionnaire, 2023

According to the above table (4.12) 64% (16) of the total respondents respond that the bank use both forming of credit policy and executing of credit policy to manage its receivable, 24% (5) of respondents said that the bank use executing credit policy to manage its receivables and 12% (3) of the respondents said that the bank use forming of credit policy in order to manage their receivable. Forming credit policy- is the bank used to manage its account receivable by formulating its credit policy.

Executing credit policy is come after formulating credit policy, its proper execution is very important. The evaluation of credit applications and finding out the credit worthiness of customers should be under taken.

4.11. Miss management of current asset.

Table 4.13 Miss Management of current asset

	Item	strongly agree		Agree		Disagree		strongly disagree		
	Does miss managem ent of current asset have impact?	No of responders	% age	No of responders	% age	No of respondents	% age	No of responders	% age	Total
		10	40	10	40	0	0	5	20	100 %

Source: questionnaire, 2023

Based on the above table 4.13 the respondents said that miss management of current asset has impact on service of the bank. According to the above table (4.15) 40% (10) of the respondents said that agree and strongly agree, and 20% (5) of the respondents said that strongly disagree. Therefore the researcher observed that miss management of current asset have impact on service of the bank such as impact on day to day transaction, giving loan to customers, paying debt.

The benefits of managing current asset

Managing current asset has some benefits to the bank and other business companies.

The following are some benefits from the major:-

To determine the liquidity of the bank

For the long term investment

To keep the proper flow of the bank

Table 4.14 benefits of managing current asset

Item	To determine liquidity		Long term investment		Keep the proper flow		If any other specify		
What is the benefits of managing current asset of the bank	No of respondents	%age	No of respondents	%age	No of respondents	%age	No of respondents	%age	Total
	4	16	4	16	17	68	0	0%	100%

Depending on the respondents response 16% (4), 16% (4), 68% (17) and of the respondents managing the current asset have benefits to determine the liquidity of the bank, for long term investment, to keep proper flow of the bank respectively. So the researcher understands that managing current asset has a major benefit by the bank to keep the proper flow of the bank.

4.12 Major factors that affects current asset management

Finally the study attempts to assess factor affecting current asset management in Commercial bank Ethiopia Wolkite branch. The finding of the study indicates that current asset management was affected in various ways. Some of them explained by respondents Percentage as follows

Overall economic conditions

Level of competition in the industry

Risk attitude of the management

Level of working capital

Table 4.15 major factor affects current asset management

Item	Economic condition		Level of completion condition		Risk attitude		Working capital		
What are the major factor that affect the current asset management to your bank	No of respondents	%age	No of respondents	%age	No of respondents	%	No of respondent	%age	Total
	4	16	17	68	2	8	2	8	100%

The above factors suggested as a problem for managing of current asset in the bank's respondents.

depending on the response of the respondents 68% (17), 16% (4),8% (2) and 8% (2) said that level of competition in the industry, overall economic condition, risk attitude of the management and level of working capital respectively are the major factor affecting current asset management. So the researcher concluded that majority of the respondents said that level of competition in the industry is the major factor affecting the current asset management in the bank.

According to the interview with manager of the bank the researchers understand that; important crucial factors under overall economic conditions that affects the current asset of the bank, this are the income of the country and economic level always affects the bank current asset inflation rate when inflation is high bank tend to suffer. This is because inflation tends affect the value currency, economic policy, and exchange rate, if the law and regulation and government policy:-increased regulation typically means a higher work load for people for financial services.

The researcher concluded that the bank use asset liability management (ALM) technique to manage the current asset of the bank. This means that liability management is a mechanism addresses the risk faced by the bank due to miss match between asset and liability either due to liquidity or change in interest rate.

The reason to hold cash for one bank is expressed as follows; - to pay salary and wage, for payment of debt, to pay tax and dividend and customers with drawls. More of the reason to holding cash is for customers with drawls. Therefore the bank has idle cash. Depending from the above reasons the researcher concluded that reason for holding cash in the bank is for customers with drawls as the manager response. This shows that the bank hold the cash for day to day transaction in bank. Therefore the researcher concluded it is better to invest in profitable areas rather than holding cash for day to day transaction only.

CHAPTER FIVE
5. Conclusion and Recommendation

5.1 Conclusion

In this chapter conclusion of the finding were drown and also some possible recommendation were forwarded on the basis of finding of the study. To conclude this study, the data which are collected have been analyzed and interpreted within the boundaries of its constraints. So the issues addressed in this study are shortly concluded in the following presentation.The main objective of this study was to find out the effect of current asset management by making through assessment on effectiveness of the current asset management of the Commercial bank of Ethiopia Wolkite branch. In doing so the study tried to present and analyzed the data that have been primary and secondary source. Based on the finding of the study, the following conclusions were drowning.The analysis of the total disclosed that cash was the major source of current asset among account receivable, short term investment.Concerning the banks current asset management system the bank have a well current asset management system as respondents response in the questionnaire rather than other banks in the banking industry. The bank management system of current asset and this management system have benefits to the bank.According to the data gathered efficiency of the bank current asset management of the branch was efficient.Commercial bank of Ethiopia Wolkite branch gives middle and long term loan to its customers as well as the bank grants guarantee loans so, this is appreciable practices in the bank.The bank has high amount of idle cash for this the bank incurred high amount of opportunity cost due to failing of investing the excess amount in suitable area.Miss management of current asset of the bank has impact on the service of the bank. Most the respondents agree on this idea. So the bank manages its current asset in good manner.

According to the interview the researcher concluded that the bank use asset liability management (ALM) technique to manage the current asset of the bank.This means the ALM is a mechanism to a dress the risk faced by bank due to a miss match between asset and liabilities either due to liquidity or change in interest rate.According to the interview with manager of the bank the researcher concludes that an important crucial factor under the overall economic condition that affects the bank current asset, the incomes of the country and its economic level always affects the bank current asset, inflation rate when inflation is high bank tend to suffer. This is because inflation tends to affect the value of current asset and government policy: -increased regulation typically means a higher work load for people for financial services. The reason to hold cash for one bank is expressed as follows; - to pay salary and wage, for payment of debt, to pay tax and dividend and customers with drawls. More of the reason to holding cash is for customers with drawls. Therefore, the bank has idle cash. Depending from the above reasons the researcher concluded that reason for holding cash in the

bank is for customers with drawls as the manager response. This shows that the bank holds the cash for day-to-day transaction in bank. Therefore, the researcher concluded it is better to invest in profitable areas rather than holding cash for day-to-day transaction only.

5.2 Recommendations

Based on the finding of the study, the researcher would like to forward the following recommendations. The lending policy of the bank is credit standard but some respondents said that the bank use collection policy and term of trade. Changing policy affects customer satisfaction

but this is not sufficient for the bank to say that the bank is profitable so, it is better the bank holds cash for speculative motive that is invested in profitable areas in the banking industry. There are factors that affects the management of current asset of the bank that mentioned by the respondents. Therefore, the researcher recommends it is better to if the bank avoid these factors that are related to the banks to meet vision and mission of the bank to competing with other private bank those solutions are changing the attitudes of banks manager, changing the policy of the bank as needed and also changing the bank's policy as needed.

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WOLKITE UNIVERSITY

APENDEX I

COLLEGE OF BUSSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent

The purpose of this questionnaire is to collect data for requirement for partial fulfillment of B.A degree in accounting and finance in Wolkite university your genuine response for the following question is extremely important for the successful completion of this paper the information provide use for purpose indicate and will be kept highly confident I would like to thank you in advance for your cooperation and scarification of your time.

- Please "circle it" for your choice

PART: ONE

Personal Profile of Respondent

I. Education status

A.Diploma B. Degree C. Masters

II. Work experience

A. 1-4 year B. 5-year C. 9-12year D . 13and E .above year

Part 2 Questions related to the study

1. Does the Bank perform theoretical aspect in to actual cash management?

Practice? 1. Yes 5 2.No 5

2. Does the bank possess idle cash? If yes where dose the bank investee idle cash? Write answer.....

3. What criteria the banks consider to invest its idle cash?

1. Maturity 5 3.profitability5
2. Liquidity 5 4.other 5

4. Did the bank manage its cash a payment and cash receipt properly?

1. Yes 5 2. No 5

5. For how long the bank gives the short term loan?

A. for one-four months□ B. for five-six months□ C. for seven-nine months□

D. For one year E. for above one year□

6. What types of loan does Commercial bank of Ethiopia Wolkite Branch grants to itscustomers?

A. Long term loan B. Middle term loan C. Short term loan

7. What are the lending policies of the bank?

A. Credit standard B. Term of trade C. Collecting policy D. If any other

8. Which principles of collection does Commercial bankof Ethiopia Wolkite branch use to collect its delinquent accounts?

A. Collect the money B. Maintain systematic follow up C. Preserve good will's

D. To get customer to discuss about account

9. Which aspect of receivables management does Commercial bank of Ethiopia Wolkite branch use?

A. Forming credit policy B. Executing of credit policy C Formulating?

A. Forming credit policy B. Executing of credit policy C. Formulating and executing collection policy D. If any other policy specify it……

10. Does mismanagement of current asset has an impact on the service of the bank?

A. Strongly agree□ (if you choice justify it)……

B. Agree□ (if you choice justify it)……

C. Disagree□ (if you choice justify it)……

D. Strongly disagree□ (if you choice justify it)……..

11. What is the benefit of managing current asset of the bank?

A. To determine the liquidity of the bank□

B. For long term investment□

C. To keep the proper flow of the bank□

D. If any other (specify it)…….

12. What are the major factors that affect the current asset management to your bank?

A. Overall economic condition□ B. level of completion in industry □

C. Risk attitude of the management□ D. Length of working capital□

E. If any other factor specify.....