

**ASSESSMENT OF LIQUID ASSET MANAGEMENT PRACTICE: (THE
CASE OF COMMERCIAL BANK OF ETHIOPIA, WOLIKITE BRANCH)**

**RESEARCH SUBMITTED TO DEPARTMENT OF ACCOUNTING AND
FINANCE IN PARTIAL FULFILMENT OF THE BA DEGREE IN
ACCOUNTING AND FINANCE**

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April, 2025,

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Statement of Declaration

This research paper has been accomplished through my own effort on the topic “Assessment of Liquid asset management of Commercial Bank of Ethiopia in Case of wolikite Branch thus; I would like to assure with my signature, that it’ s original; all sources have been properly acknowledge, and not submitted to any other institution.

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Statement of Certification

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ABSTRACT

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

Acknowledgment

Behold, you were with us when we start and never let us alone after we finish .Our God, glory worship, and honor is always to you!!!

We never forget the passion, encouragement and sacrifice of our family to be successful in all our life. We have no words enough to express our confession and gratitude for your contribution. We said thank you, if words are enough to express our respect and your contribution for us.

Our senior essay adviser Mr. **Mitiku (Pr)**, we have got many experiences and knowledge from your intellectual evaluation and feedback of our senior essay. We admire your integrity, cooperation and respectful help provided for us at every stage of the research process. Therefore, thank you so much.

LIST OF ACRONYMS

CBE-	Commercial Bank of Ethiopia
CM -	Credit manager
EPS -	Earning Per Share
FRB -	Federal Reserve Bank
IFC -	International Finance Corporation
NIM -	Net Increase Margin
NOM -	Net Operating Margin
ROA-	Return on Assets
ROE -	Return on Equity

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

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

Liquid asset management refers to abroad area of finance involves the receipt, payment, collection, handling and usage of liquid asset. It involves that the assessing of market liquidity, liquid asset flows and investments in business sector. It also abroad term that covers the number of functions that helps individual and businesses for the process of receipts and payments in an effective and efficient manner (Soyemi, 1989).

The liquid asset management process consists of determining the appropriate target liquid asset balance, collecting, disbursing of liquid asset efficiently, and investing excess liquid asset in marketable security. The determining of appropriate target liquid asset balance involves an assessment of the trade off between the benefit and cost of liquidity. The benefit of holding liquid asset is the convenience in liquidity it gives to the firm. The cost of holding liquid asset is the interest income that the firm could have received from investing in treasury bills and other marketable securities (Stephen, 1999).

Liquid asset management lets companies process and use their money in such a way that they have adequate funds available for regular costs like paying employees. It ensures that the company has some money for the things they did not plan on, such as a higher than expected increase in the cost of materials. In general, small businesses do not always have the ability to obtain the credit they might need. They have to rely on their own money to meet expenses. Being unable to handle these situations puts a company at risk for loss of revenue or in the worst-case scenario, going out of the business (Rose, 1999).

The objective of liquid assets management is to maximize returns while maintaining risk to International Finance Corporation within acceptable levels of all the ensuring that funding for International Finance Corporation (IFC) investments in available as needed, Assets are held

in several distinct portfolios depending up on the held initial sources of funds paid up capital and retained earnings are managed against an immediate bench mark. And likewise, is to deploy the canter's liquid assets in a such a way that prod lent strikes a balance between protecting against loss, ensuring adequate liquidity for day to day operation and investing surplus cash profitability. There are tradeoffs to be made among these objectivities (Owolabi&Ibida, 2012).

1.2. Statement of the Problem

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

One of the major problems of financial institution is improper management of liquid asset, which would have greater impact for the survival of the bank, because of liquidity problem. Loss of profit, unable to fulfil customer demand, and fear to survive. The banks more likely fail due to liquidity problem unable to honour its promise to redeem deposit demand lacks of adequate liquidity is often one of the first sign that a bank is series financial trouble. The Bank begins to lose a deposit, which erodes its supply of cash, and force the institution to dispose fits liquid asset (Rosse, 2003).

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

1.2.1 Research Questions

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

1. What does the techniques used by bank to manage its liquid assets?

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

1.3 Objective of the study

1.3.1. General Objectives

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

1.3.2 SSpecific objectives

- ❖ To assess the policies and procedures of bank in the management of liquid asset.
- ❖ To examine liquidity position, short-term investment, and credits management policies.
- ❖ To examine loan performance, collection rates and liquid asset turnover rates management system of the bank.

1.4. Significant of the study

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

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

1.6. Dissemination

After completion of the paper I put the result to the library as reference for feature researcher who wants to study. In soft copy for the manager of commercial bank in wolikite branch and hard copy for my advisor.

1.7.Limitation of study

Time constraints were one of the limitation encounters in the case of study. Because of this study was carried out during an academic session .secondly, finance was yet another problem that put a check on the extent of investigation. Finally there was a problem of inadequate information and unavailable material relevant to the study.

1.8. Scope of the study

To identify and investigate problems as much as possible that related to the liquid assets management, it requires extensive research, much more time, sufficient information, knowledge and enough money. The study focuses on the assessment of liquid asset management &covers the two year data from **2015 to 2016 E.C.** in commercial bank of Ethiopia Lera branch.

1.9. Organization of the study

The paper is divided in to five chapters. The first chapter highlights introduction of the study..The second chapter consists of related literature review and the third chapter deals about methodology and the fourth chapter presented about data analysis and interpretation. The fifth chapter provides major finding, conclusion and recommendation.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical literature review

2.1.1 Definition of liquid Asset and liquid Asset Management

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

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

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

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

Short term assets securities are securities that brought and solid in the primary or secondary securities market these securities are reaching to maturity within one year and are noted for their low risk and ready marketability, These securities are considered appropriate investment in the liquid asset management non financial bank acceptance and money market mutual fund are suitable as short such treasury bill securities short term or term temporary investment after negative the researcher tribe to see only treasury bill because the restore not applicable in Ethiopia context (neveu, 1985).

Treasury bill: commonly referred to as T- balls are her direct obligations of the state government bill are particularly attractive to bank because of their high degree of safely. Bill are supported by taxing power of the federal governments, their market price are relative stable and they readily marketable bills are issue and trade as discount from their part value without promised interest rate (neveu, 1985).

The minimum purchase size is \$10,000 new issue of T- balls are sold by state treasury and are available in three original maturities 91 days, 185 and 52 weeks other maturities can be obtained by purchasing previously issued t- bill in resale markets. They yield the smallest rate of return among short-term investment because they have no default risk. The short-term manures of T- bill serve to maize interest rate risk (neveu, 1985).

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

Inventory in accounting is an estimate of the appropriate monetary value of the goods to be held by a company. Raw material inventory is the free on board price that is paid during the time of the purchases, while finished goods are the value of the cost of sales or the cost of goods sold. The inventory turnover period is a vital component of the current asset management. It indicates the approximate length of time it takes for products to be sold. A low frequency turnover generally implies a high investment in inventory. If the business is sub-optimal in maintaining products, this was result in financial; resources being held captive in non- productive cases (Danuri and Satoto, 2011). Liquid asset management refers to abroad area of finance involves the receipt, payment, collection, handling and usage of liquid asset. It involves that the assessing of market liquidity, liquid asset flows and investments in business sector. It also abroad term that covers the number of functions that helps individual and businesses for the process of receipts and payments in an effective and efficient manner (Soyemi, 1989).

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liquid asset is the convenience in liquidity it gives to the firm. The cost of holding liquid asset is the interest income that the firm could have received from investing in treasury bills and other marketable securities (Stephen, 1999).

Liquid asset management lets companies process and use their money in such a way that they have adequate funds available for regular costs like paying employees. It ensures that the company has some money for the things they did not plan on, such as a higher than expected increase in the cost of materials. In general, small businesses do not always have the ability to obtain the credit they might need. They have to rely on their own money to meet expenses. Being unable to handle these situations puts a company at risk for loss of revenue or in the worst-case scenario, going out of the business (Rose, 1999).

2.1.2 Importance of liquid asset

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

2.1.3 Control of liquid asset

Liquid asset control is the same as the liquid asset management process, which needs a great focuses because of liquid assets, are the sensitive and significant current assets of the business organization. In addition, it has to prevent from the misuse of the money by the employees and other individual of the organization. Liquid asset control such as cash is used to meet the payment schedules promptly and to minimize the fund commitment on the liquid asset balance (Ross &Jafre, 1999).

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

1. Liquid asset are asset readily convertible into cash. It is easily concealed and transported, and it is almost universally desired. Correct accounting for liquid asset transactions therefore requires that control be established to ensure that liquid asset belonging to the enterprise is not improperly converted to personal use by someone in, or converted with, the enterprise.
2. The amount of liquid asset owned by an enterprise should be regulated carefully so that neither too much nor too little is available at any time.

2.2. Objective of liquid asset Management

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

In addition, a bank must keep enough deposit balances at other banks and the Federal Reserve to cover deposit outflows; or it was be forced to replenish its balances under duress. Owing too few liquid assets potentially creates liquidity problems and increases borrowing costs continued deficiencies are attributed to poor management, which ultimately leads to close regulatory scrutiny and deteriorating business relationships. Fortunately, vault liquid asset needs are fairly predictable local business make regular liquid asset deposits, and bank customers generally withdraw liquid asset at predictable intervals near weekends, holidays, and when they receive their pay checks. Vault liquid asset shortage can be avoided by requesting accuracy shipment from the closest Federal Reserve Bank (FRB) or correspondent bank (Timothy., W. Koch, 1995).

The objective of liquid assets management is to maximize returns while maintaining risk to International Finance Corporation within acceptable levels of all the ensuring that funding for International Finance Corporation (IFC) investments in available as needed, Assets are held in several distinct portfolios depending up on the held initial sources of funds paid up capital and retained earnings are managed against an immediate bench mark. And likewise, is to deploy the canter's liquid assets in a such a way that prod lent strikes a balance between protecting against loss, ensuring adequate liquidity for day to day operation and investing surplus cash profitability. There are tradeoffs to be made among these objectivities (Owolabi&Ibida, 2012).

2.3 .Empirical literature review

According to Keynes (1973), cash is held in companies in order to act as a bridge between the sales receipts and the incurred business costs. In summary, companies was hold a significant cash amount to be able to meet their regular obligations. It therefore, follows that if a firm has a higher ability to manage its cash flows that is the more predictable the better, the weaker the transactions motive for holding cash was be. The transaction motive is mostly applicable to bank as it illustrates the cash holding motives of firms. The precautionary motive is in regards to a firm's ability to provide for unseen expenses and unforeseen opportunities of advantageous gain. Therefore, a firm that operates in a market with volatility was have a higher affinity to be

cautious than a firm operating in a less risky operating environment. Firms also hold out cash for the purposes of speculation. The speculation motive is premised on the case that an increase in interest rates was reduce demands of security and vice versa. Thus, the company was most likely invest its idle cash in securities during the period when interest rates fall. Due to this speculation, the firm was generate additional cash when selling these securities as the prices of these securities was have risen because of anticipated decline in interest rates.

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

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

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

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

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

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

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

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

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

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

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

2.4 Conceptual framework

The researcher believes that this study fulfilled the gap found between the previous study that researched by different and many researchers with in different times.

Therefore, the gap exists because of the following reasons:

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

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

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

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

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

3.2 Data Needed

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

3.3 Data type and Sources

In the study, the researcher used both primary and secondary sources of data. In primary sources of data, the researcher interviews the -manager of the bank. The researcher was interview the manager: (General Manager and credit manager) of the bank who had direct relationships with control system... While in secondary sources of data, the researcher was review the source documents from databases of the bank, which include financial statements and other policies, and procedures of the bank.

3.4. Data collection Techniques and Tools

The researcher used both interview and questionnaires that contain closed- ended and open-ended questions. The open-ended use to clarify the answers gives by respondent in close – ended questions. Structured Interview was arrange from CBE in Wolikite branch. The questionnaire was be prepared in English.

3.5. Target population

The target Population of the researcher are 40 all are employees of CBE in Wolikite branch.

3.6 Sample Size

To conduct a research with a whole employees is time consuming and financially difficult. Taking this factor in to consideration personal judgment was be use to know respondents with require data. Specifically, the judgmental sampling, which used to gather relevant data and give more concern with whose are deemed to be knowledge about the liquid assets management

3.7 Sampling Method/Technique.

In judgmental sampling which used to gather relevant data and give more concern with whose are deemed knowledge about the liquid assets management. So that, sample size of 15 for concerned bodies was be select from total population of employees of 40.

3.8. Data Processing and analysis:

In order to present and analyse the finding, the researchers was have use percentage supported by tables and graphs.

CHAPTER FOUR

4. DATA ANALYSIS, INTERPRETATION AND PRESENTATION

This chapter concerned with the characteristics of sample size, the presentation as well as analysis of data gathered through questionnaire and interviews. The data collected through questionnaire was to be analysed and presented in the table form and it is seems appropriate to interpret each data which are presented in the table, figure and percentage.

4.1. Analysis of Primary Data

A total number of 15 copies of questionnaires were distributed to workers of CBE in wolkite branch . The questionnaire were distributed to 15 employees of the organization and out of 15 copies, 12 copies which is 80% are returned back and analysed and considering 20% non response rate . The data obtained through questionnaires were tabulated, analysed and interpreted by using table and percentages as given below.

4.2 Personal background of respondent

Table4.1 Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	9	75	75	80.8
Valid Female	3	25	25	19.2
Total	12	100.0	100.0	100

Source:-questionnaire result

As shown in table 4.1 above from, respondent of 15, 9 are males and 3 are a female which means the males take the majority number. In a majority such that 9(75%) of the respondents were male and 3(25%) of respondents were female. From this analysis the researchers recognize that the numbers of male workers were greater than number of female workers by more than half. This implies, more than half of the organizational work was performed by male workers.

Table 4.2 Age of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
18-25	4	33.33	33.33	33.33
26-35	5	41.67	41.67	75
Valid 36-45	2	16.67	16.67	91.67
Above 45	1	8.33	8.33	
Total	12	100.0	100.0	100

Source:-questionnaire result

As can be clearly seen the table (4.2) above questionnaire indicated that out of 12 respondents, 4(33.33%) of the respondents were placed in the age (18 – 25), 5(41.67%) of the respondents were placed in the range of 26 – 35 years and 2(16.67%) of the respondent were placed in the age of 36_45 years and 1(8.33%) of the respondent are above 45years.

This implies that, respondents with age between 26-35 are greater in number in organization and this age results profitability in the organization since they are matured.

3. What is your position in the bank?

From the 12 of the sample size, (3) of the respondents are from Teller,(2) of the respondents are from Accountant,(2) of the respondents are from the accountant clerk I, (1), (1) of the respondent are from Cashier and Auditor respectively and likewise, (2), (1) of the respondent are from Journal keeper and Loan office respectively. This implies that, even if ,there is segregation of duties in the commercial bank of Ethiopia in Lera branch, by avoiding putting of employees in position of excessive trust and responsibility, there is problem regular training of employees.

Table 4.3 Level of educational

	Frequency	Percent	Valid Percent	Cumulative Percent
Degree	10	83.33	83.33	83.33
Valid Master	2	16.66		
Total	12	100.0	100.0	

Source: Questionnaire result

As it is indicated in table (4.3), from this researchers recognize that the majority of the workers are degree holders 10(83.33%) and 2(16.66%) are Master. This insures that, most of the employees are Degree holders, but there is lack of feeling responsibility among them.

4.3 General information of edition.wolikite branch

Table 4.4 Does your organization face any major problem regarding to manage Liquid asset?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	12	100.0	100.0	100.0

Source:-questionnaire result

As shown in table 4.4, above for question #1 concerning problems observed with liquid asset management, 12(100%) of the respondents replied that (Yes). This implies that, there is problem of liquid asset management in the organization that needs careful assessment..

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Lack of proper management	8	66.66	66.66	66.66
	Lack of regular training for the workers	2	16.66	16.66	83.26
	Lack of feeling responsibility	1	8.33	8.33	91.59
	Other if any	1	8.33	8.33	100.0
	Total	12	100.0	100.0	

Source questionnaire result

On table 4.5 ,those problem ,8 (66.66%) of the respondents said that lack of proper management are the major problem.2(16.66%) of the respondent said that lack of regular training for the workers for employees on regular basis was one of the problem that they observed, 1(8.33%) of the respondents responded that lack of feeling responsibility on their work was one of the serious problem that observed in managing liquid asset and 1(8.33%) of the respondents responded that not followed rules and regulation of the organization was also another problem that they observed in liquid asset management. This indicates that, major problem of the organization in liquid asset management is lack of proper management.

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

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Using clear policy and procedure	10	83.33	83.33	83.33
	Hiring experienced personnel on regular time	2	16.66	16.66	100.0
	Total	12	100.0	100.0	

Source:-questionnaire result

On table (4.6) for question #3 the solution to the above problems, 10(83.33%) of respondents responded that to tackle the problem observed above the organization should use clear policy and procedure as well as possible and 2(16.66%) responded that to hire experienced employees should be needed to express. This implies that, clear policy and procedure is the major solution to solve problem that arise in the organization mentioned above.

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

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

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

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

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

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

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

	Frequency	Percent	Valid Percent	Cumulative Percent
Consolidation principle	3	25	25	25
Valuation of Asset and Liability	9	75	75	100.0
Total	12	100.0	100.0	

Source:-questionnaire result

As it indicate in the table (4.7), 3 (25%) of the respondents responded that consolidation principle, because consolidated financial statements incorporate the financial statements of the Bank and of its subsidiaries for the year ended. 9(75%) majority of the respondents responded that Valuation of asset an liquidity. This implies that, the proper policy and procedure for controlling overall liquid asset is valuation of asset and liability are the major one.

Table 4.8 does your organization uses ration analysis tool evaluating and decision making with regard to Liquid asset management?

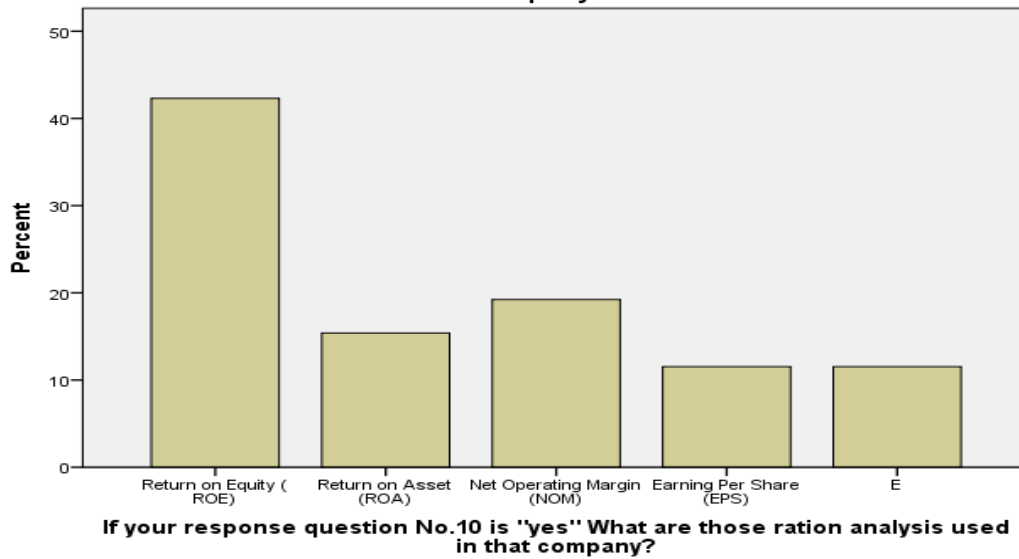
	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	9	75	75	75
Valid No	3	25	25	100.0
Total	12	100.0	100.0	

Source:-questionnaire result

Based on the above figure (4.8), the bank was prepared and takes responsible at the end the majority of the respondents that is 9(75%) were said that the bank uses ration analysis tool for evaluating and decision making with regard to liquid asset management. The remaining that is 3(25%), said the banks does not use ration analysis tool for evaluating and decision making with regard to liquid asset management. From this the researcher conclude that,the organization used ration analysis tool to evaluate and make decision regarding liquid asset management.

Figures 4.8If your response question No.2 is "yes" What are those ration analysis used in that company?

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



Source:-questionnaire result

On the figure above (4.8) for question #10, 5(41.66%) of respondents responded that the bank used Return on Asset of ratio analysis tool, 2(16.66%) responded that the bank used Return on Equity of ratio analysis tool , 3(25%) of respondents responded that the bank used Net income margin of ratio analysis tool , 2(16.66%) of respondents responded that the bank used Net operating margin of ratio analysis tool ,and the remaining 3(11.5%) of respondents responded that the bank used Earning per share of ratio analysis tool. From this, the Researcher concludes that, the most ratio analysis used by the organization is return on equity mainly because of its flexibility. It is also benchmark of the company, followed by net operating margin and the rest are few percentage used by the organization.

4.4 Qualitative analysis

4.4.1. Results of Structure Interview

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

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

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

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

According to the response of commercial bank of Ethiopia manager in Lera branch, The illiquidity of Earning Asset: such as loans, is income yielding but they are illiquidity since they cannot instantaneously be converted into cash without loss of time and value and hence are riskily.

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

According to the response of commercial bank of Ethiopia in Lera branch ,granting excess loan to customer and that customer not returning it at the appropriate time, bank start losing its liquidity position is the one of the major problem, it clearly affecting the operational aspect of the bank and when loan is unpaid timely its lead to liquidity crisis and affect short term investment and eventually affects its profit .

4.5. Analysis of secondary data

As mentioned in chapter three financial data of the organization from the period of 2007 to 2008 were collected. From the Annual report of the organization both actual and planned are collected by researchers to assess whether the organization properly used, not used, liquid asset management in proper way.(see table 4.2.1)

The actual and planned assessment of 2015 and 2016 of the bank is analysed in the following balance sheet.

Balance sheet of the bank

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

The actual and planned assessment of 2007 and 2008 of the bank is analysed in the following balanced sheet.

Commercial bank of Ethiopia

Balance sheet

For the year ended June 30,2015

Assets	Actual	Planned	Variance	
Cash balances with banks	209,075,620	203,687,620	5,380,000	Favorable
Reserve with NBE	63,223,893	580,896,215	4,324,678	Favorable
Foreign bank deposit	35,522,0893	343896215	11324678	Favorable
Loan and advances	96,1027,335	935,652,253	25,375,082	Favorable
Stock of supplies	4,729,112	4,360,685	368,427	Favorable
Other assets	18,104,786	15,859,796	224,499	Favorable
Deferred changes	2,451,714	2,266,775	184,939	Favorable
Fixed assets	26,022,495	22,568,000	3,455,495	Favorable
Total assets	1,639,853,814	1,587,187,559	52,666,255	Favorable
Liabilities deposit from customer	125,005,475	1,213,321,868	21,683,605	Unfavorable
Other liabilities	68,455,699	60,312,250	8,143,449	Unfavorable
Deposit from financial institutions	87,773,518	83,677,815	4,095,703	Unfavorable
Margin held on letters of credit	43,683,699	39,742,532	941,167	Favorable
Provision of or profit tax	16,583,630	14,224,186	2,359,444	Unfavorable
Total liability	1,451,502,019	1,411,178,651	40,223,368	Unfavorable
Capital and reserve				
capital	112,384,000	10,8943,260	3,440,740	Favorable
Share premium	22,556,350	21,682,260	87,375	Favorable
Legal reserve	28,162,621	27,568,386	594,231	Favorable
Special reserves	3,657,722	3,535,998	91,724	Favorable
Retained earnings	41,891,897	40,260,440	1,631,457	Favorable
Total capital and reserve	188,351,795	175,908,908	12,442,887	Favorable
Total liability, capital and reserves	1,639,853,814	1,587,187,559	5,266,255	

Annual report

Commercial bank of Ethiopia

Balance sheet For the year ended June 30,2016

Assets	Actual	Planned	Variance	
Cash balances with banks	318,670,756	27,4495,651	44,175,105	Favorable
Reserve with NBE	94,388,526	8,5642,506	8,746,020	Favorable
Foreign bank deposit	248,294,591	20,8957,647	39,336,944	Favorable
Loan and advances	1,516,839,343	1296535774	220,303,569	Favorable
Stock of supplies	5,797,315	5,112,625	684,690	Favorable
Other assets	50,547,074	45,688,320	4,858,754	Favorable
Fixed assets	25,006,916	21,216,817	3,790,099	Favorable
Total assets	2,259,644,521	1,937,649,340	321,995,181	Favorable
Liabilities deposit from customer				
Deposit from customers	153,0944,846	1,281,410,567	249,534,279	Unfavorable
Deposit from financial institution	247,473,182	243,882,658	3,590,524	Unfavorable
Other liabilities	118,428,665	109,345,785	9,082,880	Unfavorable
Margin held on letters of credit	84,661,826	42,683,699	41,978,127	Favorable
Provision of or profit tax	23,367,734	20,385,412	2,982,322	Unfavorable
Total liability	2,004,876,253	1,697,708,121	307,168,132	Unfavorable
Capital decrease rues				
Paid up capital	14,7605,000	143,893,350	3,711,650	Unfavorable
Share premium	2,670,300	2,507,495	262,805	Unfavorable
Legal reserves	45,878,375	39,834,732	6,043,643	Favorable
Special reserves	5,367,333	5,125,413	241,920	Favorable
Retained earning	53,147,260	48,625,329	4,521,931	Favorable
Total capital and reserves	254,668,268	239,946,219	14,682,049	Favorable
Total liabilities capital and reserves	225,9544,521	1,937,649,340	321,850,181	

Annual report

From the above balance sheet budget year of 2007 and 2008, we can understand that the total asset has shown as an increment of 3.3% over the budgeted year of 2007 and also in 2008 the

balance sheet budget has shown an increment of 16.6% over the budgeted. The total asset of the bank increased from birr 1.6 billion to birr 2.3 billion showing a 40% growth, during the fiscal year under consideration, mainly as a result of an increase in loan and advances, where the volume of economic loans reached 1.6 billion, registering a close to 60% increase over that of the preceding fiscal year (birr one billion). Likewise, aggregate deposits increased from birr 1.3 billion to birr 1.8 billion, registering a growth rate of 3.8% over the preceding similar period.

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

CHAPTER FIVE

5. FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Major Findings

The main objective of data which were collected from the primary and secondary source were analysed and discussed by using percentage and descriptive statements. The data were collected from respondents and information obtained from secondary source that are from two year financial statement. The study has come up with following findings, and conclusions presented sub heading, which are target area of the study.

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

- There is problem of liquid asset management in the organization.
- illiquidity of earning asset is the major problem that the bank face in liquidity position.

- The bank does not have good loan authorization procedures and control mechanism.
- The other problem faced by the bank is the mismatch between time given to customers and time customer turnover is the major problem that the bank faces in liquidity position and credit management procedure.
- The bank use ration analysis tool such as return on asset, return on equity, net interest margin, net operation margin and earnings per share in order to rate its profitability .

5.2 Conclusion

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

- There is problem of liquid asset management in the organization. Regarding proper management, regular training for the workers, feeling responsibility is the major problems that face the organization.
- The major earning of the bank is mainly from interest and extended loan. The bank has its own regulation and control over the loan. Based on this the management of the bank decides whether to extend loan to customer or not with eligible criteria
- There is segregation of duties in the commercial bank but till there is problem of personal responsibility.

- The organization used ratio analysis tool to evaluate and make decision regarding liquidassetmanagement. ..
- The organization examine its loan performance collection rate and liquid turnover rate of individual person receive loan starting from the date, the organization receive interest monthly based on interest rate increase bank profitability, it examine regularly by using credit managers and credit offices in well manner and through proceed with interest management.
- The most technique that the organization used to manage its liquid asset are by expanding cash issue centre in a well manner, by using lock box service involve the use of special post office box, by indentifying employees who control only the organization asset without additional worker and by write code on every asset and sorting.

5.3 Recommendation

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

- For banks, it is better to solve major problems regarding management of liquid asset by using clear policy and procedure, evaluating activities and hiring experienced person on regular time.
- It is advisable to broaden its liquid asset management techniques by adopting another method in addition to expanding cash issue center like using lock box service involve the use of special post office box, by indentifying employees who control only the organization asset without additional worker and by write code on every asset and sorting.
- The bank had better to implement clear and effective control system on liquid assets by improving the collation policy and procedure practice to make transparent.
- The bank had better to search for well trained and experienced financial and credit manager who can critically analysis the credit risk and opportunity cast to be incurred in order to make the bank more effective and efficient.
- It is advisable to hire well experienced workers in order to achieve the organization goals and objective to have effective and efficiency utilization of budget.

- It is advisable not to restrict the extension of loan services with in some branches. It should make available at all branches with limitation. Hence, based on their sizes and the complexity of their transactions.
- It is better to examine its loan performance collection rate and liquid turnover rate by using credit managers and credit offices in well manner and through proceed with interest management.
- It is better to provide major loan service to Domestic trade and service, because it reduces foreign currency and inflation and this result appreciation of domestic firms.
- It is advisable to use ratio analysis of return on equity mainly because of its flexibility and it is also benchmark of the company, followed by net operating margin.
- It is better to narrow the mismatch between time given to customers and time customers turn to reduce problems that the bank faces in liquidity position, short term investment, and credit management procedure.

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APPENDIX
WOLIKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent:

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

General (personal) information

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

5. does your organization face major problem regarding to management liquid asset? Yes
No

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

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

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

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

Yes No

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

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

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

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

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

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

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

Commercial bank of Ethiopia

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Capital and reserve				
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Retained earnings	41,891,897	40,260,440	1,631,457	Favorable
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Total liability, capital and reserves	1,639,853,814	1,587,187,559	5,266,255	
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Annual report

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Paid up capital	14,760,000	143,893,350	3,711,650	Unfavorable
Share premium	2,670,300	2,507,495	262,805	Unfavorable
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Total liabilities capital and reserves	225,9544,521	1,937,649,340	321,850,181	