WORKING CAPITAL MANAGEMENT PRACTICES AT CURTAIN PLAZA LIMITED, KUMASI.

BY

DAVID AMANKWAAH (BSc, ACCOUNTING)

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DECLARATION

I hereby declare that this submission is my own work and that to the best of my knowledge, it contains no materials previously published by another person or material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

David Amankwaah	....	....
(PG 9648913)	Signature	Date
(Student‟s Name & ID)		

Certified by:

Mr. Kwasi Poku	....	....
Supervisor‟s Name	Signature	Date

Certified by:

Dr. K. O. Appiah	....	....
Head of Dept, Name	Signature	Date

DEDICATION

This work is dedicated with all my love to the most high God for His grace and favour, my father Daniel Kofi Asare for his continuous encouragement, my lovely wife Linda Bonsu Sraha for her support and love, last but not the least my four beautiful children; Helena Addobea Asare, Loretta Asare, Amy Amankwaah Asare and Daniella Afia Asare for their love.

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ABSTRACT

The main thrust of this study is to unveil the working capital management practices of Curtain Plaza Limited, Kumasi. A well designed and implemented working capital management is expected to contribute positively to the creation of a firm‟s value. The study used the case study and descriptive analytical approach for the representation and the analysis of the findings. The company deals in Curtain fabrics, Upholstery, Blinds and Carpets of all kinds. The study revealed that the company has no debtor policy but grants credit sales to its customers. Discount of 10% is offered to all customers based on the quantity of purchase.The study revealed that company does not maintain cash till system so cash made on a daily basis is deposited at the bank. The company finances both long term and short term projects with its cash.The study revealed that the company adopts a „no credit‟ policy in relation to purchases. The company currently does not borrow to finance its long term and short term investments but uses its cash. The trade payables of the company are relatively low. However, the study revealed that

negotiations are far advanced between the company and its banker to access 90 days letter of credit. The study also revealed that the company manages its inventory using the Quick books software. The company rarely experiences stock pile of inventory. The company maintains a re-order level policy of 30% for all products. The study revealed that the major challenge of inventory management is the inadequacy of the warehouse facility which does not allow for categorization of the inventory. Incidence of pilferage is at its minimum. It is recommended that the company should organize periodic training and development sessions for its employees to update the technical know-how of the employees. The company must identify its investment priorities which will sustain the company in the long term and invest in such areas.

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CHAPTER ONE

1.1 BACKGROUND OF THE STUDY

Both over the top and lacking working capital are destructive to key intensity of little and medium estimated endeavors, consequently living up to expectations capital should be kept up at a fitting size.

A nation's aggressiveness is accomplished through amassing of people firms' key intensity in the worldwide economy. Key aggressiveness is accomplished when a firm effectively plans, and executes a worth making methods (Hitt et al 2005)

Key intensity of a SME requires viable budgetary administration and in addition to other things fitting administration of both-long haul and transient trusts; long haul stores are obliged to make creation offices through buy of altered resources, for example, land, plant and hardware, enhancement and extension of business,
innovative work, structures, and so forth. Interests in these benefits speak to that part of industry's perpetual financing. Stores are additionally required for brief time reason for the obtainment of crude materials, installment of wages and other regular running cost. These stores are known as living up to expectations capital. The prerequisites for working capital may shift from industry to industry contingent on its business, size of operation, terms of credit, creation strategy, occasional variety, assembling procedure and so on (Kakuru 2007). The need to put resources into working capital steams from the yearning of any business to create enough products and administrations in an auspicious way in order to address business issues. Working capital alludes to the brief while limit that empowers the business to work the long haul resources on regular schedule with a specific end goal to deliver fancied merchandise and administrations (Kakuru 2007).

In the expressions of Khanka (2008) working capital is that sum which is obliged to do the normal operation of a venture whether enormous or little. It might likewise be viewed as that which divides the undertaking's aggregate capital, which is utilized in its fleeting operations.

Working Capital can be described as gross or net. The former alludes to a firm‟s interest and activities regarding its non-fixed assets whereas the latter focuses on the contrast between the organization‟s current resources and current obligations. These two divisions of working capital are not elite; rather both have risen to criticalness from the administration perspective point (Pandey 2007).

Working capital alludes to the association's interest in fleeting resources in particular money, receivables, transient securities, account receivables (indebted individuals) and inventories in crude materials, work in advancement and stock in completed merchandise (Kitty 2006)

Working capital is the capital that supervisors can promptly give something to do to create the advantages of capital venture (Frank & Pamela, 2003).

The achievement of any business relies upon how it deals with its assets and most organizations want for achievement and development. These assets incorporate working capital in type of money and other current Assets, among others. A monetary execution level displayed in many ventures is not acceptable. Regardless of the attempt to keep up a decent meeting expectations capital by administration, there still exist declining levels of working capital in type of insufficient money inflow, which can't maintain day-by-day money needs of the branch. This thus has prompted wasteful customer fulfillment in a manner that a low level of working capital in type of money receivables makes it hard to meet transient obligation commitments and working costs.

Poor working capital, especially restricted liquidity, over the long haul causes poor money related execution for the business, as it can't without much of a stretch pay off banks. Along these lines, it is upon this wastefulness that the analyst means to inspect working capital practices utilized at Curtain Plaza Limited and how these practices influence the beneficial operations of the firm.

1.2 STATEMENT OF THE PROBLEM

Most research works on sources of corporate funds have generally sought to focus on longstanding capital decisions. Scientists‟ often offered research works dissecting ventures, major sources of finance, profits and organization‟s worth, among different points. In any case, the speculations of most firms create in short-term resources, and the assets which are used within a year, form majority of the components on a company's financial position. Working capital administration is imperative as a result of its impacts on the company's gainfulness and hazard, and thus its worth (Smith, 1980). From one viewpoint, stocking greater level of inventory to some extent minimizes operation interferences which largely results from difficulties in obtaining raw materials. The offer of trade credit, on the other hand, impacts positively on a firm‟s sales in two main ways.Trade credit represents a viable value-cut according to Brennan, Maksimovic and Zechner, and Petersen and Rajan, which entices clients to purchase stock usually in periods of low stock demand, afford customers the time to cross check goods delivered with respect to quantity and quality requested (Emery,

1987), and more importantly to affirm the organization‟s commitment to delivering services required by customers (Smith, 1987), and supports firms to reinforce everlasting relationships with their clients (Ng, Smith and Smith, 1999).

Choices of the amount of resources to put into the client and stock records, and an acceptable credit level from suppliers, usually, are depicted in the company's operating cash flow, which technically looks at the period of time, on average, between payments to creditors (suppliers) and receipt of cash from debtors (trade credit). Some past studies have utilized this measure to break down whether there is any impact on firms‟ productivity if these firms‟ shorten their operation cycle.Most research studies have sought to identify the link between operation cycle of a firm and its worth. Typical of such studies is one conducted by Soenen and Shim in 1998 which focused primarily on listed companies on the American stock exchange trade between the years 1974-1994. Their outcomes demonstrate that decreasing the money transformation cycle (operation cycle) to a sensible degree builds firms' gainfulness. In line with the above study, Deloof in(2003) obtained similar results when he extensively studied selected firms in Belgium over a period of four (4) years. In addition, Deloof observed that firms that do not benefit are those one who hold more cash to meet their liabilities. These past research works focused more on large corporations than smaller ones. Nonetheless, administration of non-fixed resources and obligations is especially critical on account of little and medium-sized organizations. The greater part of these organizations' benefits are as present resources. Likewise, obligations which are short-lived represent one of the fundamental avenues of „outside‟ funding based on the fact that securing long term

funds may prove futile according to Petersen and Rajan, and the funding impediments they are exposed as expressed by Whited, Fazzari and Petersen. In that vein, Elliehausen and Woken, and other researchers have demonstrated that most SMEs in the United State result to vendor funding sources when liquidity issues are imminent. In this manner, productive working capital administration is especially essential for little organizations (Peel and Wilson, 1996). Significance of successfully overseeing working capital can never be exaggerated. The survival of each business, expansive and little, is decidedly connected to administration of its working capital; it is consequently that the researcher embraces this research work.

1.3 OBJECTIVES OF THIS STUDY

The general research objective is to investigate the working capital management practices at Curtain Plaza Limited. This will be addressed through the unlisted sub objectives.

- To examine the inventory management practices on going at Curtain Plaza Limited
- To assess cash management practices adopted by management of Curtain Plaza Limited.
- To identify credit management practices employed by management of Curtain Plaza Limited
- To examine the debtor management practices at Curtain Plaza limited.

1.4 RESEARCH QUESTIONS

- What are the inventory management practices that Curtain Plaza Limited employs to manage working capital?
- What are the cash management practices that Curtain Plaza Limited employs to manage working capital?
- What are the credit management practices employed at Curtain Plaza Limited to manage working capital?
- What debtor management mechanisms are implemented at Curtain Plaza Limited?

1.5 SCOPE OF THE RESEARCH

The study covers working capital management practices at the Kumasi branches of Curtain Plaza Limited.

1.6 JUSTIFICATION OF THE RESEARCH

This study aims at contributing to existing knowledge on working capital management. However, this research particularly seeks to draw the attention of Government, NBSSI and other stakeholders on contemporary issues regarding SME‟s management of working capital which lower the profitability of such ventures.

More importantly, the result of the study will serve as a blue print for Curtain Plaza Limited drawing the attention of management to proper and efficient working capital management techniques which will improve the overall efficiency and profitability of the firm.

1.7 PRESENTATION OF THE SUDY

The first chapter of the study presents an initial overview of the entire research work. It covers critical areas such as the objectives of the research, research questions, and relevance of the research as well as limitations associated with the research.

The second chapter of the study focuses on the review of relevant literature and concepts on working capital management practices employed by small and medium scale enterprises.

Further, the third chapter of the study presents methodology and the profile of the case of study. It covers areas such as population and the sample, sample size and the sampling technique, data collection and analysis methods among others.

The fourth chapter of the study analyses and discusses the findings of the study. Key inference will be made from literature reviewed in chapter two.

The last chapter of the study (chapter 5) presents the summary, conclusion and recommendation of the entire research study.

1.8 LIMITATIONS OF THE STUDY

Major drawback of this research rests largely on the time period for which this project had to be completed.

Most of the respondents, initially misjudged the researcher to be a government official therefore,were reluctant to provide the necessary information needed to complete the research.

Energy challenges within the country resulting in frequent power outages caused a major delay in the analysis and presentation of this study.

These challenges however did not prevent the researcher from gathering relevant data to ensure accuracy of findings obtained.

CHAPTER TWO

2.1 INTRODUCTION

The funds needed by every business organization can be grouped comprehensively into long term funds and short term funds. The former is essential for the securing of long term resources. Fixed or long term resources constitute of fundamental tools of the methods for production. Venture in fixed resources independent from anyone else is dead venture and the funds so bolted up do not flow consistently. Each business organization obliges a few funds to bear on its operations and to create products available to be purchased to gain benefit. These funds, which are signified by the present capital, utilized through the different steps of distribution and production and are invested into Current Asset.

The management of Working Capital is in no way, shape or form a simple undertaking however introduces stimulating difficulties to the budgetary official. It obliges his/her steady consideration and activity of expertise and judgment through awareness of business on attention to economic patterns and knowledge with the capital market. The management of Working Capital calls for cautious deficiency cash flow budgeting taking into account sound operating budgets variance analysis at consistent intervals, watchful control of credit and collection period the correct treatment of stock. It additionally calls for sensible offering of funds not generally utilized and fitting utilization of banks advances to back seasonal prerequisites of the business or for its development arranging. The investigation of Working Capital management involves an imperative place in financial management. It has never gotten such a great amount of consideration as lately. Working Capital management is an essential piece of general corporate capital.

The management of current assets and current liabilities has been viewed by many as the most essential duty of the finance officer. Reserve Bank of India has made a study of 1930 organizations amid 1996 and 1997 and introduced its decision. According to its study an average 45% of the aggregate capital venture of these organizations is in Working Capital. In the industries like Tea, Rubber, Coffee and so forth the average ratio of Working Capital is around 60% to 80% and in the Electricity and Engineering industries their ratio is around 40%. As per the perspective purpose of financial decision Working Capital is said to be a critical viewpoint. The above audit proposes that reasonable management of SMEs‟ current assets and liabilities is imperative to the success of such firms, which serve as the engine of economic development. Along these lines an audit of SMEs and their significance in an economy is just as vital as working capital.

2.2 DEFINITION OF SMEs

Attempt to understand the definition of SME can sometimes be frustrating due to the fact that SMEs have been widely defined by many. Many attempts, over the years, have been directed at characterizing what an SME is. Many writers and other stakeholders have utilized a great deal of basis including; worth of the company, industry density, total workforce, products‟ worth, annual revenue and total assetsCochran 1981.

On the other hand, these bases fluctuate extensively. Meaning of SMEs in this way varies significantly from nation to nation. The characterization is in the light of enterprise‟s total assets, workforce, or annual revenue.

In Ghana, the National Board for Small Scale Industries (NBSSI) characterizes SMEs to be ventures which utilize at most twenty-nine laborers with a net asset not surpassing Gh₵ 10 million.

Nevertheless, Osei et al (1993) characterize small-scale ventures into three (3) groups namely: small businesses that employ less than six individuals, enterprises that accommodate between six-nine individuals and those which accommodate ten and twenty-nine employees. For the purpose of importance, the Statistical Department of Ghana (GSS) refers to firms accommodating less than ten (10) workers as SME.

Further, UNIDO also uses the size of an enterprise‟s workforce to define it as either being an SME or not. This definition however, is in respect of Country understudy;

whether industrialized or less developed (Elaian 1996). According to UNIDO, for industrialized nations, large enterprises are those with a workforce of 500 or more. Similarly, enterprises with a workforce size of between 100 and 499 are described by UNIDO as medium sized ventures whereas small sized ventures are those entities with a workforce size of up to 99.

For nations that are developed UNIDO provides these definitions as: ventures with a workforce size of 100 or more are large firms, with medium sized ventures and small sized firms having a workforce size of 20 to 99 and 5-19 respectively. UNIDO also describes firms with less than 5 employees as micro small ventures. Pobosky (1992) additionally watch that various varieties of criteria can be connected in characterizing SMEs which incorporate the extent of the workforce (laborers) or capital, types of management or proprietorship, production systems, volume of sales, number of customers, level of vitality consumption and others. Option criteria utilized, as a part of characterizing SME's is the estimation of fixed resources in the organization.

However NBSSI in Ghana considers the long term resources and workforce size criteria in defining what an SME is. It characterizes SMEs as businesses having up to nine workers with a total asset base of at most Gh ₵10 million.

Research ICT Africa (2007) characterizes small and medium enterprises (SMEs) as a business entity having fewer than fifty workers as prescribed by the African Development Bank (ADB).In Australia, the Wiltshire Committee (1971) characterizes SMEs as a business in which maybe a couple persons are obliged to settle on all the critical management choices: accounting, work force, buying, handling or administration, advertising, finance, offering, without the guide of internal specialist and with particular information in one only or two practical areas. The 1985 UK

Companies Act characterizes small organization in admiration of functional related revelation as organizations utilizing 50 or fewer workers. Whatever the definition and paying little heed to the extent of the economy, the development of the SMEs all through the nation is vital to its economic development.

From the various definitions above it can be said that there is no unique definition for small and medium scale enterprises.

2.3 IMPORTANCE OF SMEs IN DEVELOPING COUNTRIES

On the planet today, Nwosu, 1981, hassles that across the board acknowledgment the capacity of any national economy to adjust to change and to proceed with economic progress is enormously upgraded if there is a proceeding with development of new products and new employment creation by small scale enterprises. Proprietors of small scale have been in presence everywhere throughout the world, since the time that exchange by bargain started. They have been obliging themselves to their circumstances and chances of their times and places, extending the expansive string of their business issues from century to century. In the progressive nations it was basically the skilled worker who offered pedigree to today's producer. Allal and Chuta (1982) emphasis that given the vast number of little scale enterprises in both the urban and rural zones, it is clear that the small scale enterprises division gives significant job chances to the banquet of the rural and urban region. There is clear and undisputed proof that in a number and extensively based small enterprise sector is a crucial element for the economic flourishing, flexibility and inventive development (McCarthy, 1989:24). Small scale enterprises are a good source of private employment and even for some public laborers as they offer valuable income supplement as a second job (Sowa et al .1992). The small scale enterprise offer the large scale sector amid goods and services at very low prices, which makes it possible for large scale sectors to make high profits.

Different writers are of the perspective that small-scale ventures assume a vital part in the economies of developing nations. The historical backdrop of Ghana totally affirms that the small-scale enterprise sectors has aided in the nation's industrialization process. Kellick (1978) states that endeavors by Ghana to accomplish full employment via the public investment in large scale industries could not accomplish the actual results. Proof has demonstrated that small and medium enterprises (SMEs) in Ghana throughout the years have contributed significantly to the general employment and production of services and goods. As indicated by Abor and Quartey (2010), small and medium enterprises gives 85% of manufacturing employment, contribution around 70% to Ghana's Gross Domestic Product and records for around 92% of organizations in Ghana. The significance of finance in advancing the development of small business has been recognized in former studies on small business development and advancement (Abor&Biekpe 2006, Kasakende, 2001).

Different studies have distinguished finance as the most critical limitation to the development in the small business sector (Aryeetey et al, 1994, Steel and Webster 1992, and Sowa et al, 1992).

Mead and Liedholm (1998) also in their study of the problems of small –scale business in Africa identified lack of demand and shortage of working capital as the main reasons for small businesses closure in Africa. This study defines SMEs as firms employing between 20-99 employees.

2.4 WORKING CAPITAL MANAGEMENT OF SMEs

The development of the SME sector is imperative to success of any nation"s economy as these SMEs have been characterized as the engine of growth. The role of SME in every economy"s output is huge. The activities of SMEs move extensively across both urban and rural areas and hence can never be over emphasized. As emphasized by Abor and Quartey (2010), "SMEs contribute about 70% to Ghana‟s Domestic Product and accounts for about 92% of businesses in Ghana". Further, they stressed that these SMEs serve as a source of employment contributing about 85% to the manufacturing sector. Similarly, studies by Berryman (1983) showed that "a firm‟s ineffective management of its current assets and current liabilities is a high determinant of SME collapse. Ching Hank Kee and Chang Zeph-Yun (1986) affirmed these findings when they voiced that "management of a firm‟s liquidity has an impact on the success of an SME". Many other researchers have sought to reveal the many causes of SMEs‟ failure. Among these are study‟s conducted by Dogbe et al (1994) which revealed that low levels of liquidity, ineffective management of cash flow and stock level control are key contributors to SME failure, Insolvency Practitioners

Society (CIMA, 1994), which also showed that incidence of bad debt and ineffective management of debtors contributed to SME failure, as well as studies by Mead and Liedholm (1998) which identified that low levels of demand and capital base represents major problems which usually lead to failure of SMEs in Africa.

In this light, Peel and Wilson (1994), emphasized that the management of current assets and current liabilities of SMEs is more challenging thus important relative to management of Working capital in large organization. This is so due to the fact that SMEs are characterized as having little or no financial skill. They further revealed working capital management practices among SMEs as follows:

- Greater dependence on credit purchase and overdraft facilities as short term funds

- Willingness to grant over generous credit terms to obtain business, particularly from large companies
- Loopholes in internal control systems
- No strategic policy on working capital management

Atrill (2006) revealed that SMEs lack the ability to manage their current liabilities and current assets and this has resulted in the rampant collapse of most SMEs relative to large businesses. Again he observed that most of these SMEs have little or no resources to effectively manage their debtor. In this sense, it is clear that SMEs do not have the requisite personnel and records to carry out an effective appraisal of it sales and debtor levels. This exposes these SMEs to high risk of default. Atrill (2006) argues that "lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way".

2.5 CONCEPT OF WORKING CAPITAL

"Working Capital management can be explained as the management of Current Assets and how these assets are funded. An enterprise needs fixed capital as well as Working Capital. The Working Capital is the capital expected to direct the normal operations of a business. Working Capital is a border term; thusly in the financial and accounting world the term Working Capital is regularly misconstrued. There is by all accounts no unanimity in the idea of Working Capital amongst its clients. It either needs right comprehension or maybe the clients, absence of consistency in the utilization of this term. This is a built up truth in light of the fact that Working Capital is not demonstrated in record shape in the financial statement. Because of the difference some financial related specialists are of the perspective that it better to keep away from the development of Working Capital all together".

According to several experts in the field of finance accept that the term Working Capital may be defined on the basis of two concepts as follows:

(1) Net Working Capital.

(2) Gross Working Capital.

Net Working Capital is the difference between Current Asset and current liabilities, while gross Working Capital is the amount of funds invested in Current Asset that are employed in the business process. From management‟s view „Gross Working Capital‟ is of paramount interest as it not only shows firm‟s credit worthiness but is based on going concern concept. It is these assets that financial managers are concerned with if they are to bring productivity from other assets and to realize the greatest return on investment. Management has to pay attention to the total amount of Current Asset and their profit earning capacity so that it is higher than cost of borrowings.

Net Working Capital means the difference between book value of Current Asset. and current liabilities. Cash, bank balance, securities easily salable debtors, bills receivables, loans deposits etc are Current Asset. Creditors, bills payables, expenses required to be paid, short term loan, income received in advance, bank loan, overdrafts etc are the current liabilities. It can be concluded that both the concepts are useful and are applied keeping in view the purpose of the users. As indicated by Machiraju (1999), working capital management includes organization of current assets and current liabilities which comprises of upgrading the level of current assets in partial equilibrium context. Working capital management includes the relationship between an association's short–term assets and its short-term liabilities. Osisioma (1977) likewise portray working capital as regulation, change, and control of the balance of current assets. To oversee working capital productively, he takes note of that there must exist two components as important segments and attractive amounts. He further showed that great working capital management must guarantee adequate relationship between segments of a firm in order to make an effective blend, which ensure capital sufficiency. Therefore, working capital management ought to verify that the attractive amounts of every segment of working capital are accessible for management.

Khan and Jain (2007) likewise stretch that working capital management is concerned with the issues that emerge, in endeavoring to deal with the current assets, the current liabilities and the interrelationship that exists between them. Working Capital Management includes the relationship between firms' short –term liabilities and short –term liabilities.

The objective of working capital management is to guarantee that a firm has the capacity proceed with its operations and that it has adequate capacity to fulfill both developing short-term debt and up and coming operational costs. Working Capital Management likewise alludes to the choices identifying with working capital and fleeting financing and it includes dealing with the relationship between a firm's shortterm assets and its short-term liabilities. The objective of working capital management is to guarantee that the firm has the capacity proceed with its operations and that it has adequate income to fulfill both developing short-term debts and forthcoming operational costs. Working capital involves short-term choices by and large relating to the following one year period which are "reversible". These choices are in this manner not tackled the same basis as Capital Investment Decision (NPD) rather they will be taking into account income as well as benefit. Management will utilize a mix of strategies and methods of working capital. These strategies go for dealing with the current assets (by and large cash and cash proportionate, inventories and borrowers). As indicated by Horne (2000) working capital management is the administration of current assets for the sake of money, attractive securities, receivables, and inventories. Block and Hirt (1992) are of the perspective that, working capital management includes the financing and management of the current assets of the firm.

2.6 WORKING CAPITAL POLICY

Working capital policy is fundamentally about the amount of working capital the organization ought to keep up if they go for zero danger management, or would they be able to attempt atouch of daredevilry in their working capital management. Working capital policy includes choices about organization's assets and liabilitieswhat they comprise of, how they are utilized, and their blend influence the danger versus return attributes of the organization. Working capital policies, through their impact on the organizations expected future returns and danger connected with these profits, awkward have an effect on shareholder wealth. Compelling working capital policies are vital to a company's long-run development and survival (Meyer et al1992).

As indicated by Western and Copland (1989) there are two strategies of working capital. The principal strategy manages the determination of the level of aggregate current assets that ought to be held by the firm. The alternatives accessible under this strategy verge on forceful, conservatism or average management of a company's working capital. The second strategy facing management concerns the connections among sorts of assets and the way these assets are financed. Normal working capital strategy choices include a determination of the proper level of cash, account receivable, and stock that the firm ought to keep up. On the financing side, we must figure out if to bring these through credit augmentation from our supplier, short-term bank loans, or longer-term credit arrangement (Block, &Hirt 1989).

2.6.1 TYPES OF WORKING CAPITAL POLICIES

2.6.1.1 Conservative working capital policy:this methodology includes the utilization of long-term debt and finance all term fixed assets and permanent assets, notwithstanding some piece of temporary current assets. Firm which receives this approach have a lot of net working capital. It is an okay position to take on the other hand; the security of conservative methodology has an expense in light of the fact that long term financing is for the most part more costly than short term financing

2.6.1.2 Aggressive working capital policy: this methodology includes the utilization of short-term to fund in any event the association's temporary asset, some or the whole permanent current assets and potentially some of its long-term fixed assets.

This methodology depended vigorously on short-term debt. Forceful working capital approach is exceptionally hazardous as it opens the firm to almost no net working capital.

2.6.1.3 Moderate working capital policy: this methodology tries to adjust hazard and return concerns. With this policy impermanent current assets are utilized to finance short-term where as permanent current assets are utilized to fund long term debt. Firms that embrace this strategy have a moderate measure of net working capital also a generally measure of danger adjusted by a generally direct measure of expected return.

2.7 OBJECTIVES OF WORKING CAPITAL

The goal of Working Capital management is to manage the concern"s C.A. and current liabilities in such a way that an adequate Working Capital is maintained.

Business can get operational flexibility with the help of adequate level of Working Capital. The main objective of Working Capital management is to balance **liquidity and profitability**.Other objectives of Working Capital management are concerned with the problems that arise in attempting to manage the C.A, the current liabilities and the inter ration ship that exists between them. The objectives of Working Capital management are as under:

- To keep up smooth and fast stream of funds with a specific end goal to build the productivity of Working Capital: When Working Capital is connected to fixed capital a stream of funds results As Working Capital moves starting with one procedure then onto the next. It changes from money to inventories to receivable and back to money. The smoother and more quick the stream of funds the more effective is every rupee of Working Capital. It is on the grounds that when the stream of Working Capital is smooth and fast the measure of Working Capital needed to create a given yield is not exactly when interferences happen which cause the stream to slow down.
- Availability of sufficient funds at the seasons of need: As an unassumingly obvious a business cannot get by without an acceptable proportion between its Current Asset also, current liabilities. Besides its capacity to thrive will be generally controlled by the arrangement of the C.A. pool.
- The support of current ratio between Working Capital and fixed capital: The management ought to have as its general financial related goal the employment capital in whatever extent important to boost efficiency and benefit. Capital of the business endeavor comprises of fixed and Working

  Capital and the company's profitability is controlled by the ratio of Working Capital and fixed capital. Different things continuing as before, when Working Capital is expanded, the company's profitability declines.

2.8 TYPES OF WORKING CAPITAL

Working Capital can be classified either the on the basis of its concept or on the basis of periodicity of its requirements, which is as follows:

2.8.1 (A) CONCEPT BASIS:

Based on concept, working capital can be either gross Working Capital or net Working Capital. The total Current Asset represents gross Working Capital. The net Working Capital is the excess of Current Asset over current liabilities.

(1) Gross Working Capital = Total Current Asset.

(2) Net Working Capital = Current Asset. – Current Liabilities.

2.7.2 (B) REQUIREMENT BASIS

According to Gerstein Bergh, the Working Capital can be divided into two categories on the basis of time and requirement:

(1) Permanent Working Capital

It refers to the minimum amount of investment, which should always be there in the fixed or minimum Current Asset like inventory, accounts receivable or cash balance, in order to carry out business smoothly.

The investment is of a regular or permanent type and as the size of the firm expands the requirement of permanent Working Capital also increases. Tondon Committee has referred to this type of Working Capital as „Hard Core Working Capital.‟

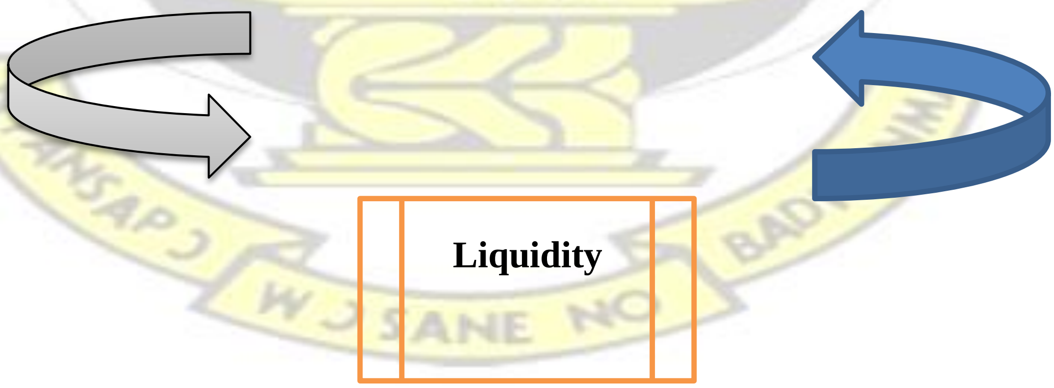
(2) Variable Working Capital

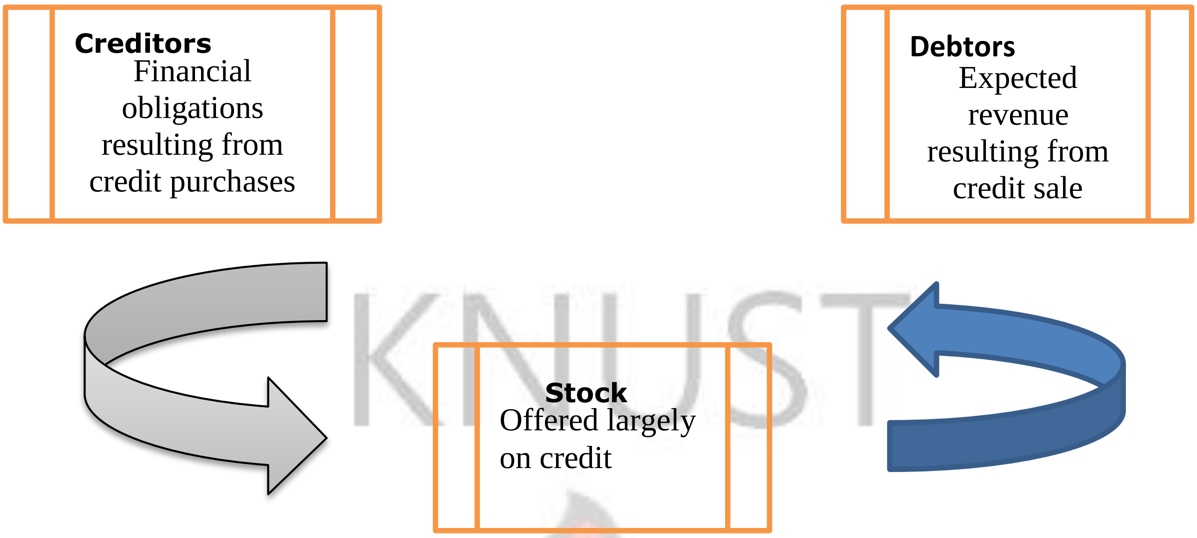
The excess of the amount of Working Capital over permanent Working Capital is known as variable Working Capital. The amount of such Working Capital keeps on fluctuating from time to time on the basis of business activities. It may again be subdived into seasonal and special Working Capital. Seasonal Working Capital is required to meet the seasonal demand of busy periods occurring at stated intervals. On the other hand special Working Capital is required to meet extra ordinary needs for contingencies. Events like striking fire, unexpected competition, rising price tendencies or a big advertisement campaign requiring such capital. Working Capital cycle indicates the length of time between firms‟ paying for materials entering into stock and receiving the cash from sale of finished goods. In a manufacturing concern the duration of time required to complete the sequence of events is called operating cycle. According to Hunt William & Donaldson, "The Working Capital is required because of the time gap between the sales and their actual realization in cash. This time gap is technically termed as operating cycle of the business.

2.9 WORKING CAPITAL CYCLE

The various elements of working capital are interrelated, and can be seen as parts of a cycle.

Figure 2.1: Operating (Working Capital) Cycle





Source: Author‟s construct.

Working capital cycle otherwise called operating cycle, with late change to cash, transformation cycle (Richards and Laughlin 1980) reflects the net time interim between actual cash use on a company's buy of production assets and a definitive recovery of cash receipts from product deals. Khan and Jain (2007), likewise express that the operating cycle can be said to be the heart of the requirement for working capital. The proceeding with stream of cash to suppliers, to stock, to account receivable and once again into cash is what is known as the operating cycle. They further push that the operating cycle comprises of three stages. In stage one, cash gets changed over into stock which incorporates buy of rare materials, transformation of rare materials into work-in-progress, finished goods lastly the exchange of goods to stock toward the end of the manufacturing process. On account of exchanging associations, this stage is shorter as there would be no manufacturing action and cash is straightforwardly changed over into stock. The stage is, obviously, thoroughly missing on account of service organisations. In stage two of the cycle; the stock is changed over into receivables as credit deals are made to clients. Firms, which do not offer using a loan clearly do not have, stage two of the operating cycle. The last stage, stage three, speaks to the stage when receivables are gathered. This stage finishes the operating cycle and henceforth, the organizations need to move from cash to stock, to receivables and to cash once more. Meyer et al, (1992) likewise include that an organization's operation cycle regularly comprises of three essential exercises that is, acquiring assets, producing the products, and dispersing (offering) the product. These exercises make funds streams that are both unsynchronized and dubious. They are unsynchronized on the grounds that cash distributions (for instance, installments for asset buy) as a rule occur before money receipts (for instance, gathering of receivables). They are dubious on account of future deals and expenses, which create the individual receipts and dispensing, cannot be determined with complete exactness. In the event that the firm is to keep up liquidity and capacity legitimately, it needs to put supports in different short-term resources (working capital) amid this cycle. It needs to keep up a cash equalization to pay the remarkably due. Furthermore, the organization must put resources into inventories to meet client arranges instantly. Finally, the company invests in accounts receivables to extend credit to its customers.Machiraju (1999), additionally contend that transformation cycle catches the way that diverse parts of working capital have distinctive futures and are changed to liquidity streams at diverse rates. The irregularity between cash inflows and outflows requires interest in current assets. The net cash change rate related to the assistance of cash transformation cycle must be financed by working capital.

2.10MANAGEMENT OF WORKING CAPITAL COMPONENTS

2.10.1 CASH MANAGEMENT

Overseeing cash is turning out to be perpetually modern in the worldwide and electronic age of the 1990s as monetary supervisors attempt to crush the last dollar of benefit out of their cash management methodologies (Block &Hirt 1992).

As indicated by Mclaney (2000) cash is a great deal more than only one component of working capital. As the medium of trade and store of worth, cash gives the linkage between every single monetary part of the firm. All the more particularly it connections short and long haul financing choices with each other, with choice including speculation both in fixed assets and working capital. Unmistakably, cash management is one of the key parts in any association of any size depiction. Meyer et al (1992) watches that cash and attractive securities are the most liquid of the organization's assets. Cash is the entirety of currency an organization has close by and the funds on deposit in bank financial records. Cash is the medium of trade that allows management to bear on the different elements of the business associations. From monetary hypothesis, a few authors have conjectured in backing of Keynes‟ that the intentions in holding cash are simply, transactionary, prudent and theoretical. As per Keynes (1973), organizations hold cash in request to connect the interim between the season of causing business expense and that of the receipt of the deal continues. At the end of the day, organizations hold a currency request to meet the general costs of their movement. Accordingly, the higher the company's capacity to plan its cash streams (contingent upon their consistency) the weaker the 'transactions-motive' for holding money will be. The transaction-motive represents the money holding of firms and in this way more material to SME's. The safety oriented rationale pays respect to an organization‟s has to accommodate unsuspected costs and unforeseen chances of worthwhile purchases.

Thus, if a firm works in a profoundly unpredictable division, its preliminary money holding will be higher than that of firms working in a less dangerous environment. The third thought process in holding money alludes to the holding of money with the end goal of hypothesis. The theoretical rationale is taking into account the suspicion that rising interest rates instigate diminishes in costs of securities and the other way around. In this manner, a firm will put its unmoving trade in for cold hard currency securities when interest rates are required to fall. This creates advantages for the firm in light of the fact that the costs of the gained securities will ascend as an outcome of the foreseen fall in interest rate.

Horne (2000) cases that organizations do not hold money for this sort of theoretical reason and can be expected that this estimation is substantial particularly for SMEs which for the most part don't have the assets to settle on such complex monetary choices. The accomplishment of a firm's failure in real cash management depends to a vast degree in the technique received. In this bearing, Gitman et al (1970) propose that every organization's uniqueness in both getting and dispensing funds from its operation ought to be perceived. Further to this, they recommend the appropriation of cash management procedures based upon an organization's own particular budgetary conditions and goals. Yankey (1974) additionally watch that cash is a rare thing and has a few option employments. It is fundamental that directors use each cedi so productively that the arrival on every cedi is pretty nearly equivalent to the arrival of a cedi in an option investment of practically identical danger. Srinivasan (1999) hassles that cash management methodology intends to cover the accompanying angles: money planning/gauging, overseeing cash moves through composed accumulation management and legitimate dispensing management, optimum cash level and contributing surplus money. Suitable money approaches ought to be laid out by the

Director (finance) or in each of the above cash management regions. Such money arrangements help the organization to prepare supports or money at the ideal time and spot, plan payment on the premise of expected accumulations, guarantee ideal usage of money and evade overdraft, at long last put surplus trade in for spendable cash short-term securities. Moyer et al (1992) state that successful cash management is especially critical for small firms for a few reasons: First, little organizations do not have the same, broad access to capital markets as do expansive firms. The significant sources of capital funds are business banks for SMEs. Brokers oblige borrowers to present definite examination of their expected money needs. To do this, the firm must have productive cash management strategies in procedures place. Also, in view of a small firm's constrained access to capital, a money lack issue is both troublesome and unreasonable for small firms to redress than for expansive firms. Thirdly, in light of the fact that numerous small firms are developing quickly, they tend to run out on money. Developing deals oblige increments in inventories and records receivable, in this way spending the company's cash resources.

2.10.1.2CASH MANAGEMENT MODEL

Modeling can also be useful in predicting the optimal amount of cash on hand to maximize cash flow and minimize interest expense. The mostcommon models are the Baumol cash model and Miller-Orr cash model.

BAUMOL MODEL

Proposed by William Baumol it is a subordinate of the EOQ model. It is utilized to focus the ideal measure of trade to hold in an anticipated domain. It regards money as stock and purchasing and offering speculation exchanges as requesting expenses. The goal is to minimize the settled expense of purchasing and offering venture exchanges and minimize the fixed cost expense of holding a lot of money. Much the same as in

EOQ Baumol is a two-stage recipe. Step one is to focus the ideal exchange size. Step two is to focus the ideal number of exchanges in a period. Average cash possessions would be one a large portion of the ideal exchange size.

MILLER-ORR MODEL

This model seeks to overcome the shortcomings of the Baumol model. It determines the optimal amount of cash to hold in an unpredictable environment. It extends the Baumol model in that it tracks both inflows and outflows of cash, allows inflows and outflows on an irregular and unpredictable basis and establishes two trigger points - the lower cash level at which securities must be sold to replenish cash and the upper cash level at which surplus cash should be invested. Miller-Orr is not concerned with the frequency of the securities transactions. It is trying to determine the optimal time to buy or sell securities based on the amount of cash on hand. Miller Or takes into consideration the fixed cost of securities transactions and assumes these costs are the same when both buying and selling, the daily interest rate on marketable securities and the variance of the daily net cash flows.

STONE MODEL

The Stone Model is somewhat similar to the Miller-Orr Model insofar as it uses control limits. It incorporates, however, a look-ahead forecast of cash flows when an upper or lower limit is hit to take into account the possibility that the surplus or deficit of cash may naturally correct itself. If the upper control limit is reached, but is to be followed by cash outflow days that would bring the cash balance down to an acceptable level, then nothing is done. If instead the surplus cash would substantially remain that way, then cash is withdrawn to get the cash balance to a predeterminedreturn point. Of course, if cash were in short supply and the lower control limit was reached, the opposite would apply. In this way the Stone Model takes into consideration the cash flow forecast. The goals of these models are to ensure adequate amounts of cash on hand for bill payments, to minimize transaction costs in acquiring cash when deficiencies exist, and to dispose of cash when a surplus arises. These models assume some cash flow pattern as a given, leaving the task of cash collection, concentration, and disbursement to other methods.

2.10.2 MANAGEMENT OF RECEIVABLES

Sales on credit are inevitable necessity in the business world today. No business can exist without selling the products on credit.

According to (Joshi, 2000) and Meyer et al (1992), noted that accounts receivables consist of the credit a business grants its customers when selling goods or services which take the form of either trade credit which the company extends to other companies or consumer credit, which the company extends to its ultimate consumers.

The effectiveness of a company"s credit policies can have a significant impact on its total performance.Machiraju (2005) also argue that receivables arise out of delivery of goods or rendering of services on credit. Receivables represent claims against others for future receipt of money, goods or services whose value depends upon the volume of credit sales and the policy for collecting such credits.Joshi (2000) indicated that the primary objective of investment in trade debtor is to increase profit by expanding sales to attract new customers and retain old customers. By constantly increasing its sales and profit the business carves out a bigger niche in the market and elevates its status among competitors. In determining an optimal credit extension policy, Meyer et al (1992) observe that a company"s financial managers must consider a number of major controllable variables that can be used to alter the level of receivables, which include credit standards, credit terms and collection effort.Credit standards are the criteria a company uses to screen applicants in order to determine which of its customers should be offered credit and how much. The process of setting credit standards allows the firms to exercise some degree of control over the "quality" of accounts accepted. The quality of credit extended to customers is a multidimensional concept involving the time a customer takes to repay credit obligation, given that it is repaid and the probability that a customer will fail to repay the credit extended to them.In establishing credit standards, Horn (2000), suggests a means of categorizing customers for the purpose of approving or refusing credit to them. This will enable the firm to avoid investigating the credit worthiness of customers who fall into the refused category. As a basis for credit extension to those who qualify, he suggests the comparison between the expected cost of credit extension and expected profit to be forgone in the absence of credit.

A business should have a rational for collection of receivables. Collection policy can be tight policy which ensures better collection, fewer instances of bad debt but high collection costs. It may, however, antagonize the customers and some of them may switch to competitors. A liberal collection policy will have opposite effect, Joshi (2000).Meyer et al (1992) also assert that the collection effort consist of the methods a business employs in attempting to collect payment of past-due accounts. Some commonly used methods include sending notice or letters informing the customers of the past-due status of the account and requesting payment, telephones and/or visiting the customers in an effort to obtain payment, employing a collection agency and taking legal action against the customers.The literature related to credit policy is quite extensive. Srinivasan (1999), states that it is essential that companies spell out clearly and precisely the credit policy directions in writing in the general interest of the organisation. The credit policy will be an adjunct to the company‟s marketing policy and should serve to reinforce. The decision made out of these options is based on the lowest cost. This technique is appropriate for a firm which relies to a larger extent on information obtained from experience with its own customers.One significant revelation by Western and Copeland (1989) in the management of accounts receivable is the consequence of persistent inflation on accounts receivable. In inflationary period, when interest rates are high and financing requirement becomes large, buyers may delay their payment beyond the normal credit period. These in turn cause the selling firms investment in account receivables to rise, increasing their financing requirement. The outcome of such a situation is the important role credit and collection policies assume in the broad spectrum of receivable management.

2.10.3 INVENTORY MANAGEMENT

The word „inventory‟ has been defined in many ways. Ballou (2004) defines inventories as stockpiles of raw materials, supplies, components, work in process, and finished goods that appear at numerous points throughout a firm‟s production and logistics channels. According to Chase, Jacob and Aquilino (2004) inventory is the stock of any item or resource used in an organisation.

An inventory system is the set of policies and controls that monitor levels of inventory and determine what levels should be maintained, when stocks should be replenished, and how large orders should be. Finally, Pycraft et al (2004) define inventory or stock as the stored accumulation of materials resources in a transformation system.International Accounting Standards (IAS2) states that Inventories shall be measured or valued at the lower of cost and net realizable value. The costs of inventories comprise all cost of purchase, cost of conversion and cost incurred in bringing the inventories to their present location and condition.Inventory is an important and valuable asset. It constitutes substantial portion of the total current assets of a business. Inventory covers a wide variety of items, which are meant to be procured, „used up‟

and sold in an ordinary course of business. It covers the whole range of items starting from input of material and ending with output of finished products.According to Josh (2000) the item-forming inventory can be classified into three categories: (1) raw materials, (2) work-in-process (WIP) and (3) finished goods. Raw material inventory represents the item of basic inputs, which are yet to be processed into final product. Work-in-process covers all items, which are at various stages of production processes. These items have ceased to be raw material but have not developed into final products and are at various stages of semi-finished levels.

Finished goods inventory consists of the final products, which are awaiting sale.According to Hugo et al (2002) the aim of inventory management is to hold inventories at the lowest possible costs.Josh (2000) enumerates the objectives of inventory management as fellows;

- To reduce cost of holding stock so that investment in stock outs (running out of stock) production cycle operates smoothly.
- To persuade the business to reduce the levels of inventory whereas one prompts it to increase the same.

When making decisions on inventory, management has to find a compromise between the different cost components, such as the cost of supplying inventory, inventoryholding costs and cost resulting from insufficient inventories.Starr and Miller (1962) identify three motives for holding inventories, which are similar to Keynes three motives for holding cash. The transaction motives which emphasizes the need to maintain inventories to facilitate smooth production and sales operation, the precautionary motive which necessitate holding of inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors; and the speculative motive which influence the decision to increase or reduce inventory levels to take advantage of price fluctuations.According to Wild (2002) inventory controls is the activity, which organizes the availability of items to the customers. It coordinates the purchasing, manufacturing and distribution function to meet the marketing needs. This role includes the supply of current sale items, new products, and consumables: spare parts, obsolete items and all other supplies.Inventory enables a company to support the customer service, logistic or manufacturing activities in situation where purchasing or manufacturing of the items is not able to satisfy the demand. Lack of satisfaction could arise either because the speed of purchasing or manufacturing is too protracted, or because quantities cannot be provided without stocks.

Clodfelter (2003) adds that a good inventory control system offers the following benefits as the proper relationship between sales and inventory can better be well maintained. Without inventory control procedures in place, the stores department can become overstocked or under stocked.Next, inventory control systems provide a business with information needed to take markdowns by identifying slow-selling merchandise. Discovering such items early in the season will allow a business to reduce prices or make a change in marketing strategy before consumer demand completely disappear.Merchandise control system allows buyers to identify best sellers early enough in the season so that re-orders can be placed to increase total sales for the store or department. Merchandised shortages and shrinkages can be identified using inventory control systems. Excessive shrinkage will indicate that more effective merchandising controls need to be implemented to reduce employee theft or shoplifting.

Emphasizing the pertinence of the topic, Gourdin (2001) notes that inventory is one area of logistics that has received great deal of management‟s attention over the decade. Executives now realize that holding excessive stocks is simply too expensive. Therefore, a great deal of effort has been expended to eliminate unnecessary inventory without compromising customer service.However, there are numerous situations where inventory simply must be held, particularly when meeting the needs of global customers. Management‟s goal should be to hold only what is necessary to satisfy customer requirements and manage it effectively, (ibid). This is largely so due to the fact that excessive inventory can lead to lower operating profit.

Excessive stock and stock out pose huge problems for businesses. First of all, in the event of stock outs customers are compelled to go in for substitutes or even worse direct competitors and the business may lose out on customers in the long run. Also, stock-out causes customers to lose interest in the product(s) and causes a decline in customer loyalty for the product and eventually demands. Excessive stock on the other hand may undergo problems such as expiration in the event where supply exceeds demand. In an article by the Retail Owners Institute, "The Diamond of

Doom" is used to explain or illustrates in simplest form the problems created by carrying too much inventory.

Figure 2.2: Effect of holding excess inventory (illustration through Diamond of Doom)

DIAMOND OF DOOM

EXCESS
INVENTORY

leads to

obsolescence,

Poor cash flow (from

suppliers)
pilferage,
insurance,

taxes,
maintenance

Leads to

leads to

Excessive debt servicing
lower gross margin

Leads to

leads to

Higher Interest Expense

high advertising and selling

LOWER OPERATING PROFIT

Source: Author‟s construct.

2.10.4 MANAGEMENT OF ACCOUNT PAYABLES

Accounts payable are one of the major sources of unsecured short-term financing (Gitman, 2009; Hill & Sartoris, 1992). Utilizing the value of relationship with payee is a sound objective that should be highlighted as important as having the optimal level of inventories (Hill & Sartoris, 1992). As a consequence, strong alliance between company and its suppliers strategically improve production lines and strengthen credit record for future expansion.

Western and Copeland (1989) made reference to trade credit as the largest category of short-term credit, representing about one-third of the current liabilities of nonfinancial corporation. Firms must have policies concerning those who authorize purchasing, and how purchasing is geared to demand. This can lead to proper management of accounts payable. Belt (1979) also adds that accounts payable are more deferrable in that the average payment can be extended by managerial decision. However, this deferability is limited to an unknown extent; eventually, supplier will refuse to seal firms that excessively delay payment.

2.11 IMPORTANCE OF WORKING CAPITAL

To satisfy the daily needs of an industrial unit, management should think seriously about Working Capital. Working Capital is such of capital that with the help of which a business remains in working condition. It remains live for any business units,

Working Capital can be said to be its life. If there is any error in the estimation of Working Capital there will be risk on production continuity in an industrial unit. It will be difficult to launch a product in time and as a result a company would have to lose the market. On the other hand a company will not be able to make payment to workers and trades in time. Dissatisfaction of workers will increase which will create legal problems for management.Working Capital is also known as Circulating capital or Floating capital.Working Capital constitutes as large portion of total investment in assets. It is estimated, that about 60% of total net assets of the public sector companies is in the form of C.A. This underlines the importance of Working Capital management.Working Capital management is more important for the small firm. In the small unit investment in such C.A. as cash, inventories and receivables tends to be larger than investment in fixed assets. It is more difficult for small units to raise enough long term capital for the C.A.

Working Capital management has acquired important position and great significance in the recent past. It is reflected by the fact that financial manager spend a great deal of time in managing C.A. and current liabilities. Arranging short term financing, negotiating favorable credit terms, controlling the movement of cash, administering accounts receivables and monitoring the investment in inventories consume a great of their time. “It has been found that the largest portion of financial manager‟s time is utilized in the management of Working Capital.” Weston and Brigham have rightly stated that, “There are many aspects of Working Capital management which make it an important function of the financial manager. On the one hand it maintains proper liquidity while on the other hands it helps in increasing the profitability to the concern.

Inadequacy or mismanagement of Working Capital is the leading cause of business failure. The Working Capital of a firm is the lifeblood, which flows through the veins and arteries of the structure. Working Capital engages every part of the structure, gives courage and moral strength to management and personnel, digests to the best degree the raw material used by its constant and regular flow and return to the cash flow for another journey and so when Working Capital is lacking or slows down, the financial bodies have value just as much as junk.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.1 INTRODUCTION

This section of the study sought to address issues relating to the population of the study. The sample size and the technique used in choosing the sample were also addressed in the section. Further focus of this section was on the data collection techniques used in the study. Techniques for measuring and analyzing data were addressed in this chapter. Lastly, a brief profile of the case of study-Curtain Plaza Limited-was presented.

3.2 THE RESEARCH DESIGN

The case study approach was adopted in this study. The choice of this approach is largely due to limited time and more importantly the acceptance of the use of the case study in contemporary issues.

3.3 RESEARCH POPULATION

This population of the study focused on all employees of Curtain Plaza Limited in Kumasi

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE

The study selected a sample size of four key management staff which includes the general manager, accountant, shop keeper and inventory manager. The researcher adopted the purposive sampling technique in choosing an appropriate sample size. The idea behind this techniquerests on the fact that only key employees are privy to working capital information.

3.5 SOURCES OF DATA COLLECTION

The use of interview guide was adopted by the researcher as the strategy to gather primary data. Secondary data, on the hand, was obtained from publications, journals, articles, student papers and online sources.

3.5.1 METHODS OF DATA COLLECTION

3.5.1.1 Conducting the Interview

The interview was designed to elicit responses from the General Manager, Retail managers and warehouse keeper. The selection of the respondents is primarily based on the fact that only key management personnel are privy to information relating to working capital components.

The researcher intentionally repeated questions to ensure respondents gave a true opinion of the question being asked and also to seek clarification on initial responses

3.6 DATA ANALYSIS

Based on the kind of data obtained, the researcher appropriately adopted both the qualitative and quantitative research technique in analyzing the information obtained. Assessments were conducted on the company‟s financial statements with various quantitative methods adopted to evaluate the findings of the study.

3.7 DRAWBACKS OF THE STUDY

This study was done with some challenges presents. Among these were:

Most of the respondents initially misjudged the researcher to be a government official therefore was reluctant to provide the necessary information needed to complete the research.

Energy challenges within the country resulting in frequent power outages caused a major delay in the analysis and presentation of this study.

These challenges however did not prevent the researcher from gathering relevant data to ensure accuracy of findings obtained.

3.8 PROFILE OF CURTAIN PLAZA LTD

Curtain Plaza limited was registered as an enterprise on the 4th of March, 1999 under the name Curtain Plaza but was registered as a company on the 24th of June, 2008 under the name Curtain Plaza Limited. The company has been in existence for 8 years after incorporation. The company was formed by Mr. Osei Tutu Asibey and Ms. Vida Larbi; both form the directors of the company currently. The management team of Curtain Plaza Ltd is made up of Mr. David Amankwaah, Mr. Prince Tweneboah Kodua and Mr. Michael Amankwah who occupy the positions of General Manager, Accountant and Head of Marketing respectively.

The company deals in Curtains, Upholstery Fabric, Carpets and different kinds of blinds (Venetian, bamboo, roller, alluminium, shangrilla etc). The company sources it products from all over the world. Curtain Plaza Ltd currently has 6 branches across Ghana and over sixty (60) employees. Branches are located at Pampaso (Adum), Nsuoase (Adum), Adabraka (2 branches), Awudome and East Legon. Major customers of Curtain Plaza Ltd include State Insurance Company, Kwame Nkrumah University of Science and Technology, Ghana Revenue Authority, Ghana Water Company, Royal Winners, Kumasi Metropolitan Assembly, Kumasi Regional Coordinating Council, Regent University, University of Ghana, ADM Cocoa Ghana, Snapi Aba Savings and Loans etc.

To facilitate easy and swift delivery of products to customers, the company owns eight(8) vehicles namely, one Benz truck, four KIA trucks, one DAF truck, two KIA Cerato saloon cars and one Nissan Pickup. Again, the company owns a very large warehouse facility. The bankers of Curtain Plaza Limited are Fidelity Bank, Zenith Bank and United Bank of Africa.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

4.0. INTRODUCTION

The findings of the research conducted into the working capital management practices of Curtain Plaza Limited are analyzed as follows in this chapter.

The analysis captures the results from the interview conducted as well as the information in the financial reports of the bank. The analysis of data gathered was done in two facets, first by collating quantitative responses with Microsoft Excel as well as examining and evaluating qualitative answers from respondents. The data gathered was also edited using Microsoft word and presented using graphs, charts and tables.

In an attempt to accomplish the research objectives, the researcher designed the interview in such a way that would obtain the necessary information for the research work. From the responses gathered, the researcher sets out to analyze our data in such manner.

4.1. WORKING CAPITAL MANAGEMENT POLICY OF CURTAIN PLAZA LIMITED

The financial manager indicated that its working capital management policy is almost completely described in the company‟s manual**,** indicating that, there is formal policy document on matters relating to working capital management. Also, there are certain strong distinguishing features of the firm‟s working capital management policies which give them competitive advantage over their competitors as well as giving them value for money. The top management also recognizes the crucial role of working capital management in the growth and survival of a business and therefore accords it with the necessary attention. The company also conducts a formal cost and benefit analysis before the introduction of significant changes in the working capital management policies. Hence, the potential benefits are weighed against the likely costs in an attempt to achieve the optimum investment. The policy stipulates the inventory days, minimum cash to be kept for precautionary and transaction motives, debtor collection days and the time it takes to pay creditors.

According to the general manager, competition and the non-availability of appropriate investments were seen as the constraints that inhibit effective working capital management.

4.2. INVENTORY MANAGEMENT

Pycraft et al (2004) define inventory or stock as the stored accumulation of materials resources in a transformation system. According to Horngren, Datar and Foster (2013), inventory management is described as the planning, coordinating and controlling activities related to the flow of inventory through and out of an organization, Inventory may be classified as Supplies, Raw materials, Work in progress and finished goods. Inventories often represent a significant investment for a business.

A business may hold inventories for various reasons, the most common of which is to meet the immediate day-to-day requirements of customers and production. However, a business may hold more than is necessary for this purpose if it is believed that future supplies may be interrupted or scarce. Similarly, if the business believes that the cost of inventories will rise in the future, it may decide to stockpile.

A business will normally prefer a short inventories turnover period to a long one, as funds tied up in inventories cannot be used for other purposes. At curtain plaza limited, when judging the amount of inventories to carry, the business considers such things as the likely demand for the inventories, the possibility of supply shortages, the likelihood of price rises, the amount of storage space available and the perishability of the inventories. Curtain plaza limited maintains a re-order level of 30%.

The inventory period is calculated by dividing the closing stock by the cost of sales and multiplying it by 365 days. It measures the period for which inventories are held.

The figure below shows the inventory days of Curtain Plaza Limited

Figure4.1.Showing the inventory days for the period of 2011-2014

Source: field data 2015

Inventory days were approximately 27 days on average over the four year period. The company‟s inventory days was 45 days in 2011, decreased to 39 days in 2012, this figure further decreased substantially to 7 days in 2013 and increased again in 2014.

This means that, the number of days it takes to turn over inventory fluctuates. The inventory days for curtain plaza according to the accountant is 20 days. From the table above, it is clear that, the inventory days obtained on average for the period under study is above what is stipulated in the policy of the company. This shows that, the company holds inventory for a long period on average and this is a clear case of inefficient management of inventory. This means the company will suffer the cost associated with holding inventory. Pilfering, inadequate storage facility and funds being tied up in inventory were revealed by the inventory manager as some of the cost to the company as a result of holding inventory. This confirms the assertion made by Atrill (2006) that, lack of financial management skills within SMEs leads to problems in managing stock in an effective and efficient manner. The table above depicts efficient management of inventory in 2013 and 2014 since the inventory days were below the standard set but inventory was poorly managed in 2011 and 2012. This could be associated with the decrease in demand for the inventory.

4.3. CASH MANAGEMENT

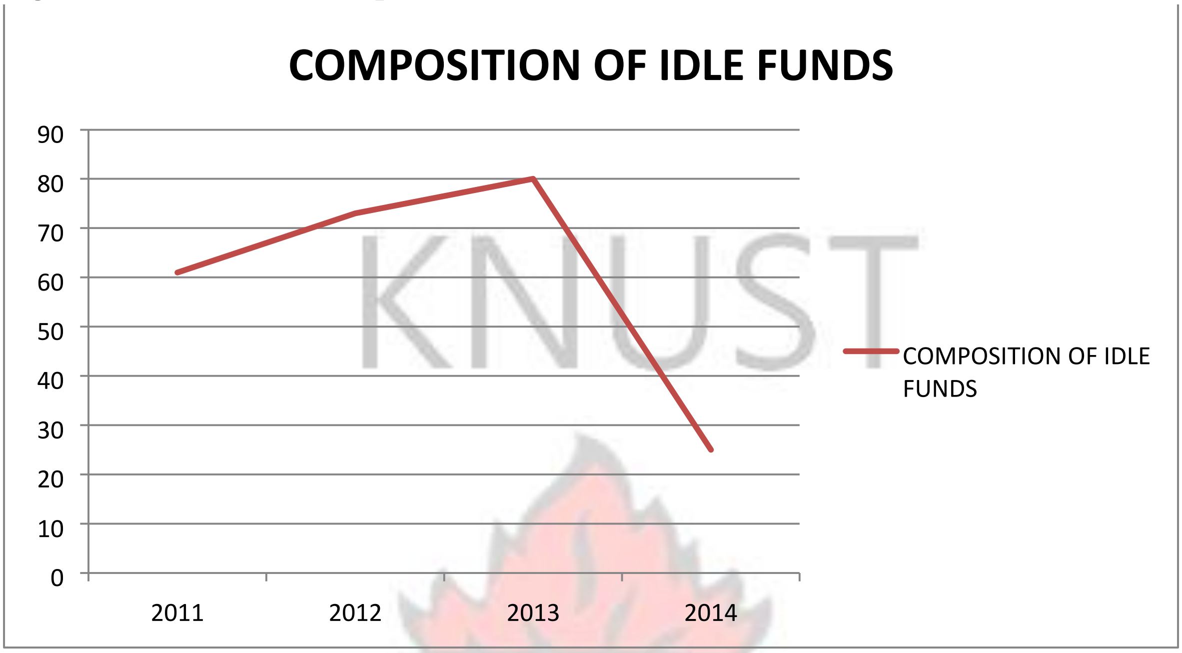
Cash is the sum of currency a company has on hand and the funds on deposit in bank checking accounts. Cash is the medium of exchange that permits management to carry on the various functions of the business organizations. Cash management is described as minimizing the firm‟s risk of insolvency.

The computation of cash to current assets of curtain plaza revealed that, approximately 60% of the company‟s current assets were held as idle cash. This means that, the company is losing out on investments in other assets. From the figure below, the idle cash formed 61% of current assets in 2011. In 2012, this figure increased to 73% and further increased to 80% in 2013. The percentage of cash to current assets declined substantially to 25% in 2014. This decline was attributed to the heavy investment made in inventory.

According to the accountant of curtain plaza, cash is being held for precautionary, speculative and transactionary motives. Management in an interview said the company does not have a set target for the amount of idle cash to keep. However, the company has a cash plan/budget which is prepared based on the company‟s past period performance, with a view of improving on such targets annually. This corroborates the findings by Chittenden et al (1998) which indicated that, SMEs prepared cash budgets. The company over the years has been able to achieve "within cash budget" expenditure. This achievement, as revealed by management, is largely due to the company‟s periodic placement of not too large orders with suppliers than it necessarily required and cutting down on certain insignificant expenditure.

The problem identified was the investment of temporary surplus cash for profitable purposes. That is curtain plaza keeps large amount of cash because of the uncertain nature of the economic environment. This is an inefficient way of managing cash as posited by Dodge et al (1994) who indicated that cash flow management is an internal problem of SMEs which needed to be identified.

Figure4.2. **the composition of idle funds**



Source: field data 2015

4.4. MANAGEMENT OF ACCOUNTS PAYABLE

Account payables can further be looked into as trade account payables and other accounts payables. Trade accounts payables are short term obligations to suppliers for purchases of merchandise and other accounts payable includes liabilities for any goods and services other than merchandise. Block, Hirk and Short (2000), It is the largest single category of short term debt because small firms do not qualify from financing from other sources , they rely heavily especially on trade credits as a result firms that do sell on credit have a credit policy that includes terms of credits.

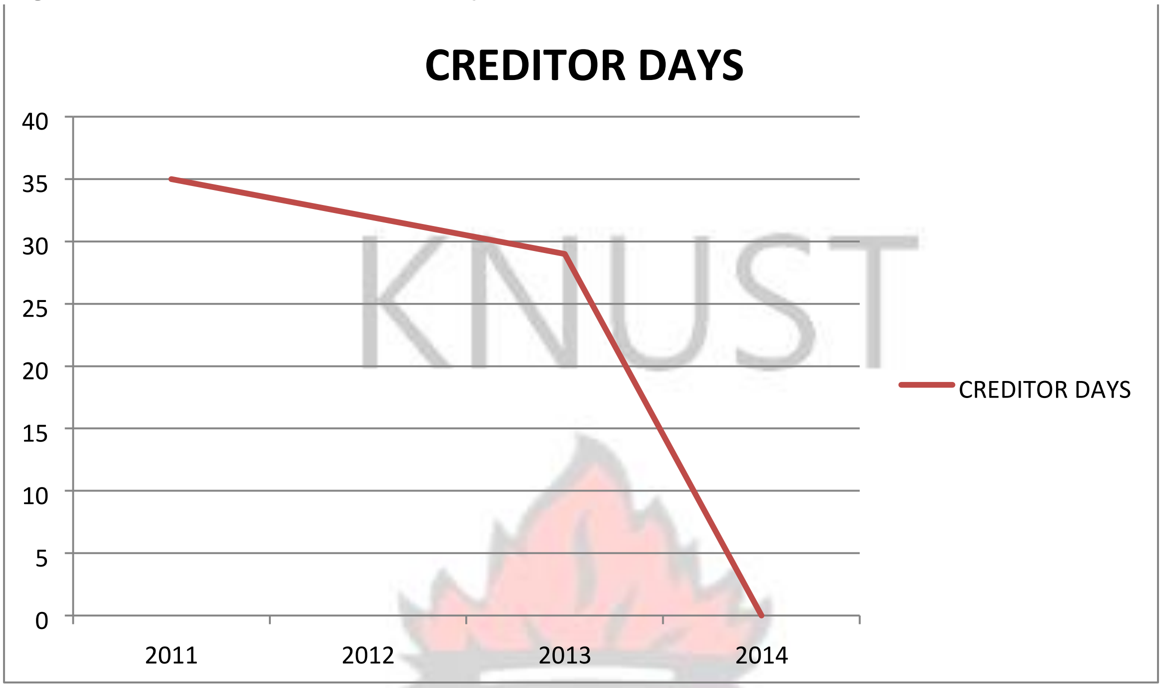
Trade credit arises from the fact that most businesses buy their goods and service requirements on credit. In effect, suppliers are lending the business money, interest free, on a short-term basis. Trade payables are an important source of finance for most businesses. It has been described as a spontaneous source, as it tends to increase in line with the increase in the level of activity achieved by a business. Trade credit is widely

Showing

regarded as a free source of finance and, therefore, a good thing for a business to use. There may be real costs associated with taking trade credit, however. The creditor days are calculated to know how long it takes the company to pay its creditors. It is calculated as dividing trade payables with purchases and multiplying by 365 days.

On average, it takes curtain plaza approximately 32 days to pay its creditors. This is above the standard set in the working capital management policy on creditor days which is 30 days according to the accountant. The figure below depicts that, in 2011, the company took 35 days to pay its creditors. The number of days decreased in 2012 to 32 days and decreased further to 29 days in 2013 and zero in 2014 because there were no creditors in 2014. According to the accountant, trade credit represents a form of interest-free loan. It is a much more convenient method of paying for goods and services than paying by cash, and during this period of inflation there is an economic gain by paying later rather than sooner for goods and services purchased. He however pointed out that, the company makes sure it does not abuse the creditor days in order not to lose the trust their creditors have for them and also avoid being seen as financially distressed.

Figure4.3. the creditor days for 2011-2014



Source: field data 2015

4.5. MANAGEMENT OF ACCOUNTS RECEIVABLE

Selling goods or services on credit will result in costs being incurred by a business. These costs include credit administration costs, bad debts, and opportunities forgone in using the funds for more profitable purposes. However, these costs must be weighed against the benefits of increased sales resulting from the opportunity for customers to delay payment. In order to prevent incidence of bad debt, the company employs various mechanism some of which include: Use of software (Quick bookspoint of sale): The use of this software allows Curtain Plaza Limited to set credit limit for customers who purchase good on credit. Credit limit of customers is determined by the following factors; past payment schedule of the customer, quantum of products demanded periodically and reputation of customer (individual contractor and institution). According to management, the company does not have a specified number of days within which debtors are supposed to make payments. This is because, a careful study

Showing

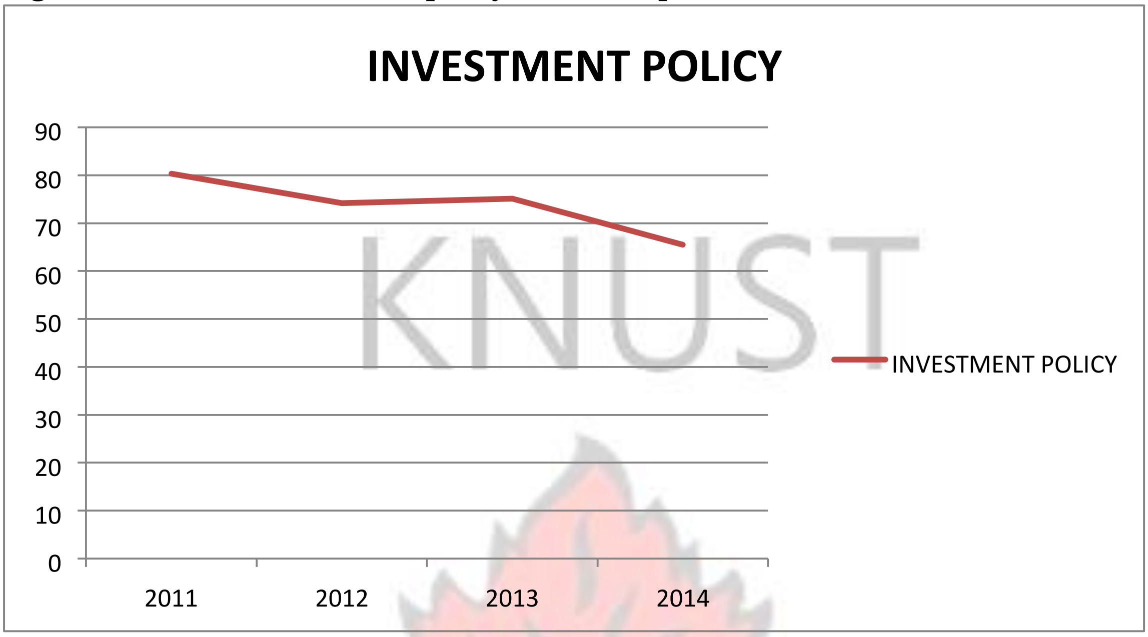
of the financial statements of the periods under study shows that, the company holds little amounts in terms of the debtors figure. This signifies an efficient management of debtors through the use of cash discounts, proper examination of the reputation of customers before granting credit and the use of a software that sets limits for clients above which they cannot make orders unless the pay their debts. This contradicts the assertion made by Atrill (2006) that SMEs do not manage their debtors well. Management was of the view that, an increase in accounts receivables that is additional extension of trade credits not only result in higher sales, also requires additional financing to support the increased investment in account receivables. That is why the company tries to keep debtors as low as possible in its books.

4.6. INVESTMENT POLICY

Aggressive Investment Policy (AIP) results in minimal level of investment in current assets versus fixed assets. In contrast, a conservative investment policy places a greater proportion of capital in liquid assets with the opportunity cost of lesser profitability. In order to measure the degree of aggressiveness, following ratio will be used:

AIP= (Total Current Assets/Total Assets)*100

Figure4.4. investment policy of curtain plaza limited



Source: field data 2015

The figure above depicts that, the current assets of curtain plaza constituted 73.77% of the total assets of curtain plaza. This means that, the company invests more in current assets making it have a conservative investment policy.

Investment in current assets relative to total assets in 2011 was 80.34% in 2012, the figure declined to 74.16%, it increased marginally to 75.10% in 2013 and declined again in 2014 to 65.48% in 2014. This means that, the company invests more than 50% of its total assets in current assets during the period under study making curtain plaza more conservative in its investment decisions.

4.7. FINANCING POLICY

Aggressive Financing Policy (AFP) utilizes higher levels of current liabilities and less long-term debt. In contrast, a conservative financing policy uses more long-term debt and capital. The degree of aggressiveness of a financing policy adopted by a firm will be measured by:

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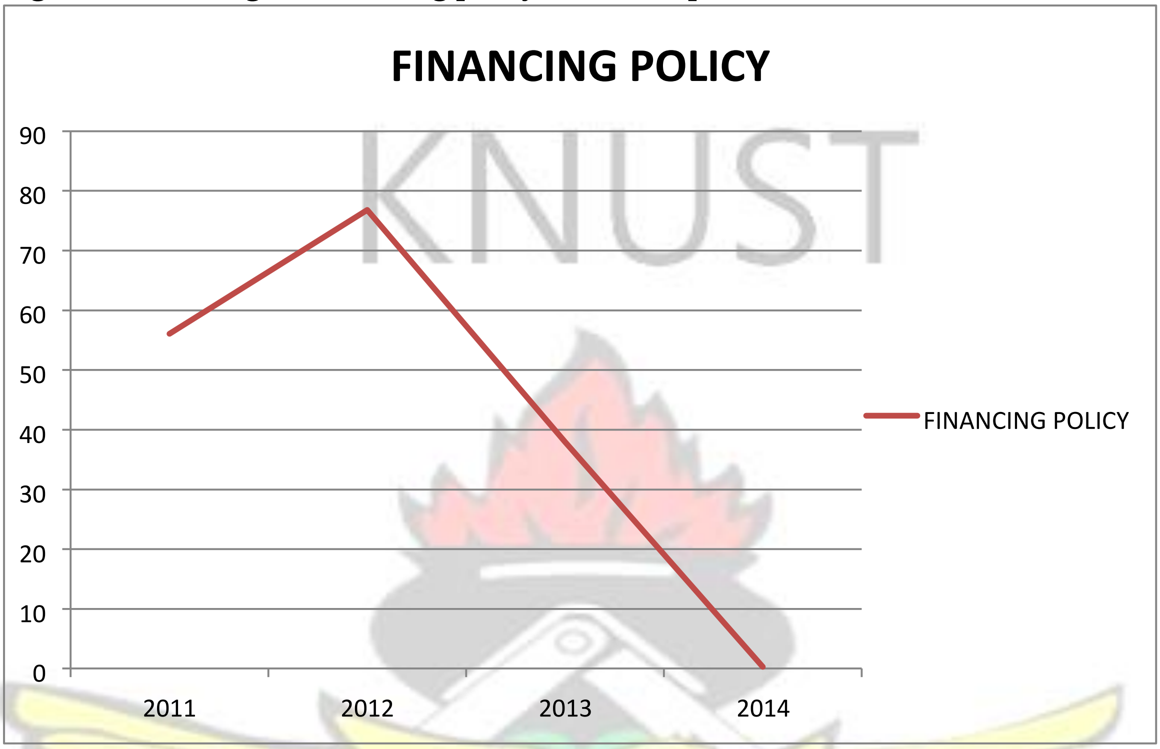
Aggressive Financing Policy= (Current Liabilities/Total assets)*100%

Figure 4.5.showing the financing policy of curtain plaza limited



Source: field data 2015

The short term financing of Curtain plaza averaged 42.77% over the period under study. In 2011, the short term financing of the company was 56.09%. It increased to 76.79% in 2012, declined in 2013 to 37.94% and decreased substantially to 0.27% in 2014. This means that, curtain plaza finances its assets using short term financing. This is confirmed by the fact that, the liabilities side of the balance sheet of curtain plaza has no long term liabilities. This implies that, curtain plaza adopts the aggressive financing policy in financing its assets.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

The fifth chapter presents the summary, conclusions and recommendations of the research.

The summary highlights the salient findings per the specific objectives. Conclusions and recommendations were drawn based on the summary of the findings. The study sought to investigate the working capital management practices at Curtain Plaza Limited.

5.1 SUMMARY

As to how issues on liquidity management were tackled, the major findings for objective one revealed that the Curtain Plaza limited is funded solely equity funds for it owners.Curtain Plaza limited has an experienced and professional accountant who ensures that records of their financial transactions are regularly kept. To ensure professionalism the senior accountant organizes professional training seminars and workshops for it accountant, but on rare occasions. Disappointingly, the study revealed that the company hardly prepares budgets to guide its expenditure patterns but ensures that expenses are within the financial means of the company. In terms of cash management, the study revealed that Curtain plaza has no cash management system in place thus cash generated by the company on a daily basis is saved its bankers. Further, Management of the company reinvests surplus cash generated into purchase of more inventories.

With reference to the management of account receivables, the salient results of objective two showed that the company occasionally sold it goods on credit and was paid on time by it debtors. Offering credit sales to a customer is fundamentally based on the trading relationship between the customer and the company. The study also revealed that though the company sold goods to customers on credit it does not have any comprehensive credit policy to guide credit granting process. Further, the company prepares a document (usually pro forma invoice) signed by both parties to suggest debtors‟ indebtedness and if debtors‟ default on payment the company attempts recovery of goods.

The major discoveries for objective three concerning inventory management practices at Curtain Plaza Limited indicated that the company orders its inventories mainly from overseas suppliers; USA, Japan, Italy etc. Curtain Plaza Limited maintains a reorder level policy of 30% for all products. The company hardly experienced stock pile of goods ordered.

The major highlights for objective four, which dwelt on the company current liabilitiesrevealed that the company operates a „no borrowing‟ policy. However, discussions are far advanced with its bankers for a 90-day letter of credit. Further, the company uses it cash for both long term and short term investments.

With regards to the challenges the company faces in managing its working capital, the salient findings revealed that inadequate space for inventory warehousing poses a major challenge to the warehouse manager as well as rare cases of pilferage.

5.2 CONCLUSIONS

Evidence gleaned from the summaries of the results suggests that Curtain Plaza

Limited conformed to the conventional liquidity management mechanisms of business institutions by safeguarding financial records, saving profits on a daily basis and spending within their financial capability.

The company managed account receivables by selling on credit to customers. The credit worthiness of customers is determined through trading relationship with the customer. When a customer is granted credit a document, usually pro forma invoice, is prepared and signed by both parties. This serves as proof of customers‟ indebtedness. When a default in payment arose, legal action was taken against most debtors as a last alternative. The company initially attempts to recover goods from defaulters.

The buying of stocks from overseas suppliers at moderate quantities and regular stock-taking were the strategies used by the company in managing its inventory. The company maintains a re-order level policy of 30%. This is the minimum level at which the company orders for stocks from the appropriate buyers or manufacturers.

5.3 RECOMMENDATIONS

The recommendations of the research were premised on the summary of and conclusions from the results and discussion. Based on the summaries of the analyses and conclusions,

Management of Curtain Plaza Limited is urged to:

Periodically organize and sponsor training programmes for its accounting personnel and general staffs. The training programme should be aimed at upgrading the skills and know-how of the employees in relation to their job schedule.

Identify their investment priorities particularly those that are crucial in sustaining the company in the long run. The company should sacrifice to channel a chunk of its funds to finance and achieve these priorities that will enable them to generate extra cash or profits to plough back into other activities.

Prepare budgets each time they intend to embark on major expenses. This will forestall unnecessary, unwanted, overestimated and underestimated expenses.

Formulate a credible credit policy for the company. In drafting such a policy criteria should be set as to the conditions and terms for credit granting. The policy should also take cognizance of the maximum number of days creditors can defray their debts.
Where necessary, grace periods can be added to these numbers of days.

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APPENDICES

APPENDIX I: RESEARCHER'S INTERVIEW GUIDE

GENERAL INFORMATION

1) What is the nature of the enterprise?
2) Where is the enterprise located?
3) What is the current work force of you enterprise

4) Does the business keep financial records of the operations?
5) If yes to question 4, what kinds of records are kept?
6) What is the academic qualification of the personnel who keeps the records?
7) Does the owner, manager and or account personnel attend workshops or seminars aimed at improving accounting practices in the business
8) If yes to question 7, how beneficial has the training been to your enterprise?

LIQUIDITY (CASH) MANAGEMENT

1. How did you finance your business initially?
2. Do you normally get cash target in advance for your business?
3. How do you manage the difference in your required cash where there is shortage?
4. Do you write down such estimates of cash requirement as a plan or budgeted document?
5. How do you control the proceeds generated on a daily basis?
6. Do you spend within your budget?
7. Do you normally record all cash transactions?
8. How often do you send money to the bank?
9. How does the business invest its surplus cash?

MANAGEMENT OF INVENTORY

1. What are the sources of your goods
2. Do you often experience a large pile-up of your goods?
3. Do you prepare a budget for sales?
4. Do you keep records of your goods or materials?
5. Do you do regular stock checks?
6. If yes in question 4, how often do you do it?

7. Do you have a re-order level policy for requesting stock or materials?
8. What is the minimum amount of stock that you keep? (Answer can be given in cedis or quantity)
9. What is the maximum amount of stock that you keep for your products?
10. What are the most frequent issues/challenges that arise from managing your inventory?

ACCOUNTS RECEIVABLES

1. Do you sometimes sell on credit?
2. What category of customers, if any, do you offer credit to?
3. If yes to question 1, how many days or period do you give to your customers to pay their bills?
4. If no to question 1, then give reasons
5. Do you undertake formal credit investigation before granting credit to your customers?
6. What security is required to offer credit?
7. What evidence exists for a customer‟s indebtedness?
8. Do you give cash discount to your customers?
9. How long does it take, on the average, to receive money from debtors?
10. Do you usually record bad debts?
11. What actions are taken on customers who refuse to pay their debt?

CURRENT LIABILITIES (ACCOUNT PAYABLES)

1. Do you sometimes purchase goods on credit?
2. If yes to question 1 above, how many days or period are you given by your creditors to settle the bills?

3. If no to question 1 above, how does that affect your operation?
4. Do you negotiate with your creditors to extend the credit period?
5. Do you use short-term funds of the business for long-term investment?
6. Which of the components of working capital do you give preference to and why?
7. From your own experience, would you advice business owners to place premium in any particular one or you think they are of equal importance or value?

Appendix II: Table showing inventory days

YEAR	INVENTORY DAYS
2011	45 days
2012	39 days
2013	7 days
2014	16 days

Appendix III: Table showing idle cash composition

YEAR	CASH TO CURRENT ASSETS (%)
2011	61
2012	73
2013	80
2014	25

Appendix IV: Table showing creditor days

YEAR	CREDITOR DAYS
2011	35days
2012	32 days
2013	29 days

2014	0 days

Appendix V: Table showing the investment policy

YEAR	CURRENT ASSETS TO TOTAL ASSETS (%)
2011	80.34
2012	74.16
2013	75.10
2014	65.48

Appendix VI: Table showing the financing policy

YEAR	CURRENT LIABILITIES TO TOTAL ASSETS (%)
2011	56.09
2012	76.79
2013	37.94
2014	0.27

CURTAIN PLAZA LIMITED
INCOME STATEMENT ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2014

	NOTES	2014 GH¢	2013 GH¢
Revenue		**2,446,393.00**	**2,040,476.00**
Cost of Sales	3	(1,889,950.00)	(1,648,341.00)
GROSS PROFIT		**556,443.00**	**392,135.00**
Administrative & General Expenses	4	(526,227.00)	(370,430.00)
Profit From Operations		30,216.00	21,705.00
Finance Cost	5	(1,506.00)	(1,659.00)
Net Profit Before Tax		**28,710.00**	**20,046.00**
Income Tax Expenses		(6,400.00)	(5,100.00)
Net Profit After Tax Transfer to Income Surplus Account		**22,310.00**	**14,946.00**

INCOME SURPLUS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER,2014

Balance at 1 January,	63,237.00	48,291.00
Net Profit for the Year	22,310.00	14,946.00
Balance at 31 December	**85,547.00**	**63,237.00**

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CURTAIN PLAZA LIMITED

BALANCE SHEET AS AT 31ST DECEMBER,2014

	NOTES	2014 GH¢	2013 GH¢
NON - CURRENT ASSETS			
Property, Plant & Equipment	2	64,218.00	65,511.00
CURRENT ASSETS			
Inventory		80,955.00	31,350.00
Debtors		-	1,662.00
Tax Deposits		10,259.73	5,735.00
Cash & Bank Balances	6	30,614.27	158,787.00
		121,829.00	197,534.00
TOTAL ASSETS		186,047.00	263,045.00
EQUITY & LIABILITIES			
Stated Capital		100,000.00	100,000.00
Income Surplus Accounts		85,547.00	63,237.00
TOTAL EQUITY		185,547.00	163,237.00
CURRENT LIABILITIES			
Creditors		-	99,308.00
Accrued Expenses	7	500.00	500.00
TOTAL CURRENT LIABILITIES		500.00	99,808.00
TOTAL LIABILITIES		500.00	99,808.00
TOTAL EQUITY & LIABILITIES		186,047.00	263,045.00

The above Balance Sheet together with the attached Trading, Profit & Loss Accounts and Notes thereon have been approved by the Board.

DIRECTOR　　　　　　　　　　DIRECTOR

8

CURTAIN PLAZA LIMITED

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2012

	NOTES	2012 Gh¢	2011
Sales		656,080.60	310,720.00
Cost of Sales	2	[436,956.59]	[205,026.63]
Gross Profit		219,124.01	105,693.37
Administrative Expenses	3	[193,870.17]	[87,958.25]
Net Profit before Tax		25,253.84	17,735.12
Taxation	9	[6,275.96]	[4,396.28]
Net Profit after tax transf. to Income Surplus Account		18,977.88	13,338.84

GPRatio 33.40%

INCOME SURPLUS ACCOUNT		
Balance @ 01/01/12	29,313.54	15,974.70
Net Profit for the year	18,977.88	13,338.84
Balance @ 31/12/12	48,291.42	29,313.54

CURTAIN PLAZA LIMITED

BALANCE SHEET AS AT 31ST DECEMBER, 2012

ASSETS	NOTES	2012 Gh¢	2011
NON-CURRENT ASSETS	4	64,900.00	17,600.00
CURRENT ASSETS			
Stock		47,266.50	25,319.75
Debtors		715.30	1,260.00
Tax Deposits	5	2,377.29	1,382.85
Cash & Bank Balances	6	135,917.76	43,966.80
		186,276.85	71,929.40
TOTAL ASSETS		251,176.85	89,529.40
EQUITY & LIABILITIES			
CAPITAL & RESERVES			
Stated Capital	7	10,000.00	10,000.00
Income Surplus Account		48,291.42	29,313.54
		58,291.42	39,313.54
CURRENT LIABILITIES			
Creditors		192,640.00	50,035.00
Accrued Charges	8	245.43	180.86
		192,885.43	50,215.86
TOTAL EQUITY & LIABILITIES		251,176.85	89,529.40

The above Balance Sheet together with the attached Profit and Loss Account and Notes thereon have been approved by the Board.

DIRECTOR DIRECTOR