TITLE PAGE

AN ASSESSMENT OF WORKING CAPITAL MANAGEMENT IN MANUFACTURING COMPANIES (A CASE STUDY OF NIGERIAN TOBACCO PLC. ZARIA)

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BEING A PROJECT WORK SUBMITTED TO THE POSTGRADUATE SCHOOL AHMADU BELLO UNIVERSITY ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER DEGREE OF BUSINESS ADMINISTRATION (MBA) DEPARTMENT OF BUSINESS ADMINISTRATION FACULTY OF ADMINISTRATION AHMADU BELLO UNIVERSITY ZARIA.

AUGUST, 1999

CERTIFICATION

The project titled "AN ASSESSMENT OF WORKING CAPITAL. MANAGEMENT IN MANUFACTURING COMPANIES": A CASE STUDY OF NIGERIA TOBACCO COMPANY PLC ZARIA BY AHMED, ALIYU ABDULLAHI, Meets the Regulation Governing the Award of the Degree of Masters of Business Administration (MBA) Of Ahmadu Bello University, Zaria and is Approved for its contribution to the knowledge and Literary presentation.

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DECLARATION

I hereby declare that this project Was written by me, and that it is a record of my own research work. To the best of my knowledge this project has not been presented to any postgraduate school for the award of a higher degree.

STUDENT'S NAME: AHMED ALIYU, ALIYU ABDULLAHI



STUDENT SIGN

25/8/2007

DATE

DEDICATION

The project is dedicated to our Almighty Creator, beloved parents and family members.

ACKNOWLEDGMENT

In the first instance I would like to register my grattude to Almighty Creator for making the Research a success.

I am most sincerely grateful to my able and hard working Supervisor Mallam Abu-Abdssamad who always offer useful suggestions which make the work achieve the desired success. I am equally very grateful to the following people who in one way or the other contributed to the success of this work.

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ABSTRACT

This dissertation covered the assessment of working capital management in manufacturing companies. A Case Study of Nigerian Tobacco Company Plc, Zaria. Interviews were conducted to obtain the data needed which was complemented with taking a closer look at the records maintained by the company.

The essence is to examine to what extent the manufacturing company have been managing its working capital and how it worked in practical terms. It was also geared towards providing suggestions that will be of help to the company in improving the effective and efficient management of their working capital.

The components of working capital which comprises of current assets and current liabilities were discussed in detail, and also the role they plays in relieving effective and efficient working capital management in relation to attainment of the basic organisational objectives was highlighted.

In addition, the usefulness of the study falls within two arms of management at large and on the other hand to the personnel directly or indirectly involved in the management of working capital. In view of the organisation it rationalise their resources to maximized their profitability, setting of debtors and avoidance of overstocking.

The firm is faced with some problems which to a great extent effects their ability to effectively manage their working capital, these includes, the general state of the economy (i.e

macro economic policies, inflation, and foreign exchange problems).

The researcher does his research in Nigerian Tobacco Company, Plc Zaria. Thus the research is based on the current policies imposed relative to the working capital management.

As a result, I recommended the adoption of some ways to improve the management of cash, the factors to be considered before granting credits to customers, provision of adequate transportation of stock ad a careful analysis of cost especially the human and mechanical effots.

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CHAPTER ONE

INTRODUCTION

1.1 GENERAL OVERVIEW

The working capital of a business is the excess or surplus of its current assets over and above its current liabilities. It refers to the sum-total of the current assets minus that of the current liabilities (CA-CL). Thus it is the investment of a firm's resources in short assets viz cash, debtors, stocks etc. It is the commitment of funds in these assets.

By definition and infact in reality working capital is not a static or fixed figure. It changes continuously as its constituents are turned over again and again often severa times within a particular financial year. It should be noted that current assets are those assets which are expected to be realised and or liquidated within an accounting period which is invariably a maximum of one calendar year. Similarly current liabilities are those liabilities which are expected to be settled within a maximum of the said period.

The crucial importance of working capital lies in the fact that it is used to finance production and inventories (mainly through the purchase of raw materials payment of wages and other overheads) and also to provide credit to customers. Therefore the availability of sufficient working capital is very vital to the successful running of any business or industrial establishment. Any such establishment which is starved of the

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necessary amount of working capital will find its financial activities seriously curtailed; without sufficient working capital a business finds itself incapable of successful trading and or manufacturing just as a human body cannot do without blood. It has been established in Nigeria and in fact the world over that more firms die through lack of working capital than through any other problem.

It should however be appreciated that what any firm needs at any particular time is sufficient working capital commensurate with the scale of its operations. An unnecessarily large amount of working capital will result in a waste of resources; it is symptomatic of bad resource management. The costs in this situation are often high. Any increase in the working captal of a firm has to be matched by a corresponding expansion in the size of its operations. Thus a steadily expanding amount of working capital is a prima facie indivation of successful trading. Coversely a shrinking amount of working capital of a business establishment may be as a result of losses incurred or rapid expansion of the asset base of the firm and of its operations without a corresponding increase in its share and or loan capital. It should here be noted that increases in working capital are mainly effected by increases in the share capital of a firm or increases in its long-term liabilities. On the other han an increase in a firm's fixed and other non-permanent assets reduce the working capital. Decreases in the amounts of current liabilities will have no effect on the

working capital as these are matched by an equal reduction in the amount of current assets.

The measurement of working capital is important as a test of solvency i.e a firm's ability to meet its short time obligations. Sufficient also a defence against legal insolvency - a situation whereby a firm can not secure the necessary cash to settle its obligations even if it sells all its assets. It is pertinent to note that the crucial thing in the measurement of solvency is the relative rather than the absolute size of current assets.

A current Ratio CA/CL is a measure of this requirement. The proportion of current assets to current liabilities should ideally be around 2:1 i.e the current assets should cover the current liabilities about two times.

The content of working capital is as important as its absolute size. Under normal condition the contents should be made up of cash and near cash. For instance while adequate stock is necessary both in meeting customers demands and financing production yet an unnecessarily large amount of stock can create problems for a firm. First there is the capital tied up, storage and other holding costs; secondly and more importantly stock is not a very liquid asset. Similarly the size of debtors has to be reduced as a firm which has about half its working capital tied up in this asset is in a precarious situation. Therefore on the light of the foregoing an optimal level of cash and some marketable securities should constitute

a significant portion of a firm's working capital.

1.2 STATEMENT OF THE PROBLEM

Generally, the following are the major problems in working capital management that every business organisation is attempting to solve.

i Determination of the size of financial resodurces that should be invested in different forms of current assets i.e current asset structure problem.

ii How the different type of current assets should be financed i.e. current asset financing problem.

iii Determination of the relative composition of current and non- current assets in the total asset of the business, ie the current and non-current asset composition problem.

iv The problems associated with how prudently and effectively manage both current assets and current liabilities.

v Determination of the relative composition of current and non- current liabilities in the total liabilities of the business, ie the current and non-current liabilities or the short term and long term liabilities problem.

vi The problem of imprudent cash management by most firms due to the lack of proper cash budget and forecast methods as a result firms become cash stripped duridng the process of operation.

1.3 OBJECTIVES OF THE STUDY

The main purpose of this research project is to assess the following:

i Whether the working capital is properly managed in attaining the overall objectives of the company.

ii To determine how important is working capital in relation to the overall profit maximization of the firm.

iii To analyse and investigate whether the general outcry of insufficient fund in business organisation is couple with lack of proper management, especially with its working capdital.

iv To analyse the importance of managing the firms current assets such as cash, marketable securities, account recievables and inventories viz-a-viz current liabilities.

v To pin-points any potential danger that may occur in any business and/or inadequate working capital.

vi To analyse the means by which current assets would be financed.

vii To highlight on the recent modifications of the concept of working capital.

viii To give useful recommendations on how the firm should manage its working capital effectively and efficiently.

1.4 SIGNIFICANCE OF THE STUDY

The study shall be of great value to all the manufacturing firms as it shall enhance their working capital management and aid them to solve their working capital management problems.

This project dpresents a detail analysis of working capital management in Nigerian Tobacco Company Plc, Zaria. It reviews the theoretical framework necessary for general literature or

composition and approaches tod the case study.

Further more, its presents how to evaluate, analyse and interpret the past and present working capital policies, problems and cases of unsatisfactory performance in the organisation. The study will be helpful and of great significance to both the students of finance and the company in which the research is conducted and to any other user.

To the company in question, the intends is to provide the following:

a. The control measures for efficient utilization and management of available funds.

b. It provides measures for stabilisation of a balance between liquidity and profitability in investments.

c. It also provides genuine solutions to comabting contingencies.

d. Also it has an organisational optima of inventory valuation measures such as re-order level and economic order quantity (EOQ) which are provided for the company's use.

1.5 SCOPE AND LIMITATIONS OF THE STUDY

This project will also endeavour to discuss the conceptual aspects of working capdital and will unfold itself to a factual description of the company and it's operational activities. The structure of current assets, which constitutes a set of working capital components is then examined with analysis of the way these current assets are financed. Therefore the research is mainly concerned with assessing the working capdital management

in NTC and will limit itself on the performance of the company from 1993-1999.

During the course of conducting the project, the reseacher is faced with some problems which has directly or indirectly affect the research work and feel that they worth to be mentioned.

An extensive study is not possible due to major constraints such as:

i The researcher's desire to carry out the study within the shortest possible time.

ii Limited finance of the researcher coupled with the sproblem of transportation fares.

iii I was unable to lay my hands on all necessary informations and explanations, for the purpose of these research.

iv The personnel interviewed could not be true or disclose the necessary information required.

v That the review of working capdital in this text is limited to cash, debtors, inventories and short-term investment.

1.6 DEFINITION OF KEY TERMS

1. Working capital: Refers to a firm's investment in short term assets; eg. cash, short term securities (marketable securities i.e that can be quickly converted into cash), Trade debtors and stock.

2. Gross working capital: Is defined as a firms total current assets.

3. Net working capital: Means the excesses of current assets

over and above current liabilities (ie Wc = CA - CL)

4. Inventory: The aggregate of those items of intangible property which are held for sale in the ordinary course of business or are in process of production for such sale, or are to be currently consumed in the production of goods to be available.

5. Manufacturing industry - Industry that transforms materials into other goods through the use of labour and facilities.

6. Manufacturing - The process of transformation of a set of inputs to output.

7. Management - This is concerned with judicious utilisation of organisational resodurces to achieve desired objectives.

8. Debtors - Refers to person or institution that ownes money to an individual company or any other legal entity.

9. Creditors Refers to a person or institution to whom any person, company or legal entity owes money.

10. Accounts recievable Refers to money owed to supplies

11. Accounts recievable Refers to money owed to supplies

12. Work in progress/process These refers to the value of partly processed goods which has to be brought to accout to determine the profit or loss for the period. The valuation has to include the cost of the raw materials used, plus a sum representing wages and overheads as considered appropriate.

The work is progress/process will appear as a current aset in the balance sheet.

13. Accruals - This refers to the expenses incurred by an

organisations/individuals but not yet paid; its represents costless financing. It is a current liability to the firm.

14. Prepayments - This refers to the expenses paid in advance by an organisations/individuals and did not enjoy the benefit of such payment yet. It is a current assets to the firm.

15. Current assets - This refers to assets that can easily be converted into cash within a year.

16. Current liabilities - Refers to liabilities that will be repaid withi a year.

17. Line of credit - Means an agreement by a bank that a company may borrow at anytime up to an established limit.

18. Raw materials - Means items that are purchased by the firm to be used in the mandufacturing or production process.

19. Work in progress/process - Means products whose manufacturing has began but not yet completed.

20. Cash - This refers to the most liquid asset of the firm.

21. Collateral - Refers to assets that are given as security to secure a loan.

22. Acid test ratio - Refers to current assets excluding inventories divided by current liabilites. It is a test of the firms liquidity position.

23. Ageing schedule - Refers to record of the length of time that account receivable has been outstanding.

24. Cost - Simply means a sacrifice or value foregone to achieve an economic benefit.

25. Current ratio - Means the ratio of current assets divided

by current liabilities. It is used as a measure of liquidity.

26. Factoring - Means selling trade debts for immediate cash to a factor who charges commission or is a method of financing trade debt under which a firms sells its free debtors (generally without recourse) to a financial institution (factor).

27. Invoice discounting - It is similar to factoring except that it is only the financing service which is used, copies of invoice sent to customers are discounted with financial institution. Invoice discounting is characterized by the fact that the lender has recourse to the borrower (seller). If the person or fimr that bought the goods does not pay, the selling firm must take the cost i.e finance is provided with recourse to client company.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The concept of working capital as a useful tool in financial analysis has long been recognized. For instance, the American institute of certified public accountants (AICPA) in 1936 officially recognized the importance of working capital to the creditor.

"As a rule, a creditor is more particularly interested in the liquidity of a business enterprise and the nature and adequacy of its working capital; hence the details of the current assets and current liabilities.

Working capital has also gained attention because of the insurance of the statement of accounting standards No.2 (issued by the Nigerian accounting standards board) and international accounting standard No.7 (IAS 7) (issued by the IASC) which recommend the presentation of a fund flow statement (which highlights movement in working capital) as an integral part of a company's published financial statements.

2.2 The concept of working capital

The concept of working capital became established in the 1940s even though there was some disagreement as to its exact meaning. The confusion at that time centered on how properly to classify current assets (one of the main components of working capital; the other being current liabilities) i.e whether

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current assets should be defined as those that will be converted into cash in the short run or those that could be converted; the short-run here being taken as one year - one year being the dividing point between current and non-current assets. The confusion is understandable because the identification of current assets and current liabilities has traditionally been considered useful information to assist financial statements in analysing an enterprises financial position.

Criticisms against the one year rule resulted in the operating cycle to be taken as the basis for classifying assets as current. Thus AICPA accounting research bulletin No.30 defines current assets as "cash or other resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business" whereas current liabilities were defined as "debts or obligations, the liquidation or payment of which is reasonably classifiable as current assets or the creation of other current liabilities".2 The operating cycle was similarly defined as "the average time intervening between the acquisition of materials or services ... and the final cash realization". It also established one year rule as the basis for classification when the operating cycle was shorter than one year.3

The operating cycle point of view of working capital is to emphases the ability of the firm to pay its maturing obligations from funds generated by current operations (which is departure

from the traditional notion of working capital which was primarily concerned with whether or not the current assets were immediately realizable and available to pay debts, in case of liquidation).

International accounting standard No.13 (effective date 1st January, 1981) which defines working capital or net current assets as the excess of current assets over current liabilities also uses the operating cycle as the basis for distinguishing between current and non-current items.

"... items are included in current assets on the basis of whether they are expected to be realized within one year or within the normal operating cycle of the enterprise which over is longer, items are included in current liabilities if they re-payable at the demand of the creditor or are expected to liquidated within one year".

The standard however recognizes that "even when this approach is used as the general rule, there are instances of the inclusion of exclusion of individual items based on different criteria. Hence the classification of items as current or non-current in practice is largely based on convention rather than on any one concept".

2.3 Deficiencies in the concept of working capital

The assumption underlying the working capital concept is that by classifying assets into current and non-current items classified as current will be used to retire existing current liabilities and more over the measurement procedures used in

valuing these items are true indicators of the amount of cash expected to be realized or to be paid. However, a close examination of the underlying assumption of the present frame work of the working capital concept reveals certain deficiencies and inconsistencies some of which are:-

i Current assets include resources such as prepayments. Prepayments are usually used rather than exchanged for cash.

ii Inventories are measured at cost but are generally expected to be exchanged for amounts substantially above cost.

iii Some items currently classified as current have characteristics of fixed properties. Example, inventories and debtors are turned over several times in a year, they are also replaced by other items in a continuing cycle. Taking the business as a going concern therefore implies that there is a required minimum permanent commitment in receivables and inventories. The same argument is also applicable to trade creditors.

iv Operating cycle varies from industry to industry. If it is thus used as a basis for the classification of assets into current and non-current, this permits current assets which may include inventories that have been held for years (e.g., distillery firms) or may include inventories that are turned over many times within a year (as in some retail firms). A user of financial statements must therefore use different standards to guide him in the analysis of working

capital for various industries.

v There is also the problem of proper 'valuation of current assets and current liabilities. e.g some of the current assets are stated at cost (prepayment), some at lower of cost or market (inventories), some at realizable value (debtors less provision for doubtful debts) and some at current value (cash). Lack of consistent valuation weaken the validity of working capital analysis.

What the above deficiencies highlight is the need to redefine the working capital concept to enhance its usefulness as an accounting tool for financial analysis.

2.4 Recent modification of the concept of working capital

For a more meaningful working capital concept, it would be necessary to modify it in a way to show actual resources expected to be used in retiring maturing obligations. Thus current assets should include only current cash equivalent of the assets to be used to pay existing debts. The working capital presentation may therefore take the form of accounting for inflation where there is a distinction between monetary and non-monetary items and (a monetary working capital presentation) and would thus list as assets cash, temporary investments and 'receivables' and would list as liabilities current payable.

The advantages to be realised from such presentation would be:-

i it would be a more representative indicator of liquidity

ii provision of more information about actual flows because

only items expected to be realized or retired by cash would be include:

iii better predictive ability due to the possibility of tracing actual cash flows.

2.5 Components of working capital

IAS 13 definitions of current assets and current liabilities include examples of each classification as follows:-

2.5.1 Current assets

Some of the items included in current assets should be:-

a. Cash and bank balances available for current operation. Cash or bank balances whose use for current operations is subject to restrictions should be included as a current asset only if the duration of the restrictions is limited to the term of an obligation that has been classified as a current liability or if the restrictions lapse within one year.

b. Securities not intended to be retained and capable of being readily realized.

c. Trade and other receivables expected to be realized within one year of the balance sheet date.

d. Inventories.

e. Advance payments on the purchase of current asset.

f. Expense prepayments expected to be used up within one year of the balance sheet.

2.5.2 Current liabilities

Among the items included in current liabilities should be obligations payable at the demand of the creditor and those

parts of the following obligations whose liquidation is expected with one year of the balance sheet date.

a. Bank and other loans. If a loan is repayable in accordance with a schedule of repayment agreed with the creditor, the loan may be classified in accordance therewith notwithstanding a right of the creditor to demand current payment.

b. The current portion of long-term liabilities

c. Trade liabilities and accrued expenses

d. Provision for taxes payable

e. Dividends payable

f. Advances from customer

g. Accruals for contingencies

2.6 Management of current assets

This entails the effective and efficient management of the following.

i cash

ii marketable securities

iii accounts receivable

iv inventory

2.6.1 Management of cash

(a) Introduction

Cash is the key asset or lifeblood of an organisation. At what ever level liquidity is managed, the same problem is evident; how to provide sufficient cash to allow transactions to be undertaken promptly while at the same time preventing the

accumulation of excess liquidity. Put in another way just as shortages of funds can be embracing, idle or surplus funds can also be expensive.

Excess liquidity implies an opportunity cost. The money held surplus to requirements could be put to other more advantageous use for government, the opportunity cost of having excess idle funds is measured by the benefits which could have accrued from putting those funds to work in their best economic use.

(b) Reasons for holding cash by most of the companies

Cash is held by companies for three principal reasons:

1 The transaction motive that is, to meet payments in the ordinary course of business to employees, creditors etc and also to purchase fixed assets and to pay tax and dividends.

2 The precautionary motive, that is to hold a "buffer" to meet unexpected needs for cash.

3 There may also be a speculative motive, that is to have funds immediately available to take advantage of any unexpected bargain purchase that may arise.

The optimum level of cash balance is that which satisfies the motives above, without leading to excessive cash holdings from which a low rate of return is achieved. Decisions on the optimum level of cash must take into account the availability of cash from short term sources such as investments and overdrafts, which may reduce the need to hold large bank balances. Such decisions on optimal level of cash will also take into account

the following:

1. surplus cash and the length of time that such surplus will be available.
2. the availability of short-term investments with a desired return on investment, appropriate level of risk, ease of liquidation with minimal losses and portfolio diversification effects.
3. the accuracy of the cash budget data.

To ensure that the balance maintained minimizes the possibility of running out of cash or carrying excess cash, it is important that a company prepares cash budgets and forecasts to capture daily, weekly and monthly receipts and payments of cash.

Finally, and like in the management of other components of working capital, the main issue is to strike a balance between the costs of holding cash against the cost of not holding cash.

The costs of holding cash include loss of returns which could have been earned had the cash been invested and the loss of purchasing power of money during inflationary periods.

The costs of not holding cash include inability to settle bills, the costs of not taking up unexpected opportunities. Cost of borrowing at shorter periods (at higher cost) etc.

(c) Methods of managing cash

i Synchronization as a method of managing cash

This involves pushing your expenditure to the time you will have money. ie. matching expenditure with income of the

period.

ii Hasten collection (or cheque clearing) eg. lock box system. This involves opening accounts in several bank branches.

iii Slowing disbursement

This involves specifying a day by which payments are to be made eg. We can see contractors on Wednesday only.

iv Using the float

A float is simply the difference between the balance shown on the company's cheque book and the balance on bank's books.

(d) Objectives of cash management

According to van horne, 3rd edition, the management of cash is given attention because of the objectives aimed at achieving the major one being to carry an optimum balance of cash at any time that is, not too much too little --- some of the identifiable objectives can also be shown as follows:

i To make possible the payment of money by cheque

ii To be able to meet emergencies such as when a plant needs immediate repairs.

iii To take advantage of unexpected favorable occurrence such as temporary reduction in prices.

iv To maintain a reasonable level of earning power, since a company may have many investment that it is unable to finance.

v To maintain a reasonable level of profitability and liquidity

vi To provide for lack of syndronization between cash in flows

to the firm and cash out flows from the firm.

e. Techniques used for cash management

i Cash planning

Cash planing concerns with the collection of cash, mobilization of cash, disbursement of cash, establishment of cash balances, investing surplus cash and covering cash shortages. Proper cash planing is of great importance to firms as cash planing affects the liquidity and profitability of firms.

A firm should try to accelerate the receipts of cash and control the disbursements of cash, which can be achieved by the following cash planing techniques.

a. playing the float

b. lock-box services

c. pre-authorised cheques

d. electronic funds transfer (EFT)

e. factoring of accounts receivable

ii Cash fore casting

Cash forecast are needed to prepare cash budgets. It is an ad-hoc exercise of predicting future cash requirements base on past cash records. It may be done on short term or long term basis. The aim of preparing cash forecast is to determine the cash strategy that best meets the enterprise financial objectives.

(f) Cash management tools

The cash budget

A cash budget is a comprehensive statement showing details of all receipts and payments of cash which are likely to occur say every month for the next three, six, nine or twelve months, and which will reveal the estimated bank balance at the end of the month throughout the period in question.

Cash budget helps the organisation by:

a. Assessing that adequate cash will be available to meet the needs of the business.

b. Assessing that sufficient cash will be available to meet any capital expenditure.

c. Facilitating the utilization of the cash resources of a business to its fullest extent enabling interest charges on borrowed money to be kept to a minimum and surplus funds to be

d. Identifying an approaching cash shortage and thereby enabling management to raise additional funds of the right type and amount.

(g) Holding large sums of cash results in loss of profits and returns from investments and cost of maintaining large overdrafts (if any). There is no linking statement betweent (g) and the items under it.

However, under the following conditions companies may hold large sums of cash

i. Where a company's sales and purchases are mainly for cash, the company may hold large sums of cash to meet daily operating

The cash budget

A cash budget is a comprehensive statement showing details of all receipts and payments of cash which are likely to occur say every month for the next three, six, nine or twelve months, and which will reveal the estimated bank balance at the end of the month throughout the period in question.

Cash budget helps the organisation by:

a. Assessing that adequate cash will be available to meet the needs of the business.

b. Assessing that sufficient cash will be available to meet any capital expenditure.

c. Facilitating the utilization of the cash resources of a business to its fullest extent enabling interest charges on borrowed money to be kept to a minimum and surplus funds to be

d. Identifying an approaching cash shortage and thereby enabling management to raise additional funds of the right type and amount.

(g) Holding large sums of cash results in loss of profits and returns from investments and cost of maintaining large overdrafts (if any). There is no linking statement betweent (g) and the items under it.

However, under the following conditions companies may hold large sums of cash

i. Where a company's sales and purchases are mainly for cash, the company may hold large sums of cash to meet daily operating

requirements. This is true for companies that buy and sell fast moving items for cash. In such cases, stock turnover will be high, receivables low and consequently large amounts of cash will be maintained in relation to other current assets.

ii Where significant payments are due in the near future and overdraft facilities are not available, cash may be accumulated towards these payments. Examples include payment of dividends, tax and schedule debts.

iii The central bank of Nigeria is currently rescheduling the coun

try's trade debts to overseas suppliers by issuing promissory notes to those suppliers, under the terms of the refinancing, importers will be required to make Naira deposits to the Central Bank of Nigeria to meet these promissory notes. Some companies are holding large sums of cash for onward transmission to the Central Bank as and when required.

iv Speculative conditions of the economy: Where there are substantial fluctuations in the economy, a company may maintain large stock of cash to take advantage of "bargain" purchases.

v Occasionally financial institutions may experience a liquidity squeeze and banks limit overdraft facilities to companies. Where a liquidity squeeze is anticipated, companies might prefer to hold cash to meet operating expenses instead of investing the cash.

vi Seasonal sales: Where the demand for a company's product is seasonal, large sums of cash may be held during the 'heavy' periods with a view to using the cash during the off peak periods. For example, supermarkets and fashion shops that have heavy sales at christmas usually have large cash holdings during that period.

vii Seasonal purchases: Similarly, if purchases are seasonal cash may be held immediately before the buying season. Nigerian companies that buy cocoa for export have to pay the cocoa farmers in cash. Such companies normally accumulate and hold cash just before the cocoa harvest season commences.

viii Risk of running out of stock: Where there is a possibility that for whatever reason the company may run out of stock or that the actual cash position will differ from budgeted position, a large company may hod 'buffer' stock of cash as a precaution (precautionary motive).

(h) On the other hand, if the company is holding too little cash, it may encounter liquidity problems. Such a shortage of cash could mean that the company is forced to reject certain worthwhile investment opportunities owing to lack of funds.

The principal advantages would be:

a. Aggregation of cash balances

The centralization of cash management will allow surplus funds from operating units to be invested in an optimal way for the group as a whole. Each unit's funds may be relatively insignificant, but when combined with all other units produces

a manageable fund.

b. Portfolio effects

Some units may have temporary negative balances. Arrangements can be made with the bank that only the net aggregate balance is relevant for computing commissions and charges.

c. Expertise

Cash management will be carried out by specialized staff experienced in dealing with all aspects of the function.

d. Budgeting

A centralized operation will assist in the cash budgeting process, as the portfolio effect of positive and negative cash balances from individual units may cancel each other out.

e. Cash balances

The average size of the group's net cash balance is bound to be reduced, thus reducing the net opportunity cost of funds tied up as idle balances throughout the company.

f. Improved banking services

Centralization is likely to make the company more important to its bankers, and advantages may accrue to the company from this, such as special borrowing or overdraft facilities at attractive rates, or a reduction in the period between paying in cheques and receiving 'value' from the bank.

2.6.2 MANAGEMENT OF MARKETABLE SECURITIES

Introduction

These are short term investment into which excess cash may be put to yield a return and which can be converted into cash when

needed. Marketable securities can be grouped under three major headings:

a. Those with unknown convertion dates but can easily be converted to cash eg. certificate of deposit (MO).

b. Those with known convertion dates like commercial papers, treasury bills, bankers acceptance (MO).

c. Those with unknown convertion dates which are free for investment elsewhere like debt requirement (MF).

Therefore the size of marketable securities portfolio for a firm can be given by the expression M = MO + MO + MF.

Let us discuss briefly the various components of marketable securities.

(i) Treasury bill

This is an unconditional promise to pay to the holder of the bill a spacified amount at maturity. They are issued for short period of normally 3,6, or 12 months. The characteristics of treasury bill can be grouped into two viz:

a. Non-interest-bearing-treasury bills are sold at a discount on a bid basis, mainly to securities dealers and large commercial banks, who revel than to individuals and firms.

b. Most secure and liquid marketable security:- These type of treasury bills are subject to redemption eg are notes and bonds.

(ii) Commercial paper

A comercial paper (or commercial note) is an unsecured money market instrument. Large companies with good credit rating can

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raise short term funds by issuing commercial notes which are then purchased by investors in the money market. The notes are usually issued on behalf of the company by an issuing house (normally merchant bank). The commercial notes are usually issued for a stated period, say 90 days, 120 days or 150 days at specific rate of interest (coupon rate). For big companies, commercial paper is an important source of short finance particularly when the central bank of Nigeria credit guidelines restrict direct bank lending.

(iii) Banker's acceptance

Banker's acceptances are drafts that are accepted by banks, and they are used in financing foreign and domestic trade. The credit worthiness of bankers' acceptance is judged by the bank accepting the draft, not the drawer. Acceptances generally have maturities of less than 6 months and are of very high quality. They are traded in an over-the-counter market denominated by five principal dealers. The rate on bankers acceptances tend to be slightly higher than the rates on treasury bills of like maturity, and both are sold on a discount basis. Banker's acceptances can be both on domestic banks and on large foreign banks, where the yield tends to be higher.

(iv) Negotiable certificates of deposit

A short-term investment that originated in 1961, the certificate of deposit is evidence of the deposit of funds at a commercial bank for a specified period of time and at a specified rate of interest. Original maturities of certificates of deposit range from 30 to 360 days. Yields on certificate of deposits are

greater than those on treasury bill and reports and about the same as those on bankers' acceptance and commercial paper. A fair secondary market has developed for the certificate of deposit of the large money-market banks. Default risk is that of the bank failing, usually a small possibility. Like banker's acceptances, corporations buy domestic as well as certificate of deposits of large foreign banks.

Other types of marketable securities are repurchase agreements, agency securities, call monies, adjusted rate preferred stock, treasury certificates, commercial bill and eligible development stock.

Good marketable securities must be free of default risk, must have a ready market and should have a low risks, short life span and little of fluctuation in yields. From among alternative securities, the firm should examine three (3) basic textures of such security viz:-

i Maturity:- A company should arrange its portfolio so that securities should mature approximately when the funds will be needed. This kind of arrangement will give the firm a great deal of flexibility in maximizing the average return on the entire portfolio.

ii Marketability:- If marketable securities are securities available to a company as near-money investment, marketability of the item should be considered in deciding the types of marketable securities to invest on. High marketable securities are perhaps best suitable for an emergency

liquidity need of a firm.

iii Safety:- In investing in marketable securities, its safety should be considered before investment it is important to point out that a high yielding marketable securities are associated with low risk.

Securities with low marketability have higher yields in order to attract buyers. Therefore, portfolio may then be selected based on the above risk-return characteristics.

2.6.3 Management of Accounts Receivable

(Debtors), another component of W.C. needs efficient management because to neglect it is to neglect a source of cash and therefore not realizing the full financial potential of the organisation. The level of accounts receivable is a function of credit sales and average period between sales and collection. Additionally there are costs associated with debtors:

i The cost of the capital tied up in them and

ii The cost of bad debts.

Management needs to establish a policy on its debtors. Some of the factors to be considered are:-

a. Cash discount to be offered for prompt or early payment, early payment not only reduces capital requirements but also saves administrative costs in pursuing outstanding debtor and may reduce the overall risk of bad debts as well. There may also be an element of price reduction in the cash discount which is another way of offering lower prices to a sector of the market which might otherwise go to competitors.

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b. Official period of normal credit offered.

The period of credit in most cases is net by convention of the trade and very little flexibility is afforded to individual business.

Where there is a choice in credit terms, it must be borne in mind that credit is not only expensive in terms of capital tied up, but that it may increase the risk of bad debt.

c. Assessing credit worthiness of customers

In assessing the risk of a request for credit the Cs are relevant i.e character, capacity, collateral. These Cs are particularly important especially requests for initial granting of credit. Credit investigation may have to be carried out which may be based on sources such as bankers references, financial reports etc.

Although a great deal of business can be gained by offering credit to those with whom others will not trade, note that the costs of legal action in pursuit of debts can be very high and one large bad debt will wipe out the profit earned on a very large volume of sales.

d. Action to be taken regarding late payments.

A system must be maintained which signals outstanding debts which go past their due date of payment.

There may be sanctions ranging from polite reminders, through sanctions letters and withholding of supplies to action through a court.

e. Collection measures and their effectiveness.

Once a credit granting policy has been established, investigation should be made to check the effect of changes in collection policy on a receivables level.

We note that collection measures affect the receivables level on their own whether directly or indirectly rather than just through a credit-granting policy.

From example more intensive collection efforts lead directly to larger collections from overdue accounts and thus receivables investment. These collection efforts need to be balanced with the periodic expenses once a credit - granting decision is made.

g. An organisation may also reduce its investment in debtors without restricting the among of credit offered to customers by means of debt factoring i.e debtors are 'sold' to a factor (an organisation) at a discount for cash.

g. An organisation may sell goods on contract which may include a clause reserving title in the goods until payment has been made. This is a device to minimize the risk of bad debts.

What all the above ground rules/guidelines/policy formulation discussed above imply is that a sound credit control policy sill be achieved by a combination of appraisal, experience and instruct.

2.6.4 MANAGEMENT OF INVENTORY

(a) Introduction

Inventory is defined as the goods held by the firm for the purpose of eventual research, as such inventories are the vital

elements in the effort of the firm to achieve a desired sale level depending on the nature of the industry. It should be noted that 3 types of inventories.

i Raw materials: This are goods that have not yet been committed to production in a manufacturing firm.

ii Goods in process: This categories of inventory include materials that have been committed to the production process but have not yet been completed.

iii Finished goods: They are completed product that are a crating sales.

Inventory management can be defined as the effective planing and control of the aggregate of those items of tangible property which:

i Are held for sale in the ordinary course of business

ii Are in the production process (working in progress/process)

iii Are purchased by the firm for ultimate conversion into finished goods (raw materials).

(b) Objectives of inventory management

There are basically two objectives of management of inventory:

i To meet the demand for the product by efficient organising the firm's production and sales operation.

ii To minimize the firms investment in inventory

(c) Types of inventory

Statement of accounting standard (SAS) No 4 issued by the Nigerian accounting standards board (NASB) defines stocks to include those goods and livestock awaiting sale, work in

progress (i.e partly finished goods and materials held between manufacturing stages) raw materials, components etc used in the manufacturing of goods) and supplies to be consumed in the production of goods or the rendering of services.

(d) Reasons for holding inventory

There are countless reasons for holding stocks, but some of the main reasons for holding stocks can be summarized as follows:

i to ensure that sufficient goods are available to meet anticipated demand or use.

ii to absorb variations in demand and production.

iii to provide a buffer between production processes (this reason is more applicable toad work-in-progress).

iv to take advantage of applicable of bulk purchasing discounts

v to meet possible shortages in the future

vi depending on the peculiar nature of the good, it may be necessary as part of the production process, for example, the maturing of wine.

vii as deliberate investment policy particularly in times of inflation and or possible shortage.

(e) Other reasons for holding inventory

The reasons advanced in section (d) are rational, logical ones based on deliberate decision. However, stocks accumulate for other less convincing reasons. Such typical reasons may be:

i Obsolete items being retained in stock,

ii Poor or non-existent inventory control resulting in over-

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large orders.

iii Inadequate or non-existent stock records.

iv Lack of effective communication or poor liaison between the production, control. purchasing and marketing departments.

(f) Inventory costs

Whether it is a deliberate policy on the part of management to hold stock or not, holding stocks at any point in time represents on investment by the organisation. Just like any other investment (involving commitment of resources) the costs of holding stock must be related toad the benefits to be gained i.e there must be a trade' off between the two. To effectively achieve this, the cost of stock holding must be identified and this can be done by classifying the cost into three categories, costs of holding stock, costs of obtaining stock and stock out costs.

(g) Costs of holding inventory

There costs are also known as carrying costs and they include the following:

i interest on capital invested in the stock

ii storage charges rent, heating, air conditioning

iii stores staffing, equipment maintenance and running costs

iv handling costs

v audit, stocktaking costs

vi insurance, security costs

vii deterioration and obsolescence

viii polterage, vermin damage

(h) Costs of obtaining inventory

These costs, at times referred to as ordering costs include the following:

i the clerical and administrative costs associated with the purchasing, accounting and goods received departments.

ii transport costs

(i) Stock out costs

There are costs associated with running out of stock. The avoidance of these costs is the main reason why stocks are held in the first instance. These costs include the following:

i Cost contribution through the lost sale caused by the stock out,

ii Loss of future sales because customers go elsewhere,

iii Loss of customer good will,

iv Cost of production stoppages caused by stock outs of work in progress or raw materials,

v Labour frustration over stoppages,

vi Extra costs associated with urgent, often small quantity, replenishment purchases.

Even though many of the costs enumerated so far are difficult to quantity they are significant.

(j) Objective of inventory control

The overall objective of inventory control is to maintain stock levels so that the combined costs set out in sections (g) (h) & (i) are at a minimum. This is done by establishing two factors; when to order and how many to order.

However, before any needed or decision rules can be applied to the effective management do stocks a proper system of control and recording of stocks must be instituted. If stocks are uncontrolled (i.e left lying around in heaps for anyone to use as required) it will be impossible to know the level of stocks and therefore impossible to control them.

(k) Elements of inventory control

A proper system of stock control will have the following elements:

i Physical security of the stock

Stock should be properly stored in a lock able section controlled by a responsible storekeeper. Security will include such things as dry storage for stocks vulnerable to damage from days and safe containment of poisonous or inflammable stocks.

ii There also ought to be diversified control of stock ordering and usage.

For instance usage of stock should be authorised by works personnel or appropriate unit, issues and receipts by the stores personnel, buying by the buying or purchasing office and payment by the accounting department.

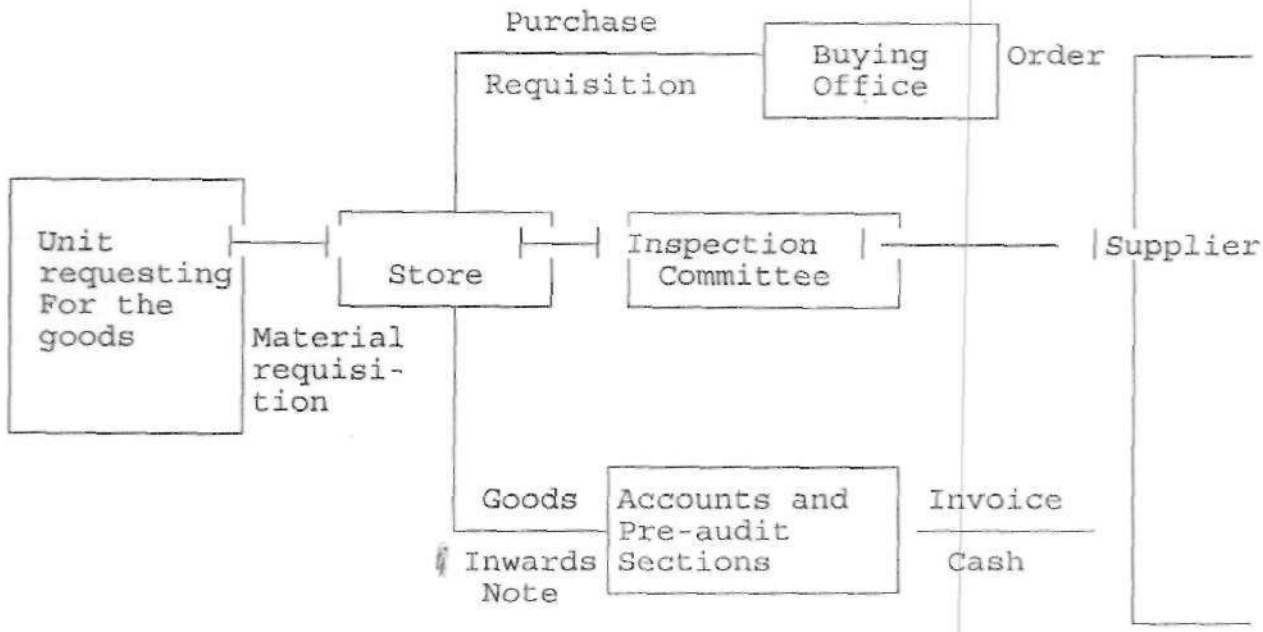
This built in check and double check is to ensure incidence of error and fraud much less likely.

iii Careful documentation of all stock movements and of stock levels. This is to make it possible for proper

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information to be obtained for stock control and other purposes.

Below is a simplified version of most elaborate stock control system incorporating the above elements.



Note

(a) ---------- Paper

(b) _____ Goods

(c) Explanation of terms

i. Material requisition

This is a signed request from the unit requesting for the goods. It records. The authorisation for the usage of stocks, provides a primary posting document for writing up stores records.

ii. Purchase requisition

A signed request for replacement stocks from the storekeeper

to the buying office. It will be used when stocks of a particular type are reduced by issues to a prescribed minimum level and will request a prescribed re-order quantity.

iii. Goods inward note

This is a record of stocks delivered to the store. This will be checked against the order.

iv Order

This is a request by the buying officer for the supplier to sent fresh stock. To prevent unauthorised supply, suppliers must generally be advised that only goods supplied against an official order will be paid for.

v. Invoice

This is the suppliers bill for the goods. It will be paid when verified against the purchase order and the goods inward note.

As already stated, there are costs associated with holding unnecessarily high level of stock. These costs we must seek to minimize. On the other hand, there is the need to have sufficient stocks to meet normal demand. An inventory control system that seeks to balance the above considerations is the re-order level system.

(1) Re-order level system

The re-order level system also known as the 2-Bm system has the following characteristics:

i A predetermined re-order level (i.e the level of stock at which a further replenishment order should be placed) is set for each item.

ii The replenishment order quantity is the economic order quantity (EOQ) or economic batch quantity (EBQ) which is the ordering quantity which minimis the balance of cost between inventory holding costs and reorder costs.

The alternative name - the 2-Bin system - comes from the simplest way of operating the system whereby the stock is segregated into two bins. Stock is when initially drawn from the first bin and on replenishment order is issued (by the appropriate body when it (first bin) becomes empty.

We now need to see how management will determine the replenishment order quantity and the reorder level.

(m) <u>The replenishment order quantity - the EOQ</u>

The EOQ is the ordering quantity which minimises the balance of cost between inventory holding costs and reorder costs. Certain assumptions are necessary in order to calculate the EOQ.

There are:

i That there is a known constant stockholding costs,

ii That there is a known, constant ordering cost,

iii That the rates of demand are known,

iv That there is a known constant price per unit,

v That replenishment is made instantaneously.

The EOQ formula gives an exact answer but one must be cautions in applying it since the figure is based on estimates. The formula is

$$EOQ = \frac{\sqrt{2xC_0xD}}{C_C}$$

where

Co = ordering cost per order

D = Demand/Number used per annum

Cc = Carrying/Holding cost per item per annum.

(n) The reorder level

Ideally, this is the point where there remains just enough stock to cover the period waiting for the order to be delivered. The re-order level is this dependent upon the lead time and the demand during the lead time.

The lead or procurement time is the period of time (in days, weeks etc between ordering and replenishment i.e when the goods are available for use.

Since it depends on delivery times, the re-order level (R) given that L is the delivery time in day, weeks etc, D is the number of units demanded per annum, and W is the number of working days, weeks in a year is:

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$$\frac{DL}{W}$$

Alternatively R is Normal usage (per day, week etc)x Normal lead time.

Once the reorder quantity and level are known, the storekeeper will keep a ledger say in a card form recording the quantity of stock received and issued. This serves to prompt him when

reordering is necessary.

(o) Safety/buffer stock

Demand pattern may not be known with certainty; demand may fluctuate from day to day, from week to week etc. Thus the organisation will run out of stock if there are sudden spurts in usage beyond the average/normal usage, clays in processing orders or delivery days. Organisations then must provide for some safety stock some minimum or buffer inventory as a cushion against reasonable expected maximum usage.

The safety stock then becomes expected maximum usage less normal/average usage.

The reorder level is then computed as safety stock + average/normal usage during the lead time.

2.7 FINANCING OF WORKING CAPITAL

The sources of finance available to a business firm fall into the following groups. Short term, medium term and long term sources of finance. Each source is however composed of numerous individual sources. The financial manager frequently needs to choose between one course and another and in order to be able to do this he must be aware of the particular features and cost of each source the procedure for using it and its implication for the firm overall finance strategy. Also the effectiveness of each method will depends upon the nature of the business concerned.

A typical financial manager spends most of the day managing current assets and liabilities the management concentrate mostly on this aspect that often results in a myopic approach to such

management.

Current assets must be sufficient to cover the current liabilities. The level of current assets must be observed and analysed to determine the appropriate working capital required for a business.

It is important to note that determining the appropriate levels of working capital involves a trade off between risk and profitability (risk-return tangle). The cost of liquidity is the cost of holding excess current assets, it reduces returns on asset, as funds tied up in idle cash, and stocks earns nothing, and high level of debtors reduce profitability. The cost of illiquidity is the cost of holding in sufficient current assets. It is risky as it makes the firm insolvent and thus, not in a position to honour its obligations as it carries too little cash. This may force the firm to borrow at a higher interest rates; affect the credit worthiness of the firm.

The business firm should therefore, maintain its current assets at a level, where the sum of these two costs is minimised - Three types of short and medium-term finance that could be issued to finance working capital requirements:

i Bank overdrafts:- These have the advantage of being easy to arrange and flexible but the overdrafts are repayable on demand and the interest cost will be high.

ii Delaying paying the creditors: This has the advantage of not needing arrangement with a third party and of saving the cost of paying early. However cash discounts for early settlement

will be lost and supplier dissatisfaction will increase.

iii Factoring sales ledger costs will be eliminated and bad debts should be reduced because of the factors superior credit control facilities. Cash will be recovered earlier but the cost of factoring may well outweigh these benefits.

2.8 MANAGEMENT OF CURRENT LIABILITIES

The credit/current liabilities management policies contain the following three major elements;

1. the criteria for extending credit and the credit terms to be offered.
2. protection of the sellers investment in credit sales, and
3. collection procedures.

Which are supplemented by the proper articulation and handling of the following terms of lending.

1. loans in note form
2. interest rates
3. compensating balance requirements
4. commitment fees and
5. loan repayment.

The management of current liabilities entails the proper management of the following:

i creditors

ii trade credit

iii bank overdraft

iv accrual accounts.

2.8.1 MANAGEMENT OF CREDITORS

Creditors will have to be due course re-imburse. The later the reimbursement is made, the longer the entity has the use of this money:- No financial manager should however, condone the deliberate later payment of creditors as a device for conserving working capital.

This is because creditors may retaliate, e.g. by not offering prompt payment discounts, by insisting on cash on delivery, by charging higher prices or even by refusing to transact business with the entity. This lengthening the average age of creditors is no a policy that can be pursued and infinitum.

The report of the ministerial committee on the causes of the excessively high cost of government contracts in Nigeria found that:

> "Delay however does occur in the accounts when funds are not immediately available. Sometimes certificates have remained unpaid for more than six months leading to a liquidity crisis for the contractors concerned. Lack of guarantee of regular and timely payment of approved certificates to contractors to a slowing down of the progress on contracts and price escalation. The uncertainly factor is also build into the rates by contractors, thus leading to higher tender and construction costs".

Generally, creditors should be paid according to the credit terms

originally established at the inception of a contract of bargain. Where possible and sufficiently attractive, advantage should be taken of discounts offered.

2.8.2 TRADE CREDITS

When traders buy goods from their suppliers, they do not usually have to pay for them immediately. The period of credit they are given provides them with an opportunity to sell the goods before they have to pay for them. In effect, the supplier is financing the transaction until the trader has had the opportunity to find a customer. Cash discounts are often offered to encourage invoices to be paid within a set time, say, 21 days of course, the same situation applies in reverse. When it is we who are supplying the goods and services, we often have to wait for payment, and it is then we who are providing funds to finance the operation.

In order to maintain sufficient working capital we might resort to a practice known as factoring (or invoice discounting) whereby, for the payment of a fee, a specialist company will collect any outstanding debts and keep any accounting records necessary.

Trade credit is such an important source of capital for any business that it is imperative to retain the confidence of one's creditors. A financial crisis could easily develop if creditors become nervous and ask for cash on delivery.

<u>Advantages of trade credits</u>

i it's readily available; There is no need to arrange financing formally.

ii it is advantageous to small firms that have difficulty in obtaining credit else where or cannot obtain it at all, and so also to new and expanding business.

iii company's assets are not charged, thus ability to raise further funds is not impaired.

The costs of making maximum utilization of trade credit include:

i loss of supplier's goodwill

ii loss of any available cash discounts for the early payment of debts

iii hidden costs of high prices and poor services

iv reduction of credit rating

v pressures from suppliers.

2.8.3 BANK OVERDRAFT

This is an arrangement between the bank and the borrower concerning the maximum amount by which the borrower may overdraw his account.

Bank overdrafts are legally repayable on demand, therefore they should be applied on assets which are readily realizable or disposable.

Bank overdraft facilities consist of an agreed line of credit on what the firm can draw current account cheques. Technically, the overdrafts is payable at call but in practice banks normally give some specified long time period such as 6 to 12 months within the firm must eliminate the overdraft or reduce it to a lower level.

Overdraft is the cheapest, the most flexible and convenient source of short-term finance.

2.8.4 ACCRUAL ACCOUNTS

Accrual accounts represent a spontaneous source of financing. The most common one is the wages and taxes. This are expenses incurred but not paid, or services been rendered to the firm by the employees. Like account payable, accruals tend to expand with the scope of the operation. Example A sales increase, labour costs usually increase and with then accrued wages increase; As profits increase, accrued taxes increase.

2.1 APPROACHES TO WORKING CAPITAL MANAGEMENT

There are so many approaches of working capital management by so many authors, among them are;

2.1.1 COST BALANCING APPROACH

This approach is applied to specific components of current assets to determine the minimum cost. It is applicable to inventory management (EOQ) ie. economic order quantity, where two (2) district types of costs are associated with naira level of current asset.

2.1.2 LINEAR PROGRAMMING APPROACH

This model is based on the firm's assumption of cost minimization as objective function, subject to certain constraint faced by the firm. It provides a tool for decision making in working capital management.

This approach is an attempt to solve problems of scarcity by stating problems, conditions is equations from that provides

connection between walrus and linear programming.

Linear programming is concern with describing the inter relations of the components of a system, representing such as system in mathematical terms may result into a system of linear in equalities and equations. Components such as men, machine, material etc, working capital components are always limited in the productive system and among the most important decisions which face managers are those relating to the use of these reassures.

2.1.0 RESEARCH FINDINGS ON WORKING CAPITAL MANAGEMENT IN NIGERIA FIRMS.

This research profit concerns only with assessing the working capital management in Nigerian firms; A case study of Nigerian Tobacco Company Plc Zaria.

Other research work carried out related to the topic are also considered in the literature review.

Mallam Isah Garba Gusau in his research project, An assessment of some problem on working capital management in Nigerian firms; A case study of Sokoto cement of Northern Nigeria, 1991 discovered the following:

That the company has too much of its fund tied-up in stock and work-in-progress (of cement product in this case) and others lying idle in bank account and at the company's safe. By having too much fund invested in its inventories; it signifies delays in meeting customers-order and hence the likely

hood of loosing customers to competitors like Ashaka cement company Bauchi; Benue cement company etc.

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The company also have too much money lying idle, it means not taking advantages of short-term sources of investments like government treasury bills, commercial paper and other marketable securities so as to earn return.

It was also discovered that the company has a bed, an un-stable collection policy with its creditors, the cement company also rely more on it boundary creditors and accrued wages as it means of short terms source of financing. So also cost of delaying payment to creditors will have effect, because it will attract labour problems like workers strikes and other weapons of production sabotage by the workers.

The following findings were discovered from Nigerian Tobacco Company Plc Zaria.

1. The financial manager keeps adequate record of it financial resources to cater for the smooth operations of the business, by making sure that the fund are available when needed, and available stocks of raw materials and finished goods for continuous production to meet customers demand.
2. The company also make deposit of part of it funds in the bank to earn interest and utilising those funds when needed for business operation.
3. The company also give "trade discounts" to customers that makes prompt payment to the company as a result of money owed to the company.
4. The company also makes or gives preferential treatment to it customers that pay at the right time, when ever they place a

request they are attended to immediately.

Although it was discovered from the dealers that sometimes they may place a request and the company do accept their money and delay allocation. This is not a nice approach to dealing with customers as the company will eventually lose its promising customers to competitors manufacturing the same product.

Mallam Abdullahi Ahmed Adam: In his research project, management of working capital in manufacturing firms: A case study of Nigerian Tobacco Company Zaria. He discovered the following: That the value of gross working capital ratio, shows that about 70% of total investment of NTC has been in current assets which is quite typical of a manufacturing concern.

The company's cash management was of smoother cash operation, effective cash control in terms of receipts and payment of cash. ensuring the profitable investment of cash.

The company sell on cered it to credit worthiness customers all over the country, it extend credit in order to boost sales the period of collection is determined by economic condition and credit policy of the company. The funds are been tied up investment as accounts receivable. The sources of financing these investment are the current liabilities which is made up of creditors account payable, current taxation, dividend and bank loan.

2.1 IMPORTANCE OF WORKING CAPITAL

The crucial importance of working capital lies in the fact that it is used to finance production and inventories (mainly through the purchase of raw materials, payment of wages and other

overheads) and also to provide credit to customers. Therefore the availability of sufficient working capital is very vital to the successful running of any business or industrial establishment. Any such establishment which is starved of the necessary amount of working capital will find its financial activities seriously curtailed; without suffient working capital a business finds itself in capable of successful trading and or manufacturing just as a human body cannot do without blood. It has been established in Nigeria and infact the world over that more firms die through lack of working capital than through any other problems.

The importance of working capital management entails the effective organisation, acquisition, utilisation and control of the available resources as follows:

i that the volume of resources or investment held in current assets is so huge in most business and the cost of capital/interest or short terms funds required to finance them is of vital importance.

ii current assets and liabilities at time have some district character rustics in terms of convertibility' maturity etc that makes it an area that requires special attention of the financial manager.

iii for small firms that has relatively limited access to the long term sources of finance, but short term sources, prudent management of their working capital becomes more imperative.

iv the relationship and lap between sales and cash receipts form the credit sales (operating cycle) is not instantaneous and

hence the credit sales (operating cycle) is not instantaneous and hence the firm's need working capital is avoid financial difficulties.

2.12 WORKING CAPITAL AND INTERESTED PARTIES

The banker as a lender and often as a business consultant has particular interest in the size of the working capital of a client business. He is primarily concerned with liquidity (marketability) of assets and their sufficiency to meet obligations mainly advances made. Some bankers do often insist that a borrower maintains a certain minimum level of working capital. This often helps the bankers to ensure that a client or customer firm does not engage in overtrading. Overtrading is a situation whereby a firm tries to sustain a particular sable of operations with insufficient each resources. Its basic symptom is extreme cash shortage. It is a road which ultimately leads to disaster.

As a business consultant the banker knows the indispensability of working capital to the smooth running of a business. He often uses a source of working capital statement to analyses requests for advances or to gage the future liquidity of a firm.

Other creditors are particularly interested in how promptly a firm can meet its debt charges - fixed interest plus principal payments. This rests squarely on the firms capability to raise the necessary cash at the appropriate time. This can only be possible there has been and there is prudent management of working capital.

2.11 THE WORKING CAPITAL (OR OPERATING) CYCLE

The working capital (or operating) cycle is the period between

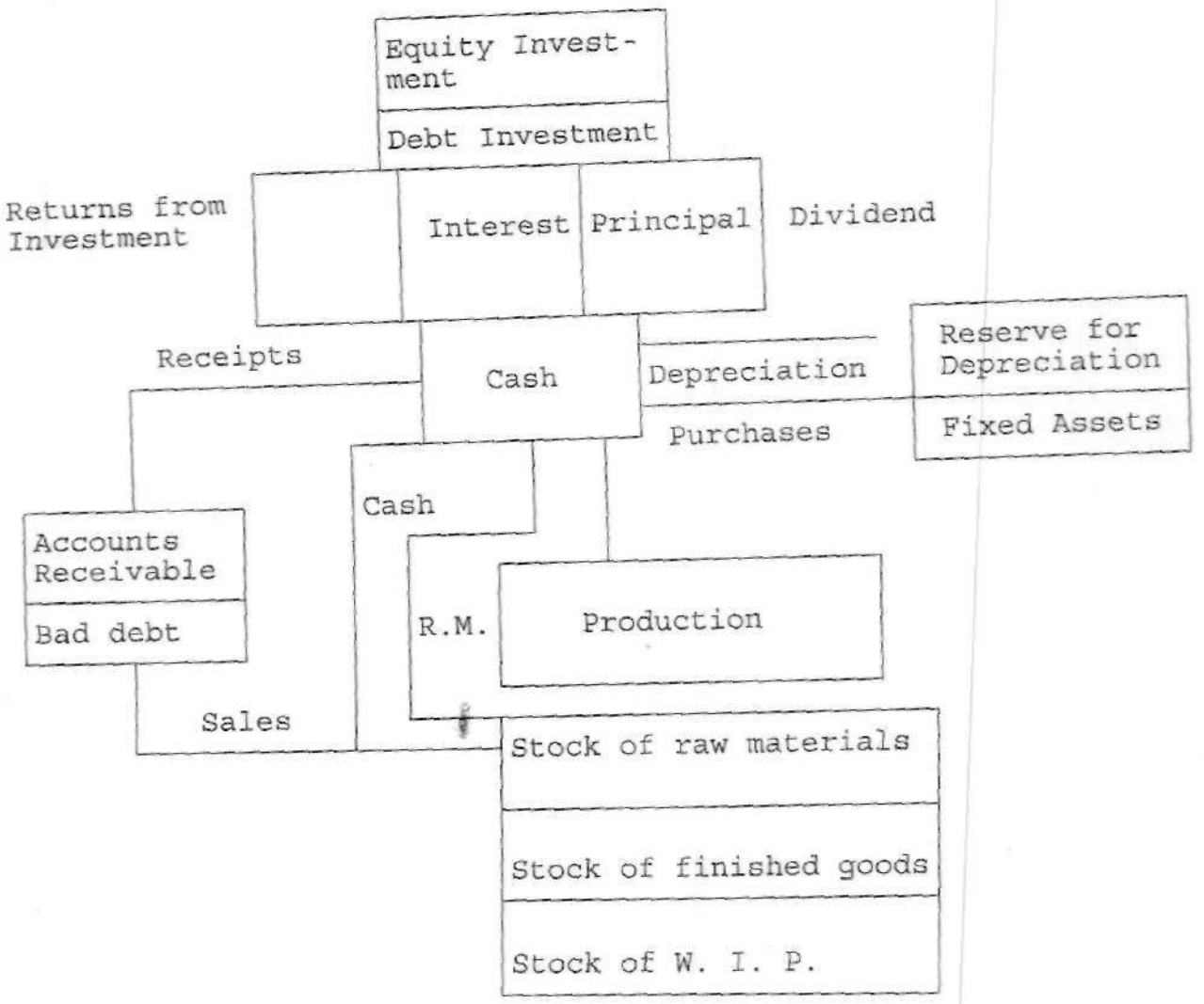
the payment of cash to creditors and the receipt of cash from debtors. The amount tied up in working capital is equal to the value of raw materials, work-in-progress, finished goods and debtors less creditors.

The length of the operating cycle has a direct effect on the liquidity of an organisation. As the turnover periods for stocks and debtors get longer and as payment period to creditors becomes shorter, the operating cycle will length and the investment in working capital will increase. A knowledge of the operating cycle would help management in cash budgeting especially where sales and production are seasonal and variable.

The working capital cycle prepared could be compared with past figures of the same firm or with some predetermined targets. This would enable the firm to reappraise its investment in the various components of working capital and where necessary, reduce such investments accordingly.

A company might require additional investment in working capital due either to physical growth in the volume of activity or to price increases. Each co ponent of working capital would be appraised accordingly to ide tify which of them should have its working capital investment reduced.

2.13.1 THE CIRCUIT FLOW OF WORKING CAPITAL



2.14 HISTORICAL BACKGROUND OF NIGERIAN TOBACCO COMPANY PLC NTC ZARIA

Nigerian Tobacco Company is a well know producer of cigarette, a fore most Nigerian company reputed as makers of Nigerian finest cigarettes and pioneers in rural agricultural development.

Nigerian Tobacco Company's business in Nigeria stated on the basis of import trading. In 1912, British - American tobacco

company limited (BAT), which was NTC's predecessor in the business, established a depot and sales organisation in Nigeria to handle the distribution of its products. This was followed in 1933 by a pilot factory at osogbo manufacturing cigarettes from imported leaf. In 1937, the first full single factory was opened at Ibadan, and the other one in Zaria established in 1959.

In March 1951, Nigerian Tobacco Company Limited (NTC) was incorporated as the successor to BAT, it become a public company in 1960 when BAT offered to the public in Nigeria some of its ordinary stock which are dealt with in the Nigerian stock exchange. The two factories in Ibadan and Zaria manufactures mines branches of cigarettes, there are benison and ledges, special filter, john player, Gold leaf, High society, Sweet menthol AFT and LFCT, three rings FCT, and main, Bicycle and wills mars.

In 1873, a Green leaf threshing plant for processing lead tobacco was installed in Zaria.

NTC has twenty offices and installations for its sales and leaf growing operations all over the country, it lead office was situated in Lagos. The tobacco leaf are plant by farmers in Kano, Sokoto, Plateau, Kaduna, Benue, Anambra, Bendel and Oyo state and has distributors in all other states in the country.

Nigerian tobacco company is a manufacturing company a major source that generate revenue to the government on yearly basis, it also provide tobacco seeds to its farmers. NTC is therefore an important contributor to Nigerian society items of providing employment and stimulating industry and agriculture.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is expected to discuss or present the various methods of data collection, their advantages and disadvantages among which at least two methods will be chosen as a basis for conducting this research project. Some of the methods which can be used for the purpose of conducting research are as follows:

i personal observation or observational methods

ii personal interview

iii questionnaire method

iv documentary sources.

We let briefly discuss the meaning of each of the above highlighting their advantages and disadvantages.

3.2 & 3.3 Method of data collection, their advantages & disadvantages

i. OBSERVATIONAL METHODS

Observation could be direct or indirect

a. Direct observation: Here the researcher witnesses or experiences event or phenomenon at first hand. This could be controlled (e.g laboratory experiment) or uncontrolled as in a field experiment. Controlled observation properly assumes external or independent checks upon one's findings. Any chance or unsystematic observation can be labelled uncontrolled. Some times a distinction is made between participant and non-participant

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direct observation.

LIMITATIONS OF DIRECT OBSERVATION

Where whethe one engages in casual observation of one's own group or functions as a participant observer in an alien group or employs some system of controlled observation of a group certain limitations inhere in the direct observation.

1. This mode of research is more appropriate in studying relatively small group. No scientist, researcher or layman an engage in direct observation of large groups such as nations or large metropolitan cities.
2. Direct observation must be supplements by indirect observation even in a small group setting.
3. A third limitation of direct observation stems from the society's power structure and value system.

b. Indirect observations: In this mode of observation, the observer does not actually perceive the given social phenomena but rather depends upon persons who directly observed or experienced these to reconstruct them for him. Indirect observation is perhaps the most popular data gathering procedure in social science. The prime reason is the impossibility of researchers observing directly certain kinds of behavior. For example certain spheres are regarded as sensitive and therefore inaccessible. Again highly complex systems can after only be surveyed through the eyes of members of the system functioning at the various levels.

ii Interviews

Interview as data collection techniques are meetings in which

the investigator direct questions at the subject and records the obtained responses. These are after face-to-face interactions, although they can as well take place on the phone. Unlike the questionnaire, the researcher both asks the question and records the answers. However, when a questionnaire is used to conduct an interview, it is called an interview schedule.

Generally, a successful interview could be medicated on (i) accessibility (ii) cognition and (iii) motivation. Accessibility refers to both the accessibility of the respondents to the interviewer and the accessibility of the required information to the respondent. Cognition refers to the understanding of the respondent of what is required of him. While motivation refers to the willingness of the respondent to cooperate and give accurate answers.

Often one researcher is unable to conduct all the interviews necessary for a successful outcome of the research. In such situations it becomes necessary for the researcher to recruit assistants should posses these characteristics.

i honesty (should be honest)

ii should have interest in research work and in interviews generally

iii ability to record accurately answers

iv be able to accept or cope with varying situations in an interview

v to remain emotionally detached from the respondents

iv intelligence and educated.

For interview to provide the desired data the following points should be noted

a. The need for some training to familiarize the assistants recruited with interviewing techniques generally as well as some specific requirements of the job at hand.

b. Field supervision is needed to detect shoddily works and prevention of inadequate and fraudulent work.

c. Field cross-checks of interviews claimed and accuracy of recordings.

d. Provision of satisfactory working condition of interviewers for high morale.

Interviews as data collection tools give the following advantages:

i Allow for quicker collection of information

ii Response rates tend to be higher than in new led questionnaire

iii Interviews permit greater flexibility in the process of questioning. Topics can be introduced

iv In variety of ways and questions can be clarified until the interviewee understands them and respondents have the opportunity to further quality their response even when these are so-called limited choices.

v Illiterates and subjects with reading deficiencies can be contacted unlike with a questionnaire.

vi Validity of responses can be ascertained by further indepth probing of responses and by in-analyzing respondents' state of nervousness, hesitation, etc in responding.

vii Good for pilot studies

The draw backs of the method include:

i Cost: Interviews cost more than questionnaires because of greater cost per respondent and limitations of the number of persons that can be reached.

ii The fact that the interviewer may not have established the proper report with the respondent the inter personal nature of the interviewed process may sometimes lead to changes in the attitudes of the respondents. These occur lease with the questionnaire.

iii Training - Interviews require training of interviewers which may be long and experience.

iv Possibility of wrong recording of information

v Interviews may take longer time than was envisioned. This may give rise to tatique and consequently this may affect the manner questions are administered.

TYPES OF INTERVIEWS

Structure of the interview: The structure of interviews depends on the questions asked by the interviewer and the responses. Interviews can either be structured interview or unstructured interview.

a. Structured interview: The prime function of the structured interview is standardization of the interview process by means of a questionnaire schedule. The structured interview is used primarily to verify existing theories and hypothesis derived there from. The researcher who employs this tool is usually intent upon

testing an existing set of hypothesis, he is less concerned with discovery parse. And standardization greatly enhances reliability. Structured interviews also offer advantages in terms efficiency in time saving, labour and money by eliminating needless questions. And the more formalized the questions, the similar the coding, computing and tabulation process.

Drawbacks

1. The investigator's tendency to impose his own categories upon those of respondent.
2. Social action and human motives are to complex to have comprehended by posing questions in a highly stylized and formal manner.
3. Difficulty in establishing reliability and validity of responses employ depth interviewing possible in standard interview.

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UNSTRUCTURED INTERVIEWS

Unlike the structured interviews, the unstructured interview assumes a variety of forms which offer a considerable freedom on the questioning procedure. At times the question and answer serious tends to be informal. So there are not set questions. Interest ares areas most be identified and set and the interviewer has the freedom of framing and asking his questions.

ADVANTAGES

1. Freedom in interview method
2. Reliability and validity can be established through further in-depth probing of responses.

3. The interviewer has the opportunity to reframe his question for better understanding and for better response.
4. The unstructured interview keeps the respondent focused on the subject or areas of interest.

iii QUESTIONNAIRE METHOD

The questionnaire is probably the most need method of data collection. The questionnaire is a device for obtaining answers to research relevant questions from a sample of respondents by using a form which the respondent fills himself. The questionnaire, questions are presented with exactly the same wording, and in the same order, to all respondents. The aim is to ensure that all respondents reply to same questions and thus helps to get the same type of information from a large number of respondents.

Questionnaires may be delivered directly to the respondents or through post. Questions in the questionnaire may be opened - ended or closed ended.

OPENED-ENDED QUESTIONS - are designed to permit a free response from the respondent rather than one limited to stated alternatives. The respondent is asked to provide his/her answer to the question. For example; what do you consider the most important problem facing students? What do you like most about it? etc. Usually a pace is provided after the question for answer.

<u>The short comings of the opened-ended questions include:</u>

a. Some respondents may give answers that are essentially irrelevant.
b. The researcher may misunderstand and interpret wrongly

responses.

CLOSED-EDED QUESTIONS:

A closed-ended question is one in watch the responses of the subject are limited to stated alternatives. These alternatives may be supply yes or no. Here the respondent is asked to select an answer from among a list provided by the researcher. Closed-ended questions are very popular, since they provide a greater uniformity of responses and are more easily processed.

ADVANTAGES OF CLOSED-ENDED QUESTIONS

1. Questions are standardized, simple to administer, quick and relatively in expensive to analyses.
2. Help to ensure that answers are given in a frame relevant to the purpose of the enquiry and in form that is usual in the analysis.
3. The respondent himself makes judgement about his attitude rather than leaving this up to the researcher or coder.
4. It makes clear the dimension along watch answers are sought.

DISADVANTAGES

1. The chief short coming of closed-ended questions his in the researcher's structuring of responses. The close-ended question may force a statement of opinion on an issue about which the respondent does not have an opinion.
2. The researcher's structured responses may over look some important responses i.e the fixed alternatives (C-E) may not give adequate representation of the responses.

iv DOCUMENTARY SOURCES

Documents - both published and unpublished - are a vital source of data for a researcher. A review of related literature like books, journals, official reports, etc does not only sharpen our understanding of the research problem and formulation of hypothesis by is also vital source of data. It is medical possible to collect all data needed to draw valid conclusions on a research problem entirely from documentary sources. Though we have a poor attitude towards record-keeping and retrieval of information in Nigeria, many documentary sources of data avail themselves to researcher in Nigeria. These include among others earlier listed above:

- Official Gazettes
- Staff list
- Digest of statistics
- Official Reports and end of year company reports
- Economic indicators
- Nigerian Trade summary
- Annual abstract of Statistics
- Yellow pages
- Central Bank Publications, etc.

It is important that the researcher acquints himself with the official publications of various organisations as well as institutions like Libraries, National Achieves, Federal Office of statistics, etc that are supplies of documentary sources.

CHARACTERISTICS OF DOCUMENTARY SOURCES

1. They are ready made
2. Their collection and classification are beyond the control of the researcher
3. They are not limited to time and space, that is, the researcher need not have vein present at the time and place of collection

LIMITATION

Probably the greatest problem associated with this method is accessibility to information.

3.4 SELECTED METHOD(S) OF DATA COLLECTION FOR THE PURPOSE OF THESE STUDY

Interviews, observations and documentary sources are the primary sources of obtaining the data for this study. Also I made references to several text books, journals, Nigerian Tobacco Company Plc Zaria, published annual reports and accounts and other literature from J.F Kennedy library, and department of business administration library all of institute of Administration Kongo Campus A.B.U. Zaria. A part from the Annual reports and accounts which I obtained from the company, I held personal interviews with some principal financial personnel of the company with a view to be enlightened more on certain relevant facts about the company. In addition, observation also formed part of the methods for collecting data.

In striving to present my ideas in a clear and precise manner. I also used some little accounting techniques and financial

management techniques in order to facilitate understanding.

3.5 OBSERVATIONS

1993 was a remarkable year in terms of the range of challenges with which the company was confronted. Political uncertainty and industrial unrest coined with fuel shortages and unprecedented levels of inflation to produce an extremely volatile trading situation in which foresight and flexibility emerged as primary management skills. However the published results shows that the company is able to mount an adequate response to an extremely testing trading environment and also underline the validity of their strategic direction.

1994 was an especially difficult year for the company. The companies supplies to the market were interrupted frequently because of the irregular availability of foreign exchange to finance the import of the small but essential proportion of their inputs. There was therefore an upsurge, in the market, of illicit cigarettes on which no duty is paid. These now command nearly 80% of consumer expenditure on tobacco products. As a consequence, the company suffered a 25% reduction in sales volume in 1994 and this has had a direct impact in financial results.

1995 was an extremely difficult year for the company. The 1995 national budget increased the excise on cigarettes from 30% to 40%, thereby substantially increasing the ex-factory price of their cigarettes. As they could not pass on the increase to the consumer because of the very low levels of disposable income, it had to be absorbed by the company. The additional rate of excise translates

to N104 million in profit forgone. Up until 1995, the impact of smuggling on company's business had been restricted to the premium end of the market. But 1995 witnessed a unprecedented influx of smuggled cigarettes in the sub-premium category. In addition to granting very generous credit facilities to the trade, the manufacturers/importers of these smuggled cigarettes exploited the weak naira to the full and unleashed a sustained communication, trade incentive and merchandising support campaign of extravagant proportions. In those circumstances, it became inevitable that they had to lose market share. The 33% drop in projected sales volume is largely attributed to this.

1996 was another difficult year for the company, with sales and market share being further eroded by the unchecked infuse of smuggled cigarettes into Nigeria. At the sometime, NTC continued the process of reconsolidation following a significant downsizing. Initiated in 1995. Externally, the severe liquidity squeeze in the economy and decreasing consumer spending power continued to relatively affect the business during the year. The company is faced with a substantial challenge to address the future in the face of ever growing competition, legal and especially illegal. As with all modern fast - moving consumer goods companies. Therefore NTC must adopt to the changing requirements of the market.

1997 was a year of immense change and restructuring within Nigerian tobacco company. New systems and processes were introduced and have become firmly embedded in the New company structure. Some of these include a computerised information-based

system with facilities for global communication from our operational bases; a fully functional sales and operations planning system; integrated planning and budgetary control systems and an improved market research process. These new systems will not only ensure better cost control into the future, but will also improve the ability of the company to adopt to rapidly changing market conditions by reducing inventory levels, maximising manufacturing capability, improving product quality and integrating market information into the business. In financial terms, 1997 saw management clearly focused on improving the balance sheet position. To this end, the net debt of the company was reduced from N337 million at the end of 1996 to N47 million at the end of 1997. Inventory levels were significantly reduced and credits extended to trade partners brought under control. This means that the company cannot only begin prepayments of outstanding dividends to the major shareholders, but can also declare a modest dividend for 1997.

During 1998, the company has demonstrated what can be achieved when they are allowed to conduct their business on a more level playing field. Referred to the excise duty issue that has unfortunately been re-introduced in the 1999 budget. During the same year excise duty was abolished for tobacco product$, allowing NTC to lower consumer prices and improve its competitive position. Together with a continuation of improved budgetary control and more efficient utilisation of resources, profit before tax increased significantly from N174 million in 1997 to N472 million in 1998. In addition, significant effort was made to improve the balance

sheet position of the company, with the continued focus on cash generation and management. The company also continued the process of disposal of non-yielding non-core assets.

In 1999, another fiscal policy is introduced in the 1999 budget on abolition of the 25% import duty rebate. This will put more pressure on the operational costs of local manufacturers who rely on imported raw materials. In addition, the uncertainties surrounding the return to destination inspection of imported goods will further complicate the logistical planning and optimal management of imported raw material stocks. It is however unfortunate that the 1999 budget has re-instated excise on locally manufactured tobacco products at the former rate of 40%.

By the end of 1998, the company had repositioned itself successfully for future growth and looking forward to a period of re-investing in their brands, people and infrastructures during 1999 and beyond.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In carrying out the study, the researcher conducted interviews with the staff in the departments that were relevant to the study. Also references were made to the documentary information of the company. Observations was among the other methods of research that were used to complement the responses of the interviews.

The presentation of the data for the company was carried out in line with the discussion made in chapter two in terms of working capital, its component and its management.

4.2 Organisational Structure of Nigeria Tobacco Company

Over the years, many structures were presented by many writers. Based on the recent study conducted on the company, it was observed that the company has undergone some changes in its structure. Some posts were dropped and new ones were introduced to cope with the environmental changes.

According to the chairman's statement, "1997 was a year of immense change and restructuring within Nigerian Tobacco Company. New systems and processes were introduced and have become firmly embedded in the New Company Structure. Some of these include a computerised information-based system with facilities for global communication from our operational bases; a fully functional sales and operations planning systems; integrated planning and budgetary control systems and an improved market research process. These new

systems will not only ensure better cost control into the future, but will also improve the ability of your company to adopt to rapidly changing market conditions by reducing inventory levels, maximising manufacturing capability; improving product quality and integrating market information into the business.

Therefore, in view of that, a new structure was designed by the company which was presented as follows: (see Appendix 1)

4.3 COMPOSITION OF WORKING CAPITAL AT NIGERIAN TOBACCO COMPANY

The constituent parts making up the figure of working capitals or as otherwise called, the Net current assets of Nigerian Tobacco Company Plc Zaria were obtained from the annual report of 1998. They constitute the following.

4.3.1 CURRENT ASSETS

Among the items included in current assets in NYC are as follows:

a. Stocks

This is sub-divided into the following;

i Raw materials and consumable

ii Work-in-progress

iii Finished goods

iv Goods in transit.

b. Amount due from group companies

c. Debtors (one within one year)

This is sub-divided into the following;

i Trade debtors

ii Other debtors

iii Prepayments and accrued income.

d. Bank and cash balances

4.3.2 CURRENT LIABILITIES

This was classified under creditors (due within one year) which is sub-divided into the following;

a. Bank loans due within one year are analysed as follows:

i Syndicated loan due for repayment within a year

ii Bank overdrafts

iii Bankers acceptance.

b. Trade creditors

Included in trade creditors are bills of exchange worth N87.028 million (N98.775 million)

c. Amount due to group companies

d. Other creditors

This is sub-divided into the following;

i Taxation

ii Accruals and deferred income

iii Excise tax liability

iv Value added tax

v Unclaimed dividends

vi Others

e. Proposed dividend

4.4 MANAGEMENT OF WORKING CAPITAL AT NIGERIAN TOBACCO COMPANY PLC

The major component of working capital which include cash, receivables and inventory will be discuss (ie their management at NTC Plc)

4.4.1 MANAGEMENT OF CASH

Cash in NTC is the most liquid of all asset in the firm since money is necessary to pay for bills and meet obligations such as purchase of raw materials, payment of taxes, labour, servicing of debt, payment of dividend, purchase of fixed assets and so on. Cash balances are kept in the firm to maintain sufficient cash balances that are neither more not less than what is just required.

All cash receipt and payment or cash disbursement are all kept and recorded in the cash book as well as the balance sheet. And therefore the major task of the financial management is to maintain a sound and satisfactory cash balance.

Cash are generated from proceeds of sales, depreciation charges, sales of fixed assets and bank loans, sales of stock. They will provide cash which is used to run the affairs of the business. It source of fund is through creditors, account payable, current taxation, unpaid dividend, bank loan and overdraft in order to meet it obligation.

4.4.2 MANAGEMENT OF ACCOUNTS RECEIVABLE

Accounts receivable in NTC represent trade debtors account, it is created where the firm extend credit to their customers. The level of trade debtors is mostly determined by the volume of credit sales and the average collection period.

Customers sometimes delay payment during period of economic recession or period of tight monetary control, which eventually result in long average collection period.

4.4.3 MANAGEMENT OF INVENTORY

Inventory consist of raw materials, goods in process and finished goods. In NTC it include tobacco leaves, cigarettes, wrapping paper, chemicals, spare parts and finished goods.

The economic order quantity otherwise simply called the EOQ is the approach that is used in NTC in order to determine the optimum inventory level. It is the size of goods that would result to the lowest ordering, carrying cost for an item of inventory. If the firm places an unnecessary order it will insure unnecessary order cost, if it places too few orders it would have to retain large stock of goods thereby having excessive carrying cost. By determining an EOQ the firm identifies the number of units to order that will result in lowest total cost.

The firm manage its inventory based on this recognised model, but the level of the economic order quantity and safety stock are based on past experience of sale, the demand, the season, availability of cash based on expected receipts and level of trade credit, as well as the intuition of the management.

The investment in stock is large compared to other components in relation to total assets and current assets.

4.5 SOURCES OF FUNDS FOR WORKING CAPITAL

Availability of short-term finance to business firms is of key importance to its continued existence. If a firm can not sustain itself in the short-run, the long run is no consequence. In recent years, funds for operating a business have become scarce and costly in the make of policy credit squeeze and increase in the interest

rate due to inflation. Consequently, an efficiently and effective management of working capital which entails souring and movement of funds has become necessary for the smooth and successful running of the business firms.

In Nigeria, liquidity has been the source of headache since austerity. It has on so many occasions single handedly sent most of businesses to premature deaths and contributed significantly to most company's inefficiency and ineffectiveness which still live on government subvention.

The most pressing persistent need for working capital funds is to meet investment in debtors and trading stock and to sustain business expansion in the period of inflation.

The conventional fund statements are explained from the annual accounts of NTC for two financial years as illustrated in appendices 1, 2, and 3.

The analysis of the fund statement of a firm is necessary because it indicates how a firm acquires its funds and how they are spent. The formulation of the sources and uses of funds data, therefore helps NYC to provide a basis for analysing what is likely to develop in the future. How the funds of NTC will enable it to meet interest and other payment schedules under alternative financing plan.

From the illustration of sources and application of funds for the year ended 31st December 1977 and 1998 respectively there was an increase in working capital. This means that NTC has done an appropriate financial forecast and planning. In order for the

company to therefore carry out its functions most efficiently in the years 1998-99 and other subsequent years, it has to come out with adequate financial forecast as well as engage itself in a proper cash management. So as to induce a greater increase on the change in working capital.

4.5.1 FUNDS FLOW STATEMENTS

Introduction

The statement of accounting standards No.2 (issued by NASB) or the international accounting standandards No.7 (issued by the IASC) requires as an integral part of a company's year and published financial statements, the company's statement of source and application of funds.

The introductory paragraph of IAS No.7 (statement of changes in financial position: Effective date 1st January, 1979) states:

> "This statement deals with the presentation of a statement which summarizes for the period of resources made available to finance the activities of an enterprise and the uses to which such resources have been put".

The terms "funds" and "cash" are often used synonymously. However, they do slightly differ in meaning. Funds often refers to cash. But in a broader sense it also refers to working capital which covers cash and its equivalent. Thus funds not only implies physical cash obtained through cash sales, bank and other forms of borrowing and issue of shares but also through book profits, increase in credit facilities amortisation of fictitious assets etc.

In our earlier discussion of working capital we emphasized the importance to a firm of gauging the level of its working capital from time to time. The same thing applies to the entire flow of funds. The necessity to control and account for the flow of funds in a business cannot be overemphasized. A very popular current practice by firms is the preparation of a third financial statement known as Funds Flows and Working Capital Statement.

Funds flow statement or simply funds statement is a statement which summaries the financing and investing aspect of a business over a given period of time. It deals with the application (uses) and sources of funds within the business. It is an analysis of changes in the firm's cash resources and by implication its working capital. Thus the statement is a method by which we study the net funds flow between two points in time.

It is essential for a firm not just to know what its profits are but also to make a conscious effort to ensure sufficiency of its working capital. It is in pursuit of the latter objective that most firms prepare quarterly biannually or similar periodic reports to assess their cash positions. This helps in keeping management informed about the present and future cash requirements of the firm. In this respect funds statement is a very useful tool. An analysis of this statement helps a financial manager in particular in planning the intermediate and long-term financing of a firm. The statement often reveals the need for more funds, and the timing. It therefore helps the financial manager in determining and arranging the firm's finances more effectively and efficiently.

4.5.2 PREPARATION OF FUNDS STATEMENTS

a. As a start one classifies net balance sheet changes that occur between two points in time into changes that increase funds and those that decrease it. It should be noted that the "two points in time" can be:

i two successive years or

ii two biannual periods or

iii two quarterly period etc.

b. Then classify from the profit and loss account (or the income statement) factors that increase or decrease funds respectively.

c. Then with (a) and (b) the information is consolidated into the sources and uses of funds statement.

N.B

1. A quick way or short out method of preparing the fun statement is to compute the net increase or decrease in working capital. This figure is used as a balancing item in the funds statement.

2. "In preparing the funds statement be guided by the rules which" are applied when.preparing accounts from a trial balance with additional matters requiring adjustments i.e. an item appearing in each of the balance sheet appears once in the funds statement; an additional information is reflected twice.

Sources and uses of funds:

In general assets of a firm represent the net uses while the

liabilities represent the net sources. At any time the net uses must equal the net sources. This is because for every use of funds there must be an off setting source.

The following lists of sources are uses are by no means exhaustive:

A. Sources

a. Net income-funds from operations. Depreciation is added back since it is a non-cash expenses.

b. Sale of fixed assets and investments.

c. Sale or issue of shares.

d. Increase in or issue of long term debt.

e. Amortisation of fictitious assets to be added back - no funds are leaving the firm.

f. Decrease in working capital is used as a balancing item i.e when uses exceed sources.

g. Paper losses to be added back and paper gains deducted if they have been taken into account in arriving at the net profit for the year.

Note Changes in retained earnings in the balance sheet are not taken account of. If they are, this will amount to double counting.

B - Applications (uses)

a. Dividends (cash)

b. Reduction/repayment of mortgage loans and other long term debt

c. Purchase of shares (not allowed in Nigeria)

d. Acquisition of died assets and investments

e. Reduction of capital including drawings

f. Loss due to operations

g. Redemption of preference shares, or debentures

h. Increase in working capital is used as a balancing items i.e when the sources exceed the uses.

4.5.3 Objectives of a statement of source and application of funds

i Supplementary information to that given in the profit and loss account and balance sheet, and a link with the provisions balance sheet.

ii It reports the funds that have flowed into the business and how the funds have been applied.

iii Attention is drawn to the manner in the financing of new investments.

For example, long-term investments are to be financed by long-term sources of funds rather than by short-term sources like bank overdrafts.

iv The efficiency or otherwise of management in funds control is also highlighted. For instance, where there is an abnormally high figure of liquid resources which are required to most immediate expenditure, this indicates management inefficiency in funds control.

v The statement enables distinction to be made as to the funds used in the acquisition of long-term assets and those used in increasing the company's working capital.

4.5.4 Importance of funds statement

The importance of the funds statement can be summarised as follows:

a. It gives insight into the financial operations of the firm i.e it indicates the sources and uses of funds for and by a firm.

b. It shows financial changes not apparent in the balance sheet. It helps detect imbalances like an abnormal increase in trade credit (receivables) or abnormal increase or decreases in the levels of inventory. More importantly it reveals an expansion or contraction of working capital.

c. It also reveals the respective proportions of external and internal financing. It is an important aid to bankers and financial managers in decision-making.

d. It indicates quids conspicuously whether or not a firm has expended at a fast rate.

e. It is good for performance evaluation in a divisionalised firm where the performance of a division is often measured in relation to funds committed to them.

4.5.5 Problems of funds flow statements

The following are some of the short comings, of funds flow statements as tools for financial analysis.

a. The classification of assets and liabilities into current and non current is often artibrary and illogical. Certain items which are assumed to be current invariably turn out to be non-current and vice-versa. The one year accounting period which is associated with current items is itself arbitrary.

b. A funds statement has a poor predictive power with regard to

business failure. This is due to the short term nature of the items constituting the working capital. On the surface a business may appear healthy as depicted by the amount of its capital. It however may be heading towards a deep financial crisis which only cash flow estimate can reveal.

c. A funds flow statement is infact not the best measure of solvency. The contents of working capital are often not as liquid as we are made to understand. Inventory and receivables are obvious examples. In view of this shortcoming modern solvency evaluation is often based on users estimate of a company prospective cash receipts and payments and also evaluation of its financial flexibility.

4.6 Problems of working capital management in NTC Plc.

These are factors that militate against the effective and efficient management of working capital at NTC include the following:

i The in ability of the government to establish a functional system of foreign exchange rate has been one of the problems militating against effective productivity in the firm.

ii The budgets have not been realisable due to poor implementation and the abandonment of policies.

iii The government embarked on structural adjustment programme (SAP) as a policy goal to enhance economic recovery. The programme (SAP) has caused constrains to productivity, most of economic needs became inadequate as it did not take into account human needs. Despite the implementation of the SAP,

with emphasis on deregulation, devaluation and trade liberalisation, the country did not benefit from it, this is because SAP has failed to create a framework to unstained economic recovery.

iv The current macro economic indicators have been known by economists as being positive, but still the capacity utilisation is low as a result of low sales of their products. This is because the purchasing power of the public which is the determining factors for low capacity utilisation.

v Financial ratios particularly those dealing with profitability are distorted, some of the operating results are due to inflation which is beyond management control which may appear to be significant change in profitability.

vi Sales volume sometimes are been affected and also interest rate because of high incidence of smuggling by competitors where as high tax rates are charge by the government.

vii Sometimes there is issue of fuel shortage in the country which can lead to very low productivity thereby creating problem because production is not up to expectation.

viii Inflationary forces may give rise to holding period gains they vary with inflation and this make management to assess performance based on conventional accounting data from economic profitability he will need to adjust the accounting number which will lead to incorrect conclusion.

ix Sometimes there are delays in getting payment from the

customers' the firm extend credits to ie. the debtors. It create problem to the profitability and liquidity position of the firm.

x From the directors report 1996 was a difficult year for the company sales and market share being further eroded by the unchecked influx of smuggled cigarettes into Nigeria. At the sometime, NTC continued the process of reconsolidation following a significant downsizing initiated in 1995.

xi It is estimated that 70% of the cigarettes sold in Nigeria are smuggled, neither import duty, nor excise is received by government. Worse still these smuggled products do not contribute to agricultural nor to industrial development. These create neither jobs nor value added in the rural economy and they do not contribute to development of manpower. Yet their products sales in the market, having gained unfair advantage over NTC's product.

xii NTC's products on the other hand are subject to a heavy excise tax burden, the highest in Nigeria 40%.

xiii The problem in account receivable is the company's fund that is tied up in investment as account receivable which is due to increase in price of product and sales value.

xiv The problems of cash shortage will obviously disrupt the firm's operation and production while excess cash will simple remain idle without contributing anything toward the firm profitability.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The researcher carried out an independent study of the topic starting with the meaning of working capital and further differentiate between gross working capital and net working capital.

The meaning of working capital was rounded up to make it clear that management of working capital outfits the management of currents assets and current liabilities.

The major source of financing working capital were identified, both from internal and external sources. Also considered were the various components of working capital and their management. The pattern of working capital management in Nigerian tobacco company Plc Zaria being our case study was discussed, as well as approaches to working capital management, importance of working capital and the various research funding on the area of the study by many writers were examined.

The project also talked about the data collection procedures their advantages and disadvantages, the treatment and analysis of the various data collected from the company.

A brief history of the company in conjunction with the management and organisation structure were given on evaluating the level of working capital management as well as its level of profitability.

Also I discussed a situation where inefficient management of working capital can lead to overtrading i.e an instance when the company tries to conduct a volume of trade over and above that for which it financially equipped. Overtrading represents failure on the part of the management to cut their coat according to their cloth. This can be extremely dangerous in the long run.

5.2 CONCLUSION

To conclude the study, once again working capital is defined as the capital available to meet the day - to - day operational requirements of a company. It comprises mainly, stock, debtors, cash and creditors. It is considered good financial management to keep working capital as low as possible so as to channel available financial resources to the more profitable long term assets.

It can be seen from the above paragraph that a higher level of working capital does not necessarily imply a higher level of profits. In fact it may mean lower returns, since long term assets should generate higher returns than short term (current) assets. However, companies may retain working capital to ensure liquidity, and therefore continued existence.

The major consideration for the level of working capital is the nature of the company's business, eg a manufacturing company would carry a higher proportion of working capital than a company in the service industry which may show a higher profit level.

A company may also retain higher working capital to meet the increasing growth in sales volume/activities, investment in new projects and/or price incases especially in the inflationary times.

A higher level of working capital could mean that a company is not managing its components efficiently leading to excessive stocks, debtors, cash and few creditors. In that case there will be an over-investment in current assets and the company is said to be over capitalised.

Also, a company that has a comparatively high level of working capital and still shows high profit level, may be overtrading. The business is supporting a large volume of trade and activities with too little long term capital. This situation can easily get out of hand and lead to severe liquidity and going concern problems.

Even though current liabilities are cheap source of finance, efficient financial management will ensure that portion of current assets is financed by smaller portion of long term finance to protect the business against the dangers of insolvency through insufficient liquidity.

A review of the discussion of the efficient management of working capital indicate that the following courses of action have the effect of reducing the basic working capital requirement (although all have negative aspects which must not be over looked).

a. Reduction of debtors

b. Reduction of stocks

c. Increases in creditors.

Management of working capital should not viewed only in terms of coping with cash shortages but also the converse. With a seasonal business, if the working capital is supported by permanent finance based on average requirement, the shortages of one part of

the year will be counter-balanced by surpluses at another. The active and affective financial manager will ensure that such surpluses do not merely lie idle. Neither, however, should they be regarded as available for investment in any long term project.

It can not be stressed too strongly that the working capital should be adequate to finance the running of the business without undue strain. A shortage of working capital can mean the creditors can not be paid in time, thus losing valuable cash discounting that creditors may take legal action to enforce the payment of debts which may cause the firm to close down if it is unable to meet such commitments or that the business is unable to take part in certain profitable activities that may occur, for instance a bulk purchase of goods at a very low price may have to be missed.

5.3 RECOMMENDATIONS/SUGGESTIONS

In order to ensure that there is an efficient and effective management of working capital I would like to make the following recommendations/suggestions to the management of NTC.

5.3.1 HOW TO IMPROVE CASH MANAGEMENT

An organisation like NTC can improve the efficiency of its cash management by accelerating its cash receipts and delaying disbursements or by postponing payments until they are actually due.

And cash receipts can be accelerated in a number of ways:

a. obtaining a direct debiting agreement with the client ie the organisation instructs the customer's bank when they should pay. This prevents the customer from delaying payment by

oversight or for any other reason.

b. requesting the bank to make an express clearance of cheques. Interest is earned only on deposit accounts.

c. for large receipts, it may be worth sending an employee to collect it because of delay in postage time can be costly as the interest forgone.

d. establishing a number of collection centers.

For organisations like NTC with short term cash surpluses, the following actions may be taken:

a. early payment of creditors in order to claim cash discount

b. a bank deposit account where interest would be earned but the cash remains easily accessible.

c. loans to associated/subsidiary companies (in the case of a group? where one company's period of greatest surplus may coincide with another company's period of greatest shortage.

d. forward buying of materials where price rises are foreseen and where the materials can be stored without risk.

e. purchase of readily marketable securities e.g federal government treasury bills.

5.3.2 HOW TO IMPROVE THE COLLECTION OF ACCOUNT RECEIVABLE

In order to improve the collection of account receivable, the firm (NTC) first may have to review and possibly tighten its credit policies. While it is desirable to maintain reasonably consistent and standard terms, it may be necessary to adjust them periodically if, for example, economic conditions have changed.

Second, the collection department must be aware of which

account are slow, and may become delinquent.

Thirdly, the firm should use an aging schedule to identify collection problems.

Fourthly, the collection department must firmly and uniformly enforce the credit terms granted although obviously different terms may be extended to different customers. It may be that the collection department must become more aggressive and forceful in its efforts to require timely payments from customers.

Finally, delinquent accounts must be subjected promptly to strong pressure and possibly to legal action.

i Factors to be considered by management in determining credit control policy

Extending credit implies giving interest free loans to customers. This involves striking a balance between the advantage of increasing sales, (and thereby profits) and the costs of giving credit (administrative costs, finance costs and risk of bad debts).

Specially the following factors need be considered:

1. Type of product or service being offered by the company. Where the product or service is unique or its demand inelastic, there will be no need for credit.
2. A review of the credit terms offered by competitors will form a basis for credit policy development.
3. The administrative costs of debt factors and invoice discounting.
4. The amount of extra capital required to finance an increase in working capital and the related costs.

5. The risk of bad debts and the cost offering discounts toad reduce such risks.

6. Longer credit may be offered to enable the company to capture a large share of the available market or break into a new market.

7. Establishment of procedures for controlling credits to individual customers including issues of who to sell to, credit period and credit limits.

ii Specific points to be considered when grating credit to a particular customer

1. Assessment of the credit worthiness of a particular customer to determine whether credit sales should be made to him and the maximum amount allowable to him.

2. Collection of facts about the customer's business including profitability, generation of sufficient assets to meet liabilities, availability of suitable assets.

3. Investigation of the customer's business and the people running it, from third parties eg. accountants or other companies with which the customer has done business.

4. Where the customer is a company, a ratio analysis of its latest published accounts will be necessary.

5. A new customer's credit limit should be fixed at a low level and be increased if payment record warrants it. Also a new customer should get suitable references.

6. A review of credit limits of large value debtors and aged list of debts.

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7. In respect of foreign customers; status reports from foreign bankers and information on exchange restrictions and political environment.

5.3.3 HOW TO IMPROVE INVENTORY MANAGEMENT

My recommendations here is that the management should endeavor to continue using perpetual or continuous stock taking.

a. the long and costly work of a stock-taking count is avoided.

b. a detailed, reliable click on the stores is obtained

c. experienced men can be employed to check the stock at regular intervals

d. it is not necessary to stop production so as to carry out a complete physical stock-taking except possibly at the end of each year.

e. discrepancies are readily discovered and localised, giving an opportunity for preventing a recurrence in many cases.

f. the moral effect on the staff tend to produce greater care, and serves as a deterrent to dishonesty.

g. the audit extends to comparing the actual stock with the authorised maxima and minima, thus ensuring that adequate stocks are maintained within the prescribed limited.

h. the store keeper's duty of attending to replenishment is facilitated, as he is kept informed of the stock of every item/kind of material, thus ensuring uninterrupted and safe manufacturing stocks.

i the stock being kept within the limits decided upon by the management, the working capital sunk in stores materials

cannot exceed the amount arranged for.

j. the disadvantages of excessive stocks are avoided, as for example

i. loss of interest on capital locked up in sock

ii. loss through deterioration

iii. danger of depreciation in market values

iv. risks of obsolescence.

Finally, the firm should not hold too much inventory because of the cost associated with; carrying cost, ordering cost and holding large amount of stock. Also the firm should not run out of stock called stock out, it will result to production downtime or cost of sales, which will be too expensive.

5.3.4 THE MANAGEMENT OF NTC SHOULD CONSIDER THE FOLLOWING FACTORS

Main factors to be considered in working capital financing for a growing, but seasonal firm:

i. the volume of working capital required. The base investment should be financed by long-term funds wherever possible;

ii. the attitude of management. Management's attitude to risk will determine whether or not a policy of low stock-holding levels, tight credit and minimum cash holdings;

iii seasonal fluctuations and how best to finance these. This may depend on how accurate management's forecasts of seasonal requirements are;

iv the rate of growth. Long-term finance should perhaps be obtained now to prepare for sudden expansion.

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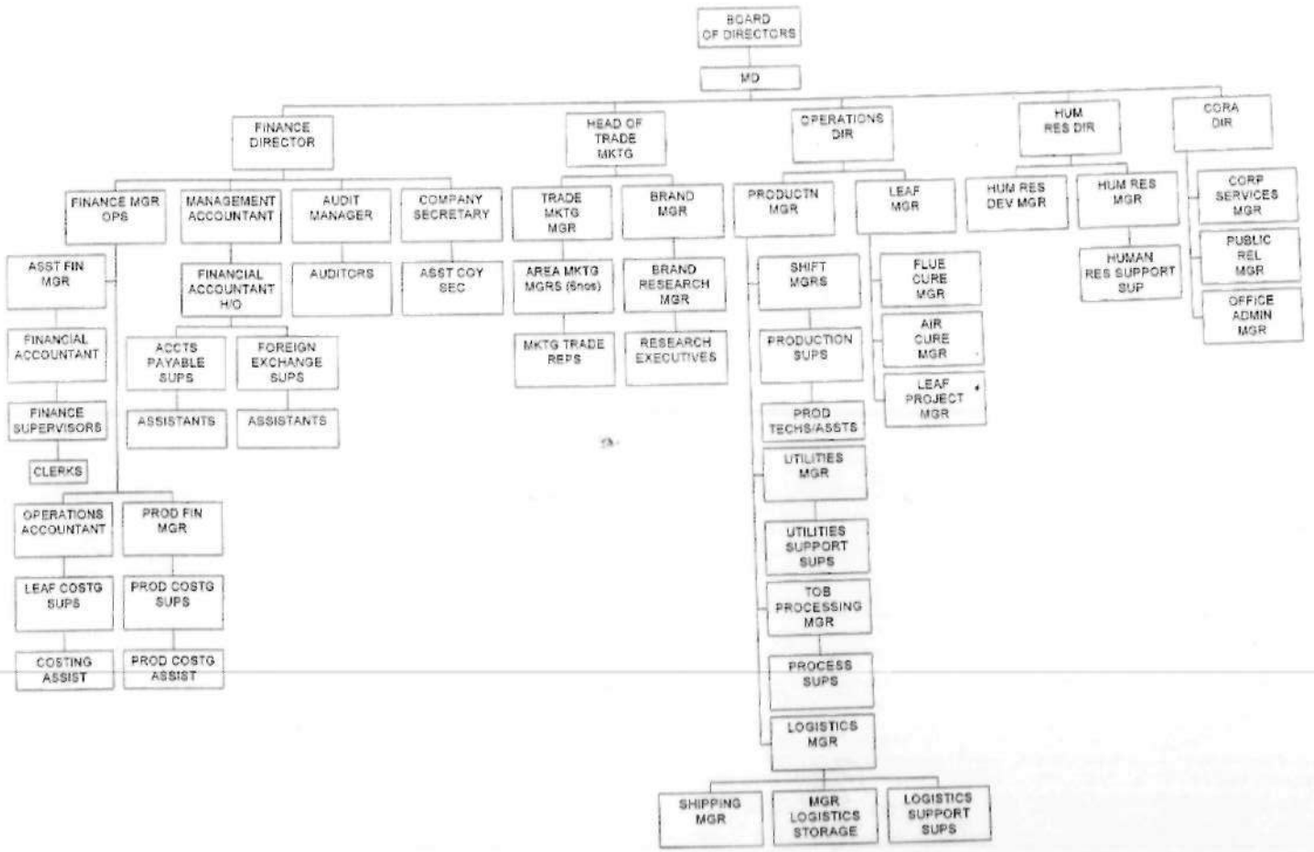
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NTC PLC
ORGANISATIONALCHART



PROFIT AND LOSS ACCOUNT
For the year ended 31 December, 1996.

	Note	1996 N'000	1995 N'000
TURNOVER	2	1,658,694	1,462,825
COST OF SALES		(852,540)	(668,852)
GROSS PROFIT		806,154	793,973
DISTRIBUTION AND ADMINISTRATION EXPENSES	3	(642,403)	(627,073)
TRADING PROFIT	2	163,751	166,900
OTHER INCOME	4	191,484	69,335
OPERATING PROFIT		355,235	236,235
INTEREST CHARGES		(74,828)	(63,287)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	280,407	172,948
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	6	(28,364)	(53,938)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION TRANSFERRED TO RESERVE	20	252,043	119,010
EARNINGS PER STOCK UNIT - KOBO	7	63K	30K
DIVIDEND PER STOCK UNIT - KOBO	8	-	-

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

BALANCE SHEET

At 31 December, 1996.

	NOTE	1996 N'000	1995 N'000
FIXED ASSETS	10	390,496	400,010
LONG-TERM INVESTMENTS	11	1,300	1,300
CURRENT ASSETS			
Stocks	12	1,181,939	1,211,715
Debtors	13	308,696	135,654
Bank and Cash Balances		25,649	45,606
		1,516,284	1,392,975
CREDITORS - due within one year			
Bank Loans	14	(362,372)	(282,195)
Trade Creditors	15	(107,222)	(244,127)
Amount due to Group Companies		(197,846)	(223,740)
Other Creditors	16	(249,725)	(338,231)
		(917,165)	(1,088,293)
NET CURRENT ASSETS		599,119	304,682
TOTAL ASSETS LESS CURRENT LIABILITIES		990,915	705,992
BANK LOANS - due after more than one year	14	-	(8,235)
PROVISION FOR LIABILITIES & CHARGES	17	(142,237)	(98,906)
		848,678	598,851
CAPITAL AND RESERVES			
Called-up Share Capital	18	200,000	200,000
Revaluation Reserve	19	27,690	29,906
Other Reserves	20	620,988	368,945
		848,678	598,851

The financial statements and notes on pages 13 to 25 were approved by the Board of Directors on 29 January, 1997 and signed on its behalf by:

P. KIRKHAM _____ N.N. EZEDIARO _____

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

KASHIM IBRAHIM LIBRARY

STATEMENT OF SOURCE & APPLICATION OF FUNDS

For the year ended 31 December, 1996

	1996 N'000	1995 N'000
SOURCE OF FUNDS		
From Operations:		
Profit on Ordinary Activities Before Taxation	280,407	172,948
Adjustment for items not involving movement of funds:		
Depreciation	42,115	40,734
Profit on Disposal of Fixed Assets	(187,563)	(64,943)
Others	526	(2,511)
	135,485	146,228
Funds from other sources:		
Proceeds of Sale of Fixed Assets	196,846	68,641
TOTAL FUNDS GENERATED	332,331	214,869
APPLICATION OF FUNDS		
Purchase of Fixed Assets	44,626	95,571
Repayment of Loan	16,470	16,470
Dividends Paid	19,942	40,233
Tax Paid	52,263	122,551
	133,301	274,825
Increase/(Decrease) in Working Capital		
Stocks	(29,776)	264,878
Debtors	173,042	17,610
Creditors	182,152	(194,056)
	325,418	88,432
Provisions	(18,019)	(20,669)
Decrease in Liquid Funds	(108,369)	(127,719)
	199,030	(59,956)
	332,331	214,869

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

STATEMENT OF VALUE ADDED

For The Year Ended 31 December, 1996.

	1996 N'000	%	1995 N'000	%
Sales (including excise duty)	2,286,040	100.00	2,033,947	100.00
Less: Bought in Goods and Services	(1,147,835)	50.21	(1,062,342)	52.22
VALUE ADDED	1,138,205	49.79	971,605	47.78
DISTRIBUTION OF VALUE ADDED				
GOVERNMENT				
Taxation	28,364	2.49	53,938	5.55
Excise on Cigarette Manufacture	627,346	55.12	571,122	58.78
	655,710	57.61	625,060	64.33
EMPLOYEE COSTS	113,509	9.97	107,565	11.07
PROVIDERS OF CAPITAL				
Interest on loans	74,828	6.58	79,236	8.16
GROWTH AND ASSET REPLACEMENT	294,158	25.84	159,744	16.44
	1,138,205	100.00	971,605	100.00

PROFIT AND LOSS ACCOUNT

for the year ended 31st December, 1997

	Note	1997 N'000	1996 N'000
TURNOVER	2	1,510,976	1,658,694
COST OF SALES		(800,284)	(852,540)
GROSS PROFIT		710,692	806,154
DISTRIBUTION AND ADMINISTRATION EXPENSES	3	(639,762)	(629,146)
TRADING PROFIT	2	70,930	177,008
RESTRUCTURING COSTS	4	(60,051)	(13,257)
OTHER INCOME	5	199,049	191,484
INTEREST CHARGES		(35,737)	(74,828)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	174,191	280,407
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	7	(6,928)	(28,364)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		167,263	252,043
PROPOSED DIVIDEND		(60,000)	—
TRANSFERRED TO RESERVE	21	107,263	252,043
EARNINGS PER STOCK UNIT — KOBO	8	42k	63k
DIVIDEND PER STOCK UNIT — KOBO	9	15k	—

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

BALANCE SHEET

At 31st December, 1997

	Note	1997 N'000	1996 N'000
FIXED ASSETS	11	393,631	390,496
LONG-TERM INVESTMENT	12	1,300	1,300
CURRENT ASSETS			
Stocks	13	998,894	1,181,939
Amount due from Group Companies		26,866	14,832
Debtors	14	246,595	293,864
Bank and Cash Balances		71,255	25,649
		1,343,610	1,516,284
CREDITORS — due within one year			
Bank Loans	15	(118,356)	(362,372)
Trade Creditors	16	(130,217)	(109,689)
Amount due to Group Companies		(160,076)	(197,846)
Other Creditors	17	(188,850)	(247,258)
Proposed Dividend		(60,000)	—
		(657,499)	(917,165)
NET CURRENT ASSETS		686,111	599,119
TOTAL ASSETS LESS CURRENT LIABILITIES		1,081,042	990,915
PROVISION FOR LIABILITIES AND CHARGES	18	(125,135)	(142,237)
		955,907	848,678
CAPITAL AND RESERVES			
Called-up Share Capital	19	200,000	200,000
Revaluation Reserve	20	27,656	27,690
Other Reserves	21	728,251	620,988
		955,907	848,678

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The financial statements and notes on pages 14 to 23 were approved by the Board of Directors on 13th February, 1998 and signed on its behalf by:

P. KIRKHAM _____ M. McNALLY _____

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

STATEMENT OF SOURCE & APPLICATION OF FUNDS

For the year ended 31st December, 1997

	1997 ₦'000	1996 ₦'000
SOURCE OF FUNDS		
From Operations:		
Profit on Ordinary Activities before Taxation	174,191	280,407
Adjustment for items not involving movement of funds:		
Depreciation	38,140	42,115
Profit on Disposal of Fixed Assets	(195,989)	(187,563)
Others	35,745	526
	52,087	135,485
Funds from other sources:		
Proceeds of Sale of Fixed Assets	202,142	196,846
TOTAL FUNDS GENERATED	254,229	332,331
APPLICATION OF FUNDS		
Purchase of Fixed Assets	83,207	44,626
Repayment of Loan	8,235	16,470
Dividends Paid	45,125	19,942
Tax Paid	51,494	52,263
	188,061	133,301
Increase /(Decrease) in Working Capital:		
Stocks	(183,045)	(29,776)
Debtors	(35,235)	173,042
Creditors	(7,947)	182,152
	(226,227)	325,418
Provisions	11,008	(18,019)
Net Movement in Liquid Funds	281,387	(108,369)
	66,168	199,030
	254,229	332,331

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

KASHIM IBRAHIM LIBRARY

STATEMENT OF VALUE ADDED

For the year ended 31st December, 1997

	1997 ₦'000	%	1996 ₦'000	%
Sales (including excise duty)	2,066,668	100.00	2,286,040	100.00
Less: Bought in Goods and Services	(1,094,841)	(52.98)	(1,134,578)	(49.63)
VALUE ADDED	971,827	47.02	1,151,462	50.37
DISTRIBUTION OF VALUE ADDED				
GOVERNMENT				
Taxation	6,928	0.71	28,364	2.46
Excise on Cigarette Manufacture	555,692	57.18	627,346	54.48
	562,620	57.89	655,710	56.95
EMPLOYEE COSTS	108,016	11.11	113,509	9.86
RESTRUCTURING COSTS	60,051	6.18	13,257	1.15
PROVIDERS OF CAPITAL				
Shareholders' Dividend	60,000	6.17	—	—
Interest on Loans	35,737	3.68	74,828	6.50
	95,737	9.85	74,828	6.50
GROWTH AND ASSET REPLACEMENT	145,403	14.96	294,158	25.55
	971,827	100.00	1,151,462	100.00

PROFIT AND LOSS ACCOUNT
For the year ended 31st December, 1998.

	Note	1998 ₦'000	1997 ₦'000
TURNOVER	2	1,782,851	1,510,976
COST OF SALES		(853,065)	(800,284)
GROSS PROFIT		929,786	710,692
DISTRIBUTION AND ADMINISTRATION EXPENSES	3	(619,967)	(639,762)
TRADING PROFIT	2	309,819	70,930
RESTRUCTURING COSTS	4	-	(60,051)
OTHER INCOME	5	162,651	195,989
OPERATING PROFIT		472,470	206,868
INTEREST RECEIVED		6,762	3,060
INTEREST CHARGES		(7,489)	(35,737)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	471,743	174,191
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	7	(132,472)	(6,928)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		339,271	167,263
PROPOSED DIVIDEND		(160,000)	(60,000)
TRANSFERRED TO RESERVE	21	179,271	107,263
EARNINGS PER STOCK UNIT - KOBO	8	85k	42k
DIVIDEND PER STOCK UNIT - KOBO	9	40k	15k

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

BALANCE SHEET
As At 31st December, 1998

	Note	1998 ₦'000	1997 ₦'000
FIXED ASSETS	11	391,587	393,631
LONG-TERM INVESTMENT	12	1,300	1,300
CURRENT ASSETS			
Stocks	13	839,157	998,894
Amount due from Group Companies		59,189	26,866
Debtors	14	134,974	246,595
Bank and Cash Balances		445,207	71,255
		1,478,527	1,343,610
CREDITORS - due within one year			
Bank Loans	15	(4,102)	(118,356)
Trade Creditors	16	(109,053)	(130,217)
Amount due to Group Companies		(56,510)	(160,076)
Other Creditors	17	(242,461)	(188,850)
Proposed Dividend		(160,000)	(60,000)
		(572,126)	(657,499)
NET CURRENT ASSETS		906,401	686,111
TOTAL ASSETS LESS CURRENT LIABILITIES		1,299,288	1,081,042
PROVISION FOR LIABILITIES AND CHARGES	18	(168,262)	(125,135)
		1,131,026	955,907
CAPITAL AND RESERVES			
Called-up Share Capital	19	200,000	200,000
Revaluation Reserve	20	23,504	27,656
Other Reserves	21	907,522	728,251
		1,131,026	955,907

The financial statements and notes on pages 14 to 23 were approved by the Board of Directors on 9 March 1999 and signed on its behalf by:

P. Kirkham..... M. McNally.....

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31st December, 1998.

	Note	1998 ₦'000	1997 ₦'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	589,577	299,983
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		6,762	3,060
Interest paid		(7,489)	(35,737)
Dividends paid		(183,666)	(45,125)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(184,393)	(77,802)
TAXATION			
Corporate tax paid (including advance corporate tax)		(21,804)	(51,494)
TAX PAID		(21,804)	(51,494)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(83,204)	(83,207)
Receipts from sale of tangible fixed assets		188,030	202,142
NET CASH INFLOW FROM INVESTING ACTIVITIES		104,826	118,935
INCREASE IN CASH AND CASH EQUIVALENTS	26	488,206	289,622

The statement of principal accounting policies on page 13 and the notes on pages 17 to 23 form an integral part of these financial statements.

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KASHIM IBRAHIM LIBRARY

STATEMENT OF VALUE ADDED

For the year ended 31st December, 1998.

	1998 ₦'000	%	1997 ₦'000	%
Sales (including excise duty)	1,824,674	100.00	2,066,668	100.00
Less Bought in Goods and Services	(1,097,379)	(60.14)	(1,094,841)	(52.98)
VALUE ADDED	727,295	39.86	971,827	47.02
DISTRIBUTION OF VALUE ADDED				
GOVERNMENT				
Taxation	132,472	18.21	6,928	0.71
Excise Duty on Cigarettes Manufactured	41,823	5.75	555,692	57.18
	174,295	23.96	562,620	57.89
EMPLOYEE COSTS	150,523	20.70	108,016	11.11
RESTRUCTURING COSTS	-	-	60,051	6.18
PROVIDERS OF CAPITAL				
Shareholders' Dividend	160,000	22.00	60,000	6.17
Interest on Loans	7,489	1.03	35,737	3.68
	167,489	23.03	95,737	9.85
GROWTH AND ASSET REPLACEMENT	234,988	32.31	145,403	14.96
	727,295	100.00	971,827	100.00

	1998 ₦'000	1997 ₦'000	1996 ₦'000	1995 ₦'000	1994 ₦'000
Turnover					
Gross Sales	1,824,674	2,066,668	2,286,040	2,033,947	1,718,220
Excise	(41,823)	(555,692)	(627,346)	(571,122)	(395,554)
	1,782,851	1,510,976	1,658,694	1,462,825	1,322,666
Profit before Taxation	471,743	174,191	280,407	172,948	396,694
After Taxation	339,271	167,263	252,043	119,010	243,734
Dividends	(160,000)	(60,000)	-	-	(120,000)
Retained Profit	179,271	107,263	252,043	119,010	123,734
Earnings per Stock Unit (adjusted)	85k	42k	63k	30k	61k
Dividend per Stock Unit (adjusted)	40k	15k	-	-	30k
Assets Employed					
Fixed Assets	632,856	590,326	552,418	534,050	449,304
Depreciation	(241,269)	(196,695)	(161,922)	(134,040)	(99,004)
Net Fixed Assets	391,587	393,631	390,496	400,010	350,300
Investment	1,300	1,300	1,300	1,300	1,300
Net Current Assets	906,401	686,111	599,119	304,682	238,244
Deferred Liabilities & Charges	(168,262)	(125,135)	(142,237)	(98,906)	(81,360)
	1,131,026	955,907	848,678	607,086	508,484
Funds Employed					
Called-up Share Capital	200,000	200,000	200,000	200,000	200,000
Reserves	931,026	755,907	648,678	398,851	283,779
Shareholders' funds	1,131,026	955,907	848,678	598,851	483,779
Borrowings	-	-	-	8,235	24,705
	1,131,026	955,907	848,678	607,086	508,484

The earnings and dividend per stock unit have been calculated on the basis of the issued stock at 31st December, 1998.