FINANCIAL MANAGEMENT IN HEALTH CARE ORGANIZATIONS: A CASE STUDY OF MATER MISERICORDIAE HOSPITAL, AFIKPO

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DECLARATION

I hereby declare that this project work " FINANCIAL MANAGEMENT IN HEALTH CARE ORGANIZATIONS: A CASE STUDY OF MATER MISERICORDIAE HOSPITAL, AFIKPO" has been written by me and a product of my research findings and that I am responsible for any error of commission and omission. All textbooks and articles used have been acknowledged accordingly in the references.

It has not been previously presented in any application for a degree.

WORU, RAMATU SALIHU	SIGNATURE	DATE 22/9/98

CERTIFICATION

This project titled "FINANCIAL MANAGEMENT IN HEALTH CARE ORGANIZATIONS. A CASE STUDY OF MATER MISERICORDIAE HOSPITAL, AFIKPO meets the requirements and regulations governing the award of the degree of MASTERS IN BUSINESS ADMINISTRATION [MBA] of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literacy presentation.

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DEDICATION

This project is dedicated to God Almighty, my parents, brothers and sisters and all my friends.

ACKNOWLEDGEMENT

With much gratitude to God Almighty for seeing me through yet another phase of my educational career and for his love, provision, protection and wisdom given to me.

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ABSTRACT

Financial Management in Health Care Organization, A case study of Mater Misericordiae hospital was carried out to assess how the hospital manages her funds/resources.

Financial Management involves acquiring and utilizing funds. Cash is gotten from different sources, its used to purchase inventory, the inventory when sold results in cash or accounts receivables [credit sales] when collected cash is made available for recycling. However if there is a problem along the flow other areas are affected also.

In this study, the various sources of funds that can be utilized by a firm was review. Planning for this financing is also needed and budgeting, as a tool for financial planning was discussed. The various components of current assets and current liabilities was studied in the light of accepted techniques and models for managing them. This was used to assess how the hospital manages her own components.

The research method used here is the description and the case study method. Data was collected through interview, observation and from text books and journals.

It was discovered that the hospital has a weak cash position as a result of the limited sources of funds and the management of her current asset with accounts receivable being very high, this in turn affected her current liabilities. Also the hospital does not use most of the management techniques rather she depends more on intuition and past experience in managing her working capital.

Also the amount expended an drugs is usually a significant portion of the hospital recurrent expenditure. Thus the mismanagement of drugs could easily result in great loss. Carrying too high inventory means a lot of capital is being tied down. So the problem is finding a suitable balance between the cost of carrying a large inventory and the ordering cost, determining optimal quantities of safety stocks so as to balance the cost of stockout with that of carrying the safety stock.

Another area was the investment of funds in fixed asset or marketable securities, the major decision here is what to invest in and when considering the economic recession and the expected revenue from the investment.

In conclusion, recommendations were made with a call on the government to consider the voluntary missionary hospital in the budget allocation. The recommendation if put in place would help the hospital manage her resources effectively.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Health services refer to all activities established to maintain a community in a state of complete well-being-physically, socially and mentally. The level of development of any country determined to a large extent, the state of health care delivery in the country. This is because health services by their nature can only be established and maintained by proper funding.

The history of health care in Nigeria can be traced back to the traditional healers that had existed from time immemorial and provided the earliest known form of primitive medical care. The missionaries bodies were the first to established organized medical care in Nigeria in the 1850's. The wide network of mission health care facilities in different parts of the country today is a great testimony to the work [1] Next came the British medical services in 1880s which was largely devoted to the care of sailors of the naval squadrons. The colonial government hospitals were later established in Lagos and Asaba in 1873 and 1888 respectively and were then integrated with Army services and developed into the colonial medical service. [2]

Health Care in Nigeria is a modification of the system handed down to us by the colonial government.

According to the World health Organization {WHO} the leading authority on health, the enjoyment of the highest attainable standard of health is one of the

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fundamental rights of every human being without distinction of race, religion, political belief, economic or social condition[3].

It further stated that government has a responsibility of providing adequate health care and social services for its citizens. To enhance this WHO suggests that 5% of the annual budget of a country be spent in providing health care. [4]

Chapter II, section 17 [d] of the Nigerian constitution of 1979 states among other things that "the state shall directs its policy towards ensuring that there are adequate medical and health facilities for all persons. [5]

In chapter III, section 3.3 of the fundamental principles underlying the National Health Policy States "Health resources shall be equitably distributed giving preference for those at greater risk to their health and the under-served communities as a means of social justice and concern".

In Nigeria the National Health Care system is developed at three levels.

- Primary Health Care
- Secondary Health Care
- Tertiary health Care.[see definition of terms]

Apart from the government [federal, state and local government] other variety of voluntary/non-governmental agencies especially religious bodies provide health care including both curative and preventive services, private practitioners, also provide health care. similarly, private companies also provide health care to staff members and their families. This they do to complement the role of government since government cannot service every community effectively.

The general economic situation facing the country has affected every sector, the health sector inclusive, the health sector is saddled with a lot of problems ranging from inadequate funding to gross mismanagement of the available financial resources.

The budget allocations to the health sector are grossly inadequate not even upto the 5% [for example 1997, 3.23% and 1998. 4.9% of the total budget, source: federal Republic of 1Nigeria Budget of Transition 1998 pg.25] requirements of W.H.O as a result of increasing population, high cost of medical care and the dismalling low per capital income of the average Nigerian. This has resulted in the poor and terrible state of our hospitals that one government said "our health services are in shambles as our hospitals have reduced to mere consulting clinic without drugs, water and equipment". The cost of health is rising, drug manufacturers and importer of hospital equipment blame the rising cost on the Structural Adjustment Programme {SAP} and the consequent devaluation of the naira. All imports now cost more in naira terms. Manufacturers and importers say the extra costs are passed on to the consumers. [6]

No wonder the era of free medical treatment is a thing of the past. In virtually all hospitals, people are now required to contribute to financing the Health Care services.

Even within the same country, whatever the level of development, there is a gap in the quality of health care received by different groups of the same population. This is because the ability of the various section of the population to pay for

health services in relation to their needs is dependent on income level. [The worst hit being those in the rural or sub-urban area].

In the face of this dwingling economy, how can the government and other health care providers/organization provide the needed services and achieve health for all by the year 2000. There is a relationship between health and economic growth. Health is wealth. Health is an investment. A healthy population produces a change in the quality of the people who then make a colossal contribution to the economic growth of any nation by creating a healthy labour force.

A lot has to be done to salvage this sector from poor planning, bad financial management, low manpower utilization and productivity, inadequate resource allocation, lack of cost benefit and cost effective analysis and most especially inadequate and badly distributed health services within the country. As if these were not enough shortage of drugs, obsolete or poorly maintain equipment reign in most hospitals. The brain syndrome is not left out. The country is witnessing mass exodus of medical and para-medical personnel in search of greener pastures.

In view of the fact that the budget allocation is grossly inadequate, how does this sector intend to finance its activities especially the non-governmental/voluntary missionary hospitals whose sources of funds is limited when compared to the government hospitals. What alternative area can be explored to increase their source of revenue and how can the funds acquired be managed effectively and efficiently to achieve the objective of health for all by the year 2000.

1.2 STATEMENT OF THE PROBLEM

The magnitude of the quantum of resources needed to keep the health service going make one wonder how best to finance them. The importance of having adequate cash in any organization cannot be over emphasized.

The problem this study seek to address include:-

i. What are the available sources of income

ii. How can more funds be mobilize to enhance their activities and how to manage their resources effectively

iii. Why is there little or no participation of government in funding of missionary/voluntary hospitals

iv. Why the liquidity problems in these hospitals

v. Why are government hospitals in a deplorable condition considering the amount of money given to them when compared to the high standard in missionary hospitals.

vi. Why can't the average Nigerian [especially those in rural or sub-urban areas] pay for cost of medical treatment

vii. Problems and prospects.

1.3 OBJECTIVES AND PURPOSE OF THE STUDY

From the research problems stated above, its desired that this research work would give solutions to the problems facing the health care organizations especially the missionary hospitals in the rural and sub-urban areas. Identify the operational problems encountered and to examine the existing sources of

financing and suggest alternative methods to increase their source of financing. The study also is intended to create an interest and understanding of the activities of these hospitals so as to motivate the government and other agencies to participate or assist in funding these hospitals.

1.4 SIGNIFICANCE OF THE STUDY

This study will be very useful to members of the public, the governments, voluntary/non-governmental agencies, hospital management and international bilateral agencies.

The public or members of the communities where the hospital is located will better appreciate the services rendered by the hospitals. They should participate in financing of health care not expecting everything to be free as before.

The government is suppose to be responsible for the health care needs of its citizens, here it is not possible. The government should therefore give a helping hand to those organization whose motives is not profit maximization because in a way they are assisting the government. The government should reciprocate by coming to their assistance from time to time.

This would serve as a call to voluntary/non-government agencies, charitable organizations and the international bilateral agencies like W.H.O., UNICEF, to come to the aid of these hospitals, get to know more of their activities and render assistance were necessary.

To the management of the hospitals themselves this study should better equip them on ways to acquire more funds and how to manage the funds effectively and efficiently

1.5 SCOPE OF THE STUDY

There are varieties of health care organizations in Nigeria. This study covers only the activities of a missionary hospital located in the rural and sub-urban area of Ebonyi state. The period under review is between 1990 to 1997.

1.6 LIMITATION OF THE STUDY

It would be very unrealistic to assume that all necessary facts can be gathered in the process of this kind of research work. Literatures on this study were very scanty at the time of making the research which affected the sources/amount of data and information available, Also the system of accounting operated by the hospital due to the nature of services does not have some data needed to compute some financial ratios. The constraints imposed by time and money is also a limitation. Furthermore the findings here cannot be generalized

1.7 DEFINITION OF TERMS

Financial Management:- is that part of management activities which is concerned with the sourcing and allocation of financial resources for the purpose of achieving desired objectives.

For the purpose of this work financial management is defined as that part of the total management function concerned with the effective and efficient raising and used of funds.

Health:-The world leading authority on matters relating to health [WHO] defines health as "the state of complete, physical, mental and social well-being and not merely the absence of disease or infirmity.[7]

Health care:- Implies the provision of conditions for normal, mental and physical development and functioning of the human being individually or in a group. It includes health protection measures, promotion of health preventive and curative medicine in all its ramification.[8]

Health care organization:- Refers to those organizations rendering health care services. However this study is concerned with the voluntary/missionary hospitals.

Primary health care level:- Implies essential health care made universally accessible to all individuals and communities by means acceptable to them, with their full participation and at a cost that both community and country can afford, whilst permitting the people to lead a socially and economically productive life. It is the 1st level of contact of individuals, the family and the community with the National Health systems bringing health care as close as possible to where people live and work. This is usually done in small clinics and health centres in the rural areas.

Secondary health care level:-Involves providing specialized service to patients referred from the primary health care level through out patient services at hospital centres for general medical, surgical and pediatric patients.

Tertiary health care:-Consists of highly specialized services provided by teaching hospitals and other specialist hospitals.

Lease:-Is a contract whereby the owner of an asset [the lessor] grants to another party [the lessee] the exclusive right in return for the asset, usually for an agreed period of time, in return for the payment of rent. Forms of leasing include sale and lease back, direct leasing, leveraged leasing.

Drug:-Here refers to tablets, injections, syrup, laboratory reagents, x-ray film etc.

Current assets:- Assets that are normally converted into cash within the operating cycle of the firm (normally a period of one year or less]. Such item as cash, accounts, receivables, marketable securities, prepared expenses and inventories are frequently found among the firm current assets.

Current liabilities:-Liabilities are debts of the firm that must be paid within the firms normal operating cycle [usually one year or less] such as accounts payable, notes payable, income tax payable wages and salaries payable.

1.8 ABBREVIATION

MMH - Mater Misericordiae Hospital

SAP - Structural Adjustment Programme

EOQ - Economic Order Quantity

WHO	-	World Health Organization
MS	-	Marketable securities
UNICEF		United Nations International Children Emergency Fund
ACP	-	Average Collection Period
OPD	-	Out Patients Department
ARR	-	Average Rate of Return
PBP	-	Payback Period
IRR	-	Internal Rate of Return
NPV	-	Net present value

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CHAPTER TWO

LITERATURE REVIEW

2.1 THE CONCEPT OF FINANCIAL MANAGEMENT

Financial management is a term that mean different things to different individuals and firms. Some define it as that management activity which is concerned with the planning and controlling of the firms financial resources[1] Others say financial management is defined by the functions and areas of responsibilities of financial manager[2]. Still yet another its defined as a study of the relationship between the raising of finance and the deployment of finance[3].

The job of a financial manager has grown beyond records, reports, the firms cash position, paying bills and obtaining funds to investing funds in asset whereas financial managers were once limited to some book-keeping, cash management and the acquisition of funds they now have a major voice in all aspect of both the raising and allocation of financial capital[4]

Finance today is best characterized as ever changing, finance has changed from primary a descriptive study to one that encompasses rigorous analysis and normative theory, from a field that was concerned primarily with the procurement of funds to one that includes the management of assets, the allocation of capital and the valuation of the firm in the overall market.

The evolution of finance has greatly impacted the role and importance of financial management. The function of finance involved three major decision.

Investment decision

Financing decision

Dividend decision.

The Investment decision determines the total amount of assets held by the firm, the composition of these assets and the business-risk complexion of the firm as perceived by suppliers of capital. The forms of assets either current or fixed assets, the proportion of current asset to cash, receivables and inventories, need to be ascertained. Apart from selecting new investment, existing assets needs to be managed efficiently.

With financing decision, the financial manager is concerned with determining the best financing mix or capital structure. What is the proportion of long-term financing to short-term financing and the component of each.

The dividend decision Includes the percentage of earnings paid to stockholders in cash dividends, the stability of absolute dividends about a trend, stock dividends and splits and the repurchase of stock.

Financial management involves the solution to the three major decisions. Similarly West, D.A and wood G.L , see financial management as problems solving, solving the problems associated with four aspect of financial management.

1. Financial management must be based on sound overall financial planning.
2. It must provide enough income to sustain the plan.
3. It must control the expenditures
4. Financial management must solve specific problems [5].

Financial management is an all embracing term, it involves, the acquisition of funds from the best source, allocation of the funds so acquired among alternative projects effectively and efficiently so as to achieve the objective of the firm concerned.

2.2 FINANCIAL PLANNING

One of the most critical elements in a business formation or promotion is the availability of adequate financing. The financial manager must estimate the quantity and type of capital needed and how to raise it at the proper time. Financial planning involves analyzing the financial flows of a company, forecasting the consequences of various investment, financing and dividend decisions and weighing the effects of various alternatives [6] The idea is to determine where the firm has been, where it is now, and where it is going, not only the most likely course of events but deviations from the most likely outcome. Financial planning is important because it forces management to take account of possible deviations from the company anticipated path.

The tools used in financial planning include:-

- **Funds flow statement**, a financial manager uses it to evaluate how a firm uses funds and may determine how these uses are financed. It can be used to evaluate future flows, also to asses needs, as well as to determine the best way in which to finance those needs.
- **Cash budget**, is a forecast of the future cash receipts and cash disbursements of a firm. A firm needs it in determining the short term cash need of the firm and, accordingly, in planning its short-term financing.
- Others include the **pro forma balance sheet and income statement's and sustainable growth modeling.**

Financial planning is necessary because of the wide gap between almost unlimited needs and scanty resources. Financial planning can be used to:-

1. Take a "snapshot" of current supply, and compare this with the needs and with their foreseeable development over different periods
2. Determines the desirable objectives and the resources needed to attain them, taking into account the constraints [financial and economic, human , social, medical, legislative, town-planning-related]
3. Define priorities, i.e to select what is possible in terms of capital investment, operating budget, management of human resources, in short, to decide.
4. To phase funding and decision-making over time
5. To ensure follow-up; and
6. To make evaluations at different points in time of the impact of the choices made, their application and the quality of adherence to the plan.

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They can be used to highlight the risk of uncorrected development, to amplify the effects of an action, and to conduct a conceptual review of an issue. It acts as an ideas laboratory.

Planning comprises several phases, this can be related to financial planning.

1. Definition of needs and objectives: This phases comprises several stage of analysis.

i. Review of current strategy and of the hospital image

ii. Analysis of the environment: Threats and opportunities.

Factors to be considered here may include demographic, geographical, psychosocial, socio economic, institutional factors such as the existence of other health care structures.

iii. Analysis of organization: strength and weaknesses factors here may include the reputation of the hospital, technical and service facilities, healthcare unit etc.

iv. Evaluation of changes and definition of objectives.

2. Formulation of the master plan.

3. Defining the pathway

(source "The hospital of tomorrow" D.Jolly and 1 Gerbaud WHO . SHS paper number 5 page 1-7.)

2.2.1 SOURCES OF FUNDS

Most funds used by established firms are internally generated. Nevertheless, external finance are a vital resources required from time to time by nearly all organizations. For a business to grow it must have adequate funds. The financial manager has to make a decision about the sources of finance the organization should use, he has to decide either to use internal or external, debt versus owners fund or equity fund, and either to use short term or long term financing[7].

The source of funds can be broadly categorized into two.

- Equity financing
- Debt financing

Equity Financing:- Apart form the initial capital invested into the business the firm can raise more funds by the sale of ownership shares. There are two types of ownership shares organization use, these are common stock and preferred stock..

A common stock is a security representing residual ownership in an organization. It guarantees holders the right to participate in the sharing of the earnings of the organization when there is profits. Common stock have the following features.

It has last claim on the dividend of the firm, it has last claim of the asset of the organization in the event of liquidation.

It guarantees voting right on issues regarding fundamental policies of the organization, election into the board of directors.

Common stock holders have the right to inspect the records and books of account and also the right to evaluate management performance.

Also they have the right to transfer their ownership by selling their shares without the consent of the organization.

A preferred stock holder is a part owner, he takes precedence over common stock holder in sharing of dividend or claims on asset in the event of liquidation.

Debt financing- This refers to the portion of the organizations fund that is provided by creditors. The firm can borrow funds, to finance its operation on a short-term or long-term basis.

Short-term debt – This refers to all short-term facilities that are expected to mature within one Calendar year. They are generally required to finance a substantial portion of an organization current asset such as cash, inventory. They are usually unsecured.

There are two major types of debt instrument. Trade credit and Bank loans.

Trade Credit:- Is a significant source of short-term funds, its usually created by the

purchase of raw material, and other supplies on credit, it involves no explicit cost except when a cash discount for early payment is offered. Example a credit term of 2/10 net 30.

The types of trade credit include the open account, trade acceptance. Other spontaneous source would include accruals like employees wages and salaries.

Accruals as sources of funds result from the fact that wages and salaries are paid at discrete points in time after the services has been rendered.[8] This source of funding is hard to manipulate but does not incur any cost.

Bank loan:- Another source of short-term fund is loans taken from commercial banks to meet seasonal needs. It usually involves the signing of a promissory note which specifies the repayment schedule. Bank loans are usually unsecured. They include:-

Notes payable:- This is a written promise by a borrower to pay back the amount borrowed at a specific future time. It is usually for a short period and given to individuals or organizations that have a good credit rating.

Line of credit:- This is an arrangement between a bank and it borrower specifying the maximum amount of unsecured credit that the bank can permit the customer to own at any given one time. Included in this category is an overdraft facility, this is also a means of raising short-term funds to finance seasonal needs.

Commercial paper:- Another way by which organizations can raise external short-term funds is through the issuance of written notes to the public called commercial papers.

Long-term debt:- A loan from a bank or financial institution is said to be long if its maturity is five years and above. The amount here is usually large and its mainly to finance an investment in fixed asset. They are usually secured. There are many types of long term debt instruments examples term loan, bonds etc.

A term loan is a long term credit contract under which a borrower agrees to make a series of interest and principal payments on specified dates to a lender,

most of which are amortized which means paid up in equal installment over the life of the loan

A bond is a security representing long-term promising to pay a certain sum of money at a certain time with a fixed rate of interest payable to the holder of the bond. The maturity period is longer than those for term loan. Specific promises and details of the bond agreement are contain in the bond indenture. Interest is usually paid annually or semi annually or even quarterly with the principal only repayable at maturity.

There are different types of bonds, these are

- Mortgage bond
- Debentures
- Subordinated debentures
- Convertible bond
- Income bond
- Collateral trust bond

The financial manager has to decide which method to use in raising the funds needed.

2.2.2 BUDGETING AND BUDGETARY CONTROL

Budget according to Okoh I.E means

a) a statement of estimated income and expenditure

b) a plan for the co-ordination of resources and expenditure

c) the amount of money that is available for, required for, or assigned to.

d) A financial and a qualitative statement prepared and approved prior to a define period of time, or the policy to be pursued during that period for the purpose of attaining a given objective. [9]

A budget is simply a financial plan. It is a statement of how funds will be spent and how they will be acquired for a given period of time say six months, one year or more.

The budgetary process is a method of improving operations. It is a continuous effort to specify what should be done to get the job completed in the best possible ways. It required a set of performance standards or targets that can be compared to actual results. It is a continuous monitoring procedure, reviewing and evaluating performance with reference to the previously established standard.

Budgeting is thus a management tool used for both planning and control.

Budgets performs three basic function:-

1. Indicate the amount of timing of the firms need for future financing.

2. They provide the basis for taking corrective action in the event that budgeted figures do not match the actual or realized figure.

3. Provide the basis for performance evaluation.

TYPES OF BUDGET

The three important components of the master budget are:-

i. Operating budgets

ii. Financial budgets

iii. Capital budgets

Operating budgets relate to the planning of the activities or operations of the organization such as production, sales and purchases. Its composes of two part - a programme or activity budget which specifies the operation or functions to be performed during the next year and a responsibility budget which specifies plans in terms of individual responsibilities.

The financial budgets are concerned with the financial implications of the operation budgets, the expected cash inflow and cash outflow, financial position and the operating results. The important components of financial budgets are cash budget, proforma balance sheet and income statement and statement of changes in financial position.

A cash budget being the most important. The major objective is to plan for cash in such a way that the company always maintain sufficient cash balance to meet its needs and use the idle cash in the most profitable manner.

A cash budget reveals expected cash position of an enterprise while proforma financial system give information as to the future assets, liabilities and income-statement items. The proforma statements are prepared to identify the anticipated result of the budgeted operations. The analysis of the present and past financial statements indicates the direction of change in the financial position and performance of the enterprise.

The causes of the changes in the financial position of an enterprises is better revealed by the statements of changes in financial position. The statement shows very clearly the sources and use of the firms financial resources.

Capital budgets involves the planning to acquire worthwhile projects together with the timing of the estimated cost and cash flows of each project. Capital budgets are difficult to prepare because estimates of the cash flow over a long period have to be made which involve a great degree of uncertain.

Advantages of Budgeting

As Peter Drucker puts it "if you fail to plan, you plan to fail". The importance of a good budget in any organization cannot be over emphasized. The following are some of the advantages of budgeting.

1. Budgeting compels management to plan for the future. The budgeting process forces management to look ahead and become more effective and efficient in administering the business operations.
2. Budgeting help to co-ordinate, integrate and balance the efforts of various departments in the light of the overall objective of the enterprise.
3. Budgeting facilities controls by providing definite expectation in the planning phase that can be used as a frame of reference for judging the subsequent performance.
4. Budgeting helps to optimize the use of the firms resources – capital and human, it aid in directing the total efforts of the firm into the most profitable channels.
5. Budgeting measure efficiency, permits management self-evaluation and indicates the progress in attaining the enterprise objectives.

It is important to note that a budget if not properly planned and monitored to adapt to changes has a negative impact on the smooth running of the organization.

BUDGETARY CONTROL

Budgetary control is the establishment of predetermined measures of performance, a comparison of actual and budgeted results so as to disclose any variation and take corrective measure [10]

The budgetary control process involves a number of step

1. Realistic budgets or plans are prepared to provide direction to carry out business operations.
2. Actual performance for each area of responsibility is measured.
3. Actual performance is compared with the budgeted performance to identity significant deviation
4. As a feed back mechanism, reports are prepared to inform management about deviations from budgets [plans]
5. Corrective action is initiated to ensure that performance is in accordance with budgets [plans].

Action may involve motivating people to implement policies, modifying certain policies, retraining employees or changing the manufacturing methods. The budget will have to be revised if the deviation is due to incorrectly set budget.

2.3 CURRENT ASSET MANAGEMENT

The management of current asset is of vital importance to companies and this forms a major function of the financial manager. Current asset by accounting definition are normally converted into cash within one year[11] . Current assets represent more than half of a firms total asset. The components of current asset are cash and marketable securities, inventories and account receivables. There is an interrelationship between the various components, cash is disbursed to replenish or acquire inventories, inventories when sold (credit sales) results in accounts receivables and the collection of accounts receivable increases the cash balance. The management of each component must result in optimum level of each.

There are factors that affect the amount and quantity of current assets. Some are

i.) Nature and size of business. The bigger the firm the larger the current assets components

ii.) Business fluctuation due to macro economic and seasonal variations.

iii.) Firms credit policy. This affects the level of account receivables and cash. A harsh policy will mean low account receivables and a relaxed would mean high receivables along with its attendants risks of bad debt and erosion of value if and when collected.

iv.) Growth and expansion activities. A fast growth calls for higher amount of cash for investment,

Others include efficiency in operation and changes in price level.

In general, current assets are called liquid assets but the most liquid is cash. Their varying degree of liquidity depend upon the ease with which they are converted to cash, the time necessary for the conversion and the degree of associated certainty with the conversion ratio or price.

2.3.1 MANAGEMENT OF CASH AND MARKETABLE SECURITIES.

CASH MANAGEMENT:

Cash management involves managing the monies of a firm in order to maximize cash availability and earn interest income on any idle funds, [12] of all the current assets a firm profess to manage, cash is the most liquid. Cash is any asset that is widely and legally used as an exchange medium [13] .

It is a bench mark for liquidity in the sense that other current asset transformation into cash requires time, expense or both. It is needed to acquire inventories, equipment, pay wages and salaries to workers, taxes to government, interest and principal to creditors, dividend to stockholders etc.

Cash management involves the effective and efficient control of:-

i.) cash inflow and outflow of the firm

ii.) Cash flow within the firm

iii.) Cash balance held by the firm at a point in time.

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MOTIVES FOR HOLDING CASH

Management must provide adequate liquidity for the purpose of running the organization. However the problem is matching the need to spend money with

its availability over a period of time, how to provide sufficient cash to allow transaction to be undertaken promptly while at the same time preventing the accumulation of excess liquidity.[14]

Firms retain some minimum cash balance to bridge the gap between cash inflow and outflow. Firms and individuals hold cash for the following reasons.

i) Transactionary motive

ii) Precautionary motive

iii) Speculative motive

Transactionary Motive – is the need for cash to meet payment arising in the ordinary course of business such as purchases, labour etc.

Precautionary Motive- relates primary to the predictability of cash inflow and outflow. If the predictability is high, less cash must be held against an emergency or any contingency. Another is the ability to borrow additional cash on short notice when circumstances necessitate. Precautionary balances are buffer stock of liquid assets, it relates to the maintenance of balances to be used to satisfy possible but at yet indefinite needs.

The speculative motive relates to holding cash in order to take advantage of expected changes in security prices. It involves being ready for profit making opportunities. Holding cash for speculative motive is more common among individual investors.

Other reasons for holding cash include:-

i) To enjoy the advantage of taking discount. A credit term, for instance of "2/10 net 30" allows a firm 2% discount if the invoice is paid within the

first - ten days, with full payments required in 30 days. This means that since the net amount is due in 30 days, failure to take the discount means paying extra 2% for using the money for additional 20 days. Thus if one is to pay 2% for every 20 day period over the year, the cost of not taking discounts will be calculated thus:-

$$\text{Cost} = \frac{\text{discount \%}}{(1-\text{discount \%})} \times \frac{360}{(\text{Final due date} - \text{discount period})}$$

$$= \frac{.02}{.98} \times \frac{360}{20}$$

$$= 0.0204 \times 18$$

$$= 36.73\%$$

Therefore, it is advantageous to hold adequate cash in order to take trade discounts. This is because the cost of not taking discount is obviously higher than the normal cost of capital in most firms.

ii) If a firm has sufficient cash at hand it can maintain its credit standing. It helps the firm maintain its liquidity position. A strong credit standing enables the firm to purchase goods from trade suppliers on favourable terms and to maintain its line of credit with bank and other lending institutions since current and acid test are key items in credit analysis.

iii) Taking advantage of favourable business opportunities that may arise from time to time.

TOOLS OF CASH MANAGEMENT

1. **Cash budget**:- A cash budget is arrived at through a projection of future cash receipts and cash disbursement of the firm over various intervals of time, it reveals the timing and amount of expected cash inflows and outflows over the period studied. With this information, the financial manager is better able to determine the future cash needs of the firm, plan for the financing of these need, and exercise control over the cash and liquidity of the firm.

A cash budget is arrived at by:-

i) A good sales forecast and expected income from other source to get the expected receipt for a given period

ii) Next comes a forecast of cash disbursement both re-current and capital expenditure

iii) Once we are satisfied that we have taken into account all foreseeable cash Inflows and outflows, we combine the cash receipts and cash disbursement schedule to obtain the net cash inflow or outflow for each month. The net cash may then be added to beginning cash in January, and the projected cash position computed month by month for the period under review. [The beginning cash in January is the cash at hand and bank balance as at 31st December brought forward].

Example of a cash budget [vanhorne page 774]

	Jan.	Feb.	Mar.	April	May	June
	'000	'000	'000	'000	'000	'000
Total cash receipt	$335.5	$294.0	$209.5	$250.5	$300.5	$348.5
Total cash disbursement	260.0	360.0	310.0	290.0	285.0	320.0
Net cash flow	$75.5	$(66.0)	$(100.5)	$(39.5)	$15.5	$28.5
Beginning cash without Financing	100.0	175.5	109.5	9.0	(30.5)	(15.0)
Ending cash without Financing	175.5	109.5	9.0	(30.5)	(15.0)	13.5

The cash budget indicates that the firm is expected to have a cash deficit in April and May. With this the financial manager can plan ahead on how to source for funds or may decide to cut down on some expenditures.

The other tools of cash management is based on the premise that cash flow must be accelerated, disbursement slowed and the judicious investment of excess cash in temporary investment.

2. **Synchronization** that is the removal of discrepancies between cash inflows and outflows. If firms could arrange things so that their cash receipt coincides with the timing of their cash out flow, then they can hold their transaction balance to the minimum.

3. **Speeding collection of cheques received**. Efficient firms go to great lengths to speed up the processing of incoming cheques by means of

concentration banking, lock box system, special clearance etc similarly slowing down the collection period of cheques issued by a firm is used by efficient firms.

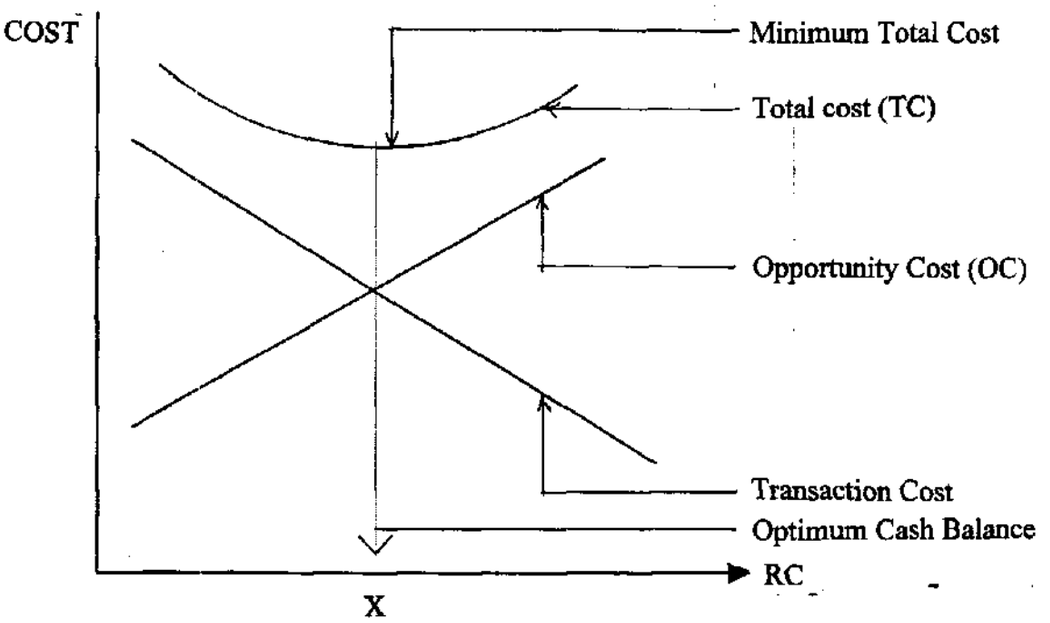
4. **Using float-** Float is defined as the firm difference between the balance shown in a firms cheque book and the balance on the banks books. If a financial manager keeps a tab on this, he could utilize the fund for investment during the float period to earn a return.
5. **Accruals-** This is for stretching fund payments in accruals. Increasing the accruals delays payment.
6. **Stretching accounts payable**. This should be done with care so as not to add additional cost.

Another way of managing cash in organization is to ensure that all monies received is actually accounted for, make sure that all payments is dully authorized and supported by relevant documents, see that all books/receipts balance correspond with the physical cash, ensure accurate record keeping of all transactions and safety of official documents like cheque books, official receipt, payment vouchers etc.

DETERMINING THE CASH BALANCE

Cash is held primarily for transaction purposes, while the precautionary and speculative motives are met by holding the portfolios of marketable securities or by borrowing. However, some minimum balance may be held as safety stock: In some businesses, the total transaction balance plus safety stock (i.e

precautionary balance) make the minimum cash balance. The decision to determine a firms optimal cash balance is always influenced by a risk return trade-off. The liquidity of a firm position becomes weak when the firm experiences shortage of funds by maintaining a small cash balance. On the other hand, a higher profitability can be attained by investing excess cash in securities which can be resold in times of cash shortages. Similarly a firm with excess cash will enhance its liquidity position at the expense of opportunities to earn interest [if it had invested the excess funds in securities]. Thus the interest forgone constitute and opportunity cost to the firm. As a result of this an optimal cash balance should be maintained by equating the transaction cost and risk of a small balance with the opportunity cost of a large cash balance. The optimal cash balance is:-



2 Under conditions of certainty, one simple model for determining the optimal average amount of transaction cash is the economic-order-quantity (EOQ) used in inventory management.

The optimal level of cash is found to be

formular

$$C = \sqrt{\frac{2bt}{i}}$$

Where:

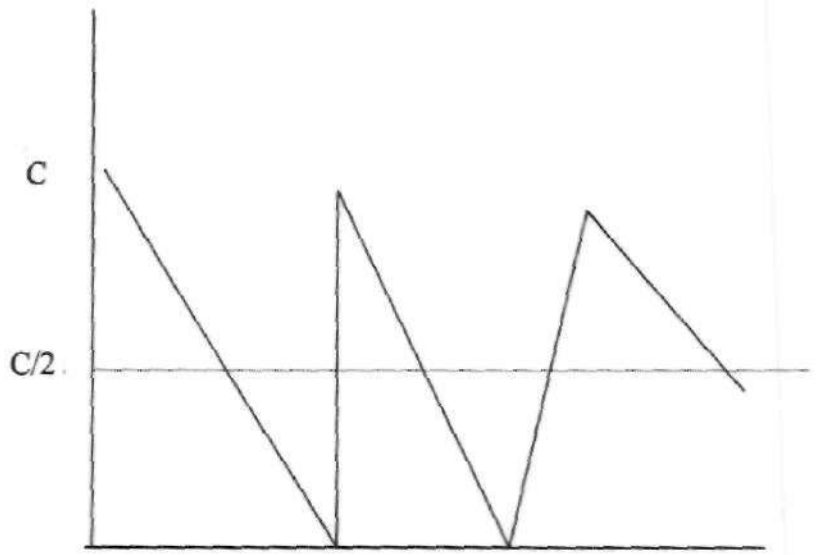
C = Optimal level of cash

C/2 = Average cash balance

B = Fixed cost of a transaction

T = Total demand for cash

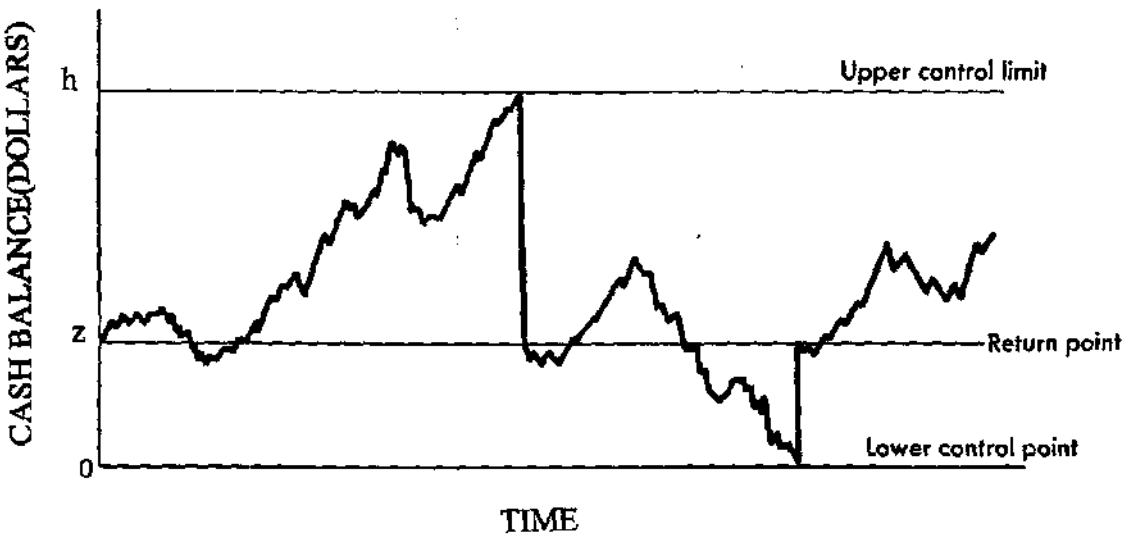
I = Interest charge



3 **Miller-or Model**

It is assumed that cash balance fluctuates randomly and that the demand for cash is stochastic and unknown in advance. Based on this assumption control limits are set such that when cash reaches an upper limit, a transfer of cash to

marketable securities is consummated, and when it hits a lower limit a transfer from marketable securities to cash is effected.



When the fluctuating line {cash balance} touches the upper limit {h}, portfolio purchased is made in an amount large enough to restore the cash balance to the point {z}. Once back at Z, the cash balance line is allowed to wonder and no further purchase or sales are made until the balance either breaks through the upper limit {h} or the lower control limit {I}. When the lower limit is reached a sell of security from portfolio is effected in an amount that restore the balance to point z again.

Therefore the optimum cash balance depends not only on limits hold z or on fixed and opportunity cost but also on the degree of likely fluctuation in cash balance.

$$Z = \sqrt[3]{\frac{3b\delta^2}{4i}}$$

Where b = Fixed cost associated with a security transaction

δ^2 = Variance of daily net cash flow

I = Interest rate per day on marketable securities.

The optimal value of h is simply 3z. These simple arithmetic enable the calculation of optima levels of cash. Also from experience it is possible to determine in advance by using the following formula

Average cash balance = $\frac{Z + h}{3}$

Other methods used in determining the minimum cash balance are:

- Experience based on average expenditure
- Relate to the percent of expenditure
- Average use plus some safety stock. [15]

Excess cash in an organization can be utilized in the following ways:-

- Investment in short term obligation
- Application of excess cash to amortize or reduce loans and thereby obtain interest saving.
- Extension of loan

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- Investment in a fixed asset that will generate enough income
- To develop new products or buy more stock for sake of variety and consequent satisfaction of customer needs.

MARKETABLE SECURITIES [MS]

The next liquid component of the current asset component after cash are marketable securities. Once a firm has determine an optimal cash balance, the residual of its liquid asset may be invested in marketable securities. The disposal of marketable securities have attendant transaction cost. However investment in Ms is rewarding i.e expected return-that the holder of cash has to forgo. Generally, most Ms mature in one year.

REASONS FOR HOLDING MARKETABLE SECURITIES

- To provide for precautionary motive when outflow outstrip in flow
- As a temporary investment of idle cash
- To meet predictable financial requirement.

TYPES OF MARKETABLE SECURITIES

Many types of Ms exist but they all vary in their level of yield, have different levels of default risk, marketability; length of maturity, taxability etc.

1. **Treasury Securities-** The principal security issued are bills, notes and bonds with maturity period of 90 days – 180 days, 1 to 10 years, over 10 year respectively. Treasury securities are the safest and most marketable investment

2. **Repurchase Investments**- The repurchase agreement or " repo" is the sale of short term security by the dealer to the investor, whereby the dealer agrees to repurchase the security at a specified future time. The investor receives a given yield while holding the security. The length of holding period itself is tailored to the needs of the investor. It can be as little as "over night" meaning a one day holding period or it may run to several days, to a week or more.

3. **Bankers Acceptance**- Are draft 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. The maturity period is less than 6 months and are of higher quality.

4. **Commercial Paper**- Consist of short term unsecured promissory notes issued by finance companies and certain industrial concerns. Rates on commercial paper are somewhat higher than rate on treasury bills. They are sold on discount basis and maturity ranges from 30-270 days and are usually sold in large denomination.

5. **Negotiable certificate of deposit** – Is a short term investment, the certificate [CD} is evidence of the deposit of funds at a commercial bank for a specified period of time and at a specified rate of interest. Maturity ranges from 30 to 360 days.

2.3.2 MANAGEMENT OF INVENTORIES

Inventories constitute a substantial part of the total current assets employed. They are assets that can be converted into cash in a year. Inefficient inventory management system may lead to over stocking or under stocking without the expected corresponding increase or decease in demand. The objective of inventory management are:-

- To maintain a large size of inventory for efficient and smooth production and sales operation
- To maintain a minimum investment in inventories to maximize profitability.

Excessive or inadequate inventories are not desirable so the main objective is to determine and maintain optimum level of inventory investment. Advantages of inventory are several, the firm can effect economies of production and purchasing and can fill orders more quickly. The disadvantages are the total cost of holding the inventory, including storage and handling costs and the required return on capital tied up in inventory and the danger of obsolescence.

CLASSES OF INVENTORY

There are three main classes of inventory-

- Raw material
- Work-in-progress [W.I.P]
- Finished goods.

Raw materials – These are stocks held mostly by manufacturing industries prior to their being utilized in the production process, they are held solely for the purpose of supplying the factory with an uninterrupted flow of materials at all time. A days delay making the factory idle could mean a loss of profits greater than the cost of holding stocks equal to several weeks demand. Opportunities may arise for buying more than is required because of unusually low prices or to take advantage of seasonal fluctuations. The ability of the firm to buy in excess will depend on the combined effect of borrowing costs, availability of funds and the problem of storage.

Work-in-Progress - consist of raw material and bought in component, they are products which are only half-way-through a manufacturing process. It permits efficient production scheduling and utilization of resources without which each stage of production would have to wait for the preceding stage to complete a unit.

Finished goods - Products sold to customers by the firm, it allows the firm flexibility in its production scheduling and in its marketing. Large inventories also allow efficient servicing of customer demands. If a product is temporarily out of stock, present as well as future sales may be lost.

REASONS FOR HOLDING INVENTORIES

Economist have established three motives for holding inventories [16]

The transactionary motives to satisfy the expected level of activities of the firms.

Precautionary motive is to provide a cushion in case the actual level of activity is different than anticipated.

The speculative motive might entice a firm to purchase a large quantity of materials than normal in anticipation of making abnormal profits.

COST OF HOLDING INVENTORY

Although inventory management is not the direct operating responsibility of the financial manager, the investment of funds in inventory is an important aspect of financial management. So inventories needs to be control effectively and capital allocated efficiently . The cost of holding inventories include

- Carrying cost
- Ordering cost
- Stock out

Carrying cost - These represents the numerous cost associated with holding goods in stock. They include interest or cost of money tied up, obsolescence deteriorating, pilferage costs and insurance charges. These cost are incurred immediately the item is put into inventory.

Ordering or set up costs - These include cost associated with placing order And making charges in machine set up for production runs, also involve the cost of unloading, inspecting and storing the goods. The magnitude of the setup cost is affected by the size of the other, as a result the per unit setup cost decrease with increases in the size of order.

Stock-out or shortage cost – These are the cost of running out of stock probably because of insufficient inventories.Effects of stockout are lost of sales and profits, lost of market share and goodwill.

METHODS OF INVENTORY CONTROL

The primary methods of inventory control are the perpetual inventory system and the periodic inventory system.

The perpetual inventory system provides constantly updated inventory information particularly for merchandize with high Naira value, resulting in a need to exercise close control over the number of unit of stock. For each item of inventory the perpetual systems required a detailed record card and contains information on the opening balance, purchases and sales and the current balances.

The periodic inventory system accounts for merchandizing by means of physical counts of goods on hand at the end of each accounting period

TECHNIQUES OF INVENTORY MANAGEMENT

Acquisition of goods precisely when demand for them materialized is economically unwise, if not physically impossible. So the concern about inventory management bother on when orders for acquisition should be placed and the size of order i.e the economic lot size.

1 Economic Order Quantity [EOQ] Technique

This is used to determine the optimal order quantity for a particular item of Inventory cost and carrying cost.

The basic assumptions of EOQ include:-

- Constant demand rate per unit of time

- Deterministic [known with certainty] environment with respect to demand and cost.
- Insignificant or non-existent lead time between placing an order and receiving the goods ordered.
- Unlimited cash available for inventory investments.

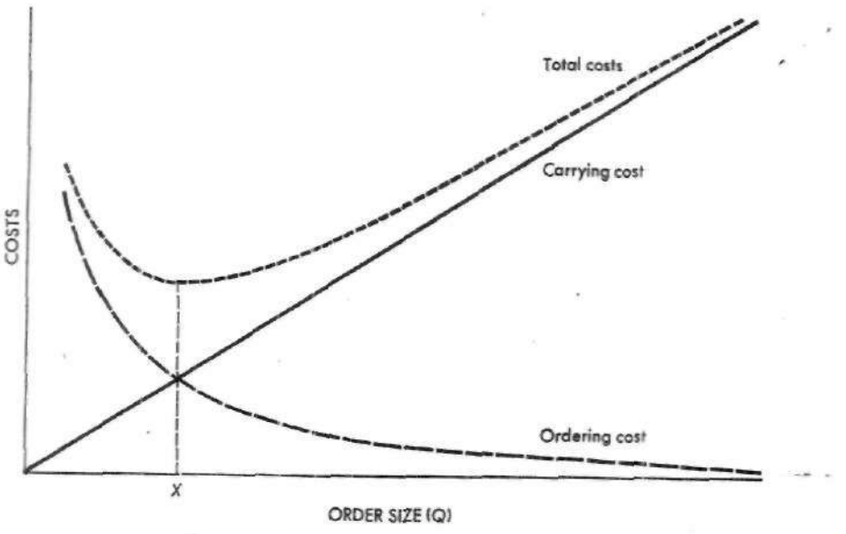
The EOQ is the order size that will result in the lowest total of ordering and carrying cost of an item of inventory. By obtaining an EOQ, the firm identifies the number of unit to order that will result in the lowest total of this two cost.

The two approaches that can be used in determining the EOQ are:-

a) Graphical approach

b) Mathematical approach

The Graphical Approach is where the EOQ is found by plotting order quantity on the X axis and the cost on the Y axis



The EOQ occurs at the point of intersection of the ordering cost and carrying cost. From the figure we see that whereas carrying cost vary directly with the size of order, ordering cost very inversely with the size of the order.

Mathematical Approach.

This is where the EOQ is arrived at by the use of the following formula:-

$$EOQ = \sqrt{\frac{2SO}{c}}$$

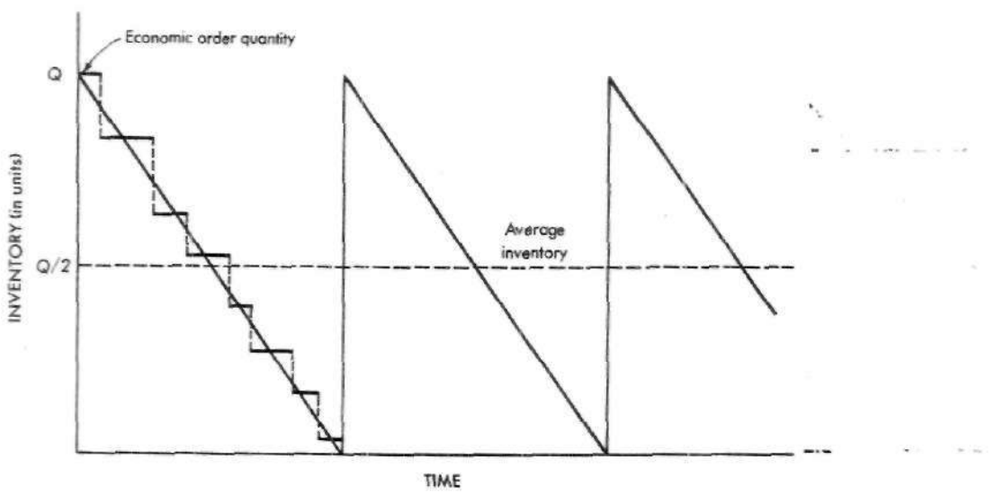
where S = Annual Usage or consumption

O = Ordering cost

C = Carrying cost

The ordering cost and the carrying cost is the cost of maintaining average inventory

Average inventory = $\frac{Q}{2}$



The total cost of inventory is the carrying costs plus the ordering cost or

$$T = \frac{CQ}{2} + \frac{SO}{Q}$$

Example [taken from principles of finance, lecture note by Mal. S Abdullahi]

A firm has forecasted sales of 1,250,000 units of a product in the next 12 months, each order will cost the firm N10, N20 per units for the products and estimate that inventory carrying cost are 20%of inventory values. The EOQ is

Ordering cost O = N10

Annual consumption S = N1,250,000

Carrying cost per unit of inventory C = 20% of N20 =4

$$EOQ = \sqrt{\frac{2SO}{C}}$$

$$= \sqrt{\frac{2x1250,000x10}{4}}$$

$$= 2,500 \text{ units}$$

2 ORDER POINT

In replenishing stock an order has to be sent out and the delivering date is at some future time. This time lag in delivery is called the lead time expressed in number of days. The purpose of the order point is to signal when the inventory level of an item has reached the point where replenishment of stock is needed. The functions include:-

1. It optimize the two opposing conditions of minimizing investment in inventories and satisfying demand by reducing the possibility of stock outs to an acceptable level.
2. It provides for the addition of safety stock. The amount of safety stock is however determined by competitive practice and demands of trades. Here the important consideration is to weigh the cost of additional inventory against the loss of a sale or customer good will

The formula for order point is

$$OP = S[P-L] + \frac{F}{\sqrt{sq[P-L]}}$$

Where S = Sales or usage

L = Lead time

Q = Unit per demand

F = Stock out acceptance factor

P = Production or procurement cycle

3 **AVERAGE STOCK LEVEL**

It should be noted that some firms add safety stock to their average stock level to avoid unforeseen contingencies. Such as variation in delivery times due to bad weather, strikes and so on.. The size of the safety stock will be relatively high if uncertainties about usage rates and delivery times are great and low if these factors vary significantly. Furthermore, the size of the safety stock will be larger if cost of stock out are great. The formula is

$$= \frac{EOQ}{2}$$

2.3.3 MANAGEMENT OF ACCOUNT RECEIVABLE

The issue of accounts receivable is as a result of extension of credit sales to other firms and individuals by the firm. The problem is how to measure the increase in sales and [profits] and make comparison with the costs and risk associated with trade credit to determined the amount of gains achieved. This is because it involves a trade off between the profits on sales that gives rise to receivable on one hand and the cost of carrying these receivables plus bad debt

losses and credit and collection cost on the other. The management of accounts receivables therefore, largely deals with the management of debtor account. The level or size of accounts receivables is usually determine by the volume of sales [credit] as well as the average collection policy which is the length of time an organization has to wait after making credit sales before receiving actual payment.

FACTORS AFFECTING THE AVERAGE COLLECTION PERIOD

Economic Condition- Is an uncontrollable factor beyond the reach of the organization to change. In period of economic boom, the level of credit sales may increase or decrease, decrease because many customers can now afford to pay cash and thus avoid credit purchases. However, in recession or an extremely tight monetary period, customers maybe forced to delay payment which will obviously increase the size of accounts receivables.

Credit standard- This refer to the quality of customers an organization advanced credit to and the maximum riskiness or acceptable account. Where an organization makes credit sales to its strongest customers it mean that there would not be bad debt losses. On the other hand it will probably be loosing sales as well as profits. As such the organization should aim at optimum credit standard, which is the credit standard that tries to equate marginal cost of credit and marginal profit on increase sale. That is aim at a credit standard that will ensure the cost of bad debt you are trying to avoid equals the amount of sales and profit you will be loosing. To evaluate credit risk, financial managers have five factors to consider otherwise called the five Cs Of credit. There are:-

- Character
- Capacity
- Capital
- Collateral
- Condition

Character:- refers to the probability that the customer will honour his obligation. It has to do with the moral standing of the customer.

Capacity:- is concern with the ability of the customer to pay, this is measured by his past record supplemented by physical observation of the factory and business methods of the customer.

Capital:-is usually measured by the general financial position of the customers, determined by financial ratio analysis.

Collateral :- represents the assets the customer offers as a pledge for security of the credit extended to him. The collateral should be worth the amount of credit.

Condition:-refers to the impact of the general economy on the customer or what are the impact of certain special development in the economy on the customer, like the Structural Adjustment Programme [SAP] and other economic and monetary policies.

In Nigeria there are 6c s which include connection.

CREDIT TERM:

Credit term: involves both the length of the credit period and the discount given. A clause or a paragraph in a sales invoice stipulates the maximum credit period allowable, the size and period of cash discount.3/10 net 30 Means that the customer will get 3% discount if he pays within 10 days, if he wants the discount however full payment is expected by the 30th day.

The effect of granting cash discount is to speed up payment by debtors, it may also attract customers who want to take discount thereby increasing sales.

Cost of trade credit

Where a supplier offers a certain percentage of cash discount and the customer [debtor] decide to forgo the discount allowed, is there any cost associated with that action? Although no explicit cost is levied on the debtor, the firm extending the credit thus incur a cost in the sense that its money are tied up in the interim instead of it being invested elsewhere and this cost is indirectly passed to the purchaser in the cost of merchandize. The two side here involve:-

1 Take the cash discounts, pay less and pay earlier

2 Forgo the cash discount, pay more at the end of the credit period. However, some people argue that they forgo the discount so that they will have enough time to recycle the money or invest it.

Also included in the credit term is seasonal dating, during period of slack firm some times sale to customers without requiring payment for some time.

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COLLECTION POLICY

Collection policy refers to the procedures the firm follows to obtain payment of overdue accounts. For example, a letter may be sent to such customers, personal calls and legal action. The collection process can be expensive in terms of both out of pocket expenditure and lost of goodwill, but at least some firmness is needed to prevent an undue lengthening in the collection period to minimize outright losses.

The cost of credit include:-

i. The risk of default and bad debt

ii. Capital tied up in receivables

iii. Investigation and collection cost

iv. Enlargement of the credit department and increased clerical expenses

v Opportunity cost of additional inventories.

MONITORING ACCOUNTS RECEIVABLE

Once a firm has established its credit policy, the financial manager must constantly monitor his or her credit operations to ensure that the policy is being followed and that satisfactory results are being followed. It involves paying closer, attention to receivables of a firm from time to time with the aim of identifying possible collection problems that may arise.

The methods used include period

i. **The average collection period.**

This refers to the number of average days credit sales is outstanding in receivables. It measures the quality of debtors since it indicates the rapidity or

slowness of collecting receivables. The shorter the period, the better the quality of receivables. If the period is longer it indicates the firms receivables are outstanding for longer period than necessary.

The formula is:-

$$\frac{\text{Receivables x days in year}}{\text{Annual credit sales}}$$

ii. Ageing schedule

Here outstanding accounts are classified by vintage and expressed as percentage of total uncollected balances on the analysis of data. Thereafter, any indicated collection period can be interpolated to know how much percentage of receivables falls due

2.4 Management of Current Liabilities

Liabilities are created by borrowing money or purchasing goods and services on credit. Liabilities if efficiently managed can be a source of short-term financing for a firm.

Current liability are debts payable within an accounting period. Current assets are converted into cash to pay current liabilities.

The solvency of a business firm depends upon its ability to meet its obligation when they are due, measurement of this ability involves among others, the management of current assets in the light of the firm current liabilities. In other words, a comparison of the amount of current liabilities with the amount of

current assets available for paying these debts help in judging a company short-run debt paying ability.

The component of current liabilities include

- Accounts payable
- Accruals
- Short-term loans etc

ACCOUNT PAYABLE

In ordinary course of events a firm buys its supplies and materials on credit from other firms recording the debt as trade creditors it is a spontaneous source of financing in that it arises from ordinary business transaction.

Buying firms must be careful that it is not really paying a hidden financing cost. In the form of higher product prices than could be obtained elsewhere, extending credit involves a cost to the selling firm, and this firm may well be raising its own prices to off set the `free' credit it extends.

If a firm stretches its payables excessively, so that trade payables are significantly deliqent, its credit rating will suffer. Suppliers will view the firm with apprehension and may insist on rather strict terms of sales if indeed they sell at all.

ACCRUALS

For accruals, the expenses is incurred or accrued but not paid. The most common accrual accounts are for wages and taxes. They also represent a spontaneous source of financing. Services are rendered for wages and salaries, but employees are not paid and do not expect to be paid until the end or after the end

of the pay period. Similarly taxes are not expected to be paid until their due date. Accrual, represent an interest free source of financing.

However, a company in extreme financial difficult can postpone tax, payment for a short while. It may also postpone payment of wages at the expense of the employees and morals. Employees may respond with absenteeism or reduced efficiency or may seek employment elsewhere. A company has to be extremely careful in postponing wages. If it is as a result of the financial difficulty, employees must be well-informed and promised immediate payment at some specified date.

SHORT TERM-LOANS

Loan collected from a commercial bank, individuals or other financial institutions and yet to be paid form part of the current liabilities of a firm. These short-term loans from the bank may be secured or unsecured. The loans maybe in the form of an overdraft, a line of credit or a revolving credit agreement or a transaction loan. The borrowing firm is expected to honour their obligation as stipulated in the terms of agreement.

Current liabilities if managed efficiently can be used as a source of short-term financing. However, failure to meet their obligation as at when due indicates that the firm may be having same liquidity problems or that the firm is not managing its current asset well. Another problem maybe that the firm is using short-term loans to finance long-term projects or investment in fixed asset the return of which would take a longer period.

A financial manager must be able to balance the current asset components with its current liabilities.

2.5 INVESTMENT IN FIXED ASSET

The function of a financial manager includes making decision as to capital investment, that is the allocation of capital to investment proposal whose benefits are to be realized in futures. Also decision to reallocate capital when an asset no longer economically justifies the capital committed to it.

Fixed asset consists of such long-lived tangible and intangible assets like building, plants & Machinery, equipment, furniture, land, trade mark, goodwill etc. Allocation of funds to fixed assets is a serious matter to a firm because of the large amounts of fund s committed to these investments. A firm cannot function without fixed assets and they contribute directly or indirectly to profitability. Fixed assets involves long-term financing and as such the administration of fixed assets is usually considered to fall within the realm of capital budgeting [17] Investment proposals are judge by their expected return. However, some capital investment do not yield return but it facilitates the business operation [example a new building to house an ultra-sound machine].

Investment proposals or project may take any of the following form.

- New products or expansion of existing products
- Replacement of equipment or building
- Research and developments
- Exploration

- Others [include miscellaneous items such as the expenditure of funds to comply with certain health standard or the acquisition of a pollution-control device.

In carrying out an investment, it is important to note-that some projects are **mutually exclusive**, while others are **contingen**t. Two projects are said to be **mutually exclusive** where the acceptance of one preclude the acceptance of the other, that is the two project cannot be jointly undertaken. On the other hand **contingent projects** are those whose utility depends on some other, the acceptance of one necessitate the acceptance of the other. Example the addition of a large machine may necessitate construction of a new wing to house it.

Another problem occurs where an organization is having more number of viable and acceptable project than it can finance. The organization is constrain by fund . Here capital has to be **rationed.** The organization is required to rank the projects from the highest to the lowest in the order of priority and profitability. A cut off point can now be established, those above the cut off point upto the amount of fund available are accepted while those below are rejected or delay until the availability of fund.

Another major task of a financial manager is to estimate the future cash flows for a project. The firm invests cash now in the hope of receiving cash returns in a greater amount in future. The expected future cash flows from a project determines also which project an organization should finance.

The following methods are used to evaluate the cash flows:-

- Average rate of return

- Payback period
- Internal rate of return
- Net present value

AVERAGE RATE OF RETURN [ARR]

The ARR represents the ratio of the average annual profit after tax to the net investment of the project. It is calculated by dividing the average profit after taxes by the net investment. It should be noted that the cash flow of a project is made up of the profit after taxes and depreciation. The profit after tax is derived from the cash flow by determining the depreciation and subtracting it from the cash flow.

$$\text{ARR} = \frac{\text{Average profit after tax}}{\text{Net Investment.}}$$

As a decision rule any projects with ARR that meets the rate of return set by management should be accepted. For mutually exclusive projects, the one with the higher ARR should be accepted.

PAYBACK PERIOD. [PBP]

The payback period of an investment is the number of years required to recover the initial cash investment.

$$\text{Payback period} = \frac{\text{Net investment}}{\text{Annual cash flow}}$$

However, where the cash flow from the investment is a mixed stream [ie fluctuating figures over the life of the project] the pay back period is determined by adding up the cash flow for the individual years up to the time where the initial

cost is recovered. As a decision rule project with pbp less than that set by management should be accepted. And for mutually exclusive projects the one with the lowest pbp should be accepted.

INTERNAL RATE OF RETURN [IRR]

The internal rate of return for an investment proposal is the discount rate that equates the present value of the expected cash outflows with the present value of the expected inflows.

$$IRR = \sum_{t=0}^{n} \left[\frac{At}{(1+r)^t} \right] = 0$$

or

$$IRR = \frac{A1}{(1+r)1} + \frac{A2}{(1+r)2} + \frac{A3}{(1+r)3} \ldots\ldots\ldots + \frac{An}{(1+r)n} - C = 0$$

As a decision rule if the IRR is greater than the cost of capital, of the firm the project should be accepted. For mutually exclusive projects, the one with the higher IRR greater than the cost of capital should be accepted.

NET PRESENT VALUE {NPV}

The Net present Value is the present value of future returns discounted at the cost of capital minus the cost of the initial investment.

$$NPV = \sum_{t=o}^{n} \frac{At}{(1+k.)^t}$$

or

$$NPV = \frac{A1}{(1+r)1} + \frac{A2}{(1+r)2} + \frac{A3}{(1+r)3} \ldots\ldots\ldots + \frac{An}{(1+r)n} - C$$

As a decision rule NPV greater than zero should be accepted, for mutually exclusive projects, the one with the higher NPV should be accepted.

The Benefit cost ratio is another method of evaluating investment project, it is also called the Profitability index [P.1] because it measures the return on every one Naira investment. It is computed by dividing the present value of benefits By the present value of cost.

$$PI = \frac{\sum_{t=1}^{n} \frac{At}{(1+k)^t}}{A0}$$

As long as the P.1 is 1.00 or greater, the investment proposal is accepted. In ranking projects the one with the highest profitability index is ranked first.

Still yet another problem that faces the financial manager is how to finance the investment in fixed assets. The investment in fixed asset usually involves a huge commitment of funds which some business may not be able to finance solely on their own. This necessitate sourcing for funds externally.

The firm has the option to either borrow the amount required from a bank or any other financial institution or to seek for lease financing. The financial manager should weigh the two options to see which is more profitable to the organization.

2.6 LIQUIDITY RATIOS

To calculate the ability of a company to meets its immediate obligation and to determine how effective management have been utilizing the available resources in generating incomes, the following ratios are used [18]

i) **Current Ratio** – measure how the firm manages its current asset so as to meet its short-term obligation. It is expressed as:-

$$\textbf{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

A current ratio of 2:1 is considered appropriate.

ii) **Quick Ration or acid test ratio** - is another measure of liquidity which attempts to show the ability of the company to pay its current liabilities without having to liquidate its inventory. It is expressed as :-

$$\textbf{Quick Ratio} = \frac{\text{Current Asset} - \text{Inventories}}{\text{Current Liabilities}}$$

This quick ratio is a better test of the immediate solvency of a business because of the length of time to convert stocks/inventories into cash. A ratio of 1:1 is favourable.

iii) **Stock Turnover Ratio** – indicates how many times stock of goods are replaced during the year

Inventory turnover =Cost of good sold

Average inventory

iv) **Average collection period** tells the number of days receivable are outstanding.

ACP = Receivable x days in year

Annual credit sales

A long average collection period indicates bad credit control

v) **Average payable period** is the average age of a firms account payable. It is expressed as

Accounts payable x 365

Purchases

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Many different method can be used in exploring a problem situation, helping solve a problem or establishing acceptability or otherwise of hypothesis. Some of these methods can complement each other[1]. This chapter shows the various methods used in this study, the research design, the instruments and sources of data and how the data collected would be analyzed.

3.2 RESEARCH DESIGN

For this study it was considered more appropriate and convenient to use the descriptive method and a case study. It is a descriptive research because it describes the current happening in the organization and to this end solutions would be found to areas that are found deficient [2] Its meant to find the meaning and obtained an understanding of present conditions, belief, attitude and so forth. This method is chosen because it will enable the researcher to describe and give full analysis of data collected which will result to valuable suggestions and recommendations for the organization. A case study method was used to allowed for an intensive study of the selected organization. It involves studying what is there and how it got there. This method is chosen because it enables one to obtain a wider perspective of the environment for a particular action [3].. .Also since it

makes use of sampling to select a sample that is representative of the population of interest.

However, a major drawback here is that it has limited potential for making generalization based on results.

3.3 SOURCE OF DATA

The two major sources of data for every research are primary sources and secondary sources. **Primary sources** are those that the researcher is physically present to observe events as they occur or through questionnaire administrations and other methods such as interview, telephone etc.

Secondary sources involves the use of existing documents whether published or unpublished. Such include official documents of the organizations, textbooks, journals, magazine etc.

This study made use of textbooks, and official documents of the hospital as well as articles in journals. However, the bulk of the data used were those from primary sources.

3.4 RESEARCH INSTRUMENTS

The following instruments were used:

3.4.1 **Personal interview** was used to obtained a detailed first hand information. This method was preferred to the questionnaire because of the nature of data needed and the people involved. The nature of the interview was unstructured so as to enable the researcher to gather a lot of information.

However the question asked where aimed at getting to the subject of the matter.

3.4.2 **Observation** – Participant observation was done to observe the activities of the hospital in key areas. The observations were recorded immediately. The personal experiences of the researcher is also a source of primary data having worked there for two years.

Official documents of the hospital like the financial manual, the internal audit manual and other relevant materials were also used.

3.5 POPULATION AND SAMPLE SIZE

It is necessary to define the population that is being studied, knowledge of the sample of such population which should be adequate and sufficiently representative of the total population is even more important since it is rarely possible to examine the whole population. A population is defined as any group of people or objects which are similar in one or more ways, and which form the subject of study in a particular survey. For this case the population to be investigated includes the staff and patients of the hospital.

Since it would not be possible to collect information from all the staff a sample size of hundred was chosen. Sampling is the act of collecting information from a selected few from the whole population from whom conclusion can be drawn relating to the whole. A simple random sampling was used to interview the staff and patients chosen.

3.6 DATA ANALYSIS

The method used here is rather a descriptive approach of what is obtain in the hospital as per the results of the interview and observation. This is then compared to what was reviewed in the literature in chapter two to see where there is any variation if any and solution given.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 HISTORICAL BACKGROUND: MATER MISERICORDIAE HOSPITAL.

Mater Misericordiae [the latin for mother of mercy] Hospital, Afikpo in Ebonyi State is a voluntary agency hospital owned by the catholic mission. The hospital came into existence on the 5th October 1946 through the effort of Bishop Thomas Mcgethrick [the then prefect Apostolic of Ogoja prefecture] of blessed memory and Fr Martin Mcmanus who on coming to Afikpo to establish a catholic church also found out that the infant mortality rate was very high and no healthcare facility was available in the area [1]. When it was established the Medical Missionaries of Mary {MMM} were invited to organize and administer the hospital. This group of Reverend sisters continued to manage the hospital until 1985 when they ceased to administer the hospital and it was handed over to the proprietor, the Bishop of Abakaliki Diocese.

The hospital may not be oldest in the country but certainly one of the busiest and most consulted private hospital east of the River Niger. It made a very humble start with one ward of 24 bed capacity, one doctor and three staff nurses.

Mater has its popularly known has grown like the proverbial mustard seed, into the tallest tree in the vicinity and attained a standard comparable with any secondary/tertiary health institution in the country[2]

Most of the cases are referred to her from other hospital and clinics and usually come with complications.

Maters tentacles spread far beyond its Afipko location. Its catchment areas include Ebonyi, Abia, Imo, Enugu, Anambra, Rivers, Akwa Ibom and Cross River States. That is not all, patients attend the gyneacology clinics from all over the country.

The aim of the hospital is to provide preventive and curative medicine to patients as well as healing to the soul and spirit. That is to offer wholistic healing to the patients.

4.1.1 GROWTH AND DEVELOPMENT

The hospital which started with three buildings a ward [the present male surgical ward], a block comprising theatre, labour ward, pharmacy and out-patients department O.P.D [the current x-ray department] and a house where the MMM sisters live, now has a 361 bed capacity and assets worths billions of Naira.

Apart from the departments that are central to the laboratory, pharmacy, X-ray department, the hospital is strictly divided into two section, namely the general section and the maternity section.

- St Martin [Male surgical ward]
- St Thomas {Male medical ward]
- St Joseph [Female medical ward]
- St Michael {Female surgical/gynaecological ward]
- Ultra-modern Peadiatric ward

- St Alphonsus [Private ward.]

Other areas include the central sterilizing supply department [CSSD], operating theatre, out patients departments.& Chest unit

The maternity section of the hospital has three wards:

- Antenatal ward
- Postnatal ward
- St Gerald ward [for unbooked cases]

Other areas here include, the labour ward, doctor Twomeys theatre and the nursery

The hospital at one point won the UNICEF 2nd position during the inspection for the 'baby friendly' hospitals .

The chest unit is a different section all together separated from the hospital for tuberculosis patients. The patient here are treated free from drugs received from donor agencies.

As part of humanitarian services, the outreach arm through her mobile clinic reached out to surrounding villages to provide medical services to those who cannot afford to come to the hospital.

TRAINING PROGRAMMES

The School of Nursing, the only one in Ebonyi state was accorded recognition in 1952. The school runs two types of programmes:

- Basic general nursing which is a three year programme

- Post basic programme in general nursing which is a two year programme for those nurse who have had their basic midwifery training

The School of Midwifery, the only one in the state was given recognition in 1955.

The hospital also runs a training programme for laboratory assistants in her **School of Medical Laboratory Sciences**.

Similarly, the hospital has being accorded recognition to run several post-graduate training programmes, some of which include Royal college of Britain [Obstetrics and Gynaecology]; National Postgraduate Medical College [Obstetrics and Gynaecology.] National Postgraduate medical college: medical practice i and ii medical; and dental council of Nigeria [straight internship housemanship] etc.

Mater hospital has grown to become the largest hospital in the present day Ebonyi State. The number of patient treated between 1990-1997 was in-patient 469,789, out patient 617,711. To carry out the activities the hospital has a work force of 328 made up of

Medical doctors	= 7
Paramedicals	= 10
Nurse	= 49
Finance & supply	= 22
Field workers	= 55
Auxillary Nurse	= 57
Student Nurse	= 128
	328

473341

4.1.2 GENERAL ADMINISTRATION

Mater hospital operates a tripartite administration comprising the hospital administrator as the chief executive officer who is appointed by the proprietor. The medical superintendent who takes charge of medical services and control of patients and the chief matron, who looks after the nursing services division. The trio forms the executive management which is responsible to the Board of Governors of the hospital. Other departments are headed by qualified personnel. [see organization chart in appendix]

4.2 FINANCIAL SYSTEM IN OPERATION

Mater hospital operates a centralized accounting system to allow for efficient monitoring of inflows and outflows of funds/resources within and out of the hospital. All monies received are accounted for centrally from where payments to creditors, and staff salaries and other services rendered to the hospital are paid for by cash or cheque.

For easy collection of money, revenue collector are posted to the different revenue center.

- OPD card room
- OPD laboratory
- OPP fee room
- Main pharmacy

- Maternity card room
- Maternity fee room
- Maternity pharmacy
- Paediatric pharmacy
- Discharge office

All the revenue collectors are to ensure that money is paid before drugs are issued to the patients, and that the patient pay for the services offered. At the end of the day, the revenue collectors accounts to the main cashier who issues to them a receipt acknowledging the units collection for the day. It is a standing rule that official receipts must be issued for all money paid to the hospital. Each revenue collector maintains a cash book to record the daily transactions. This book is balance daily and must correspond to the total amount on the receipt issued for that day.

The format is

DATE	NAME OF PATIENT	CARD NO	RECEIPT NO	AMOUNT PAID

Some department have additional column to show the nature of service rendered such as the OPD laboratory to indicate the type of test that was paid for.

Sporadic check of all cash receipt and cash book register is done by staff of internal audit department to ensure all monies collected are properly accounted for, to ensure no patient was treated without necessary payments.

Similarly, other money that come in like school fees, donations, mortuary and ambulance services and other sundry income are back up with the official receipt and recorded by the cashier in the main cash book. . Also cheque received from retainers or patients are treated accordingly in the various books of accounts.

From the money collected payments are made by cash or cheque. The hospital keeps a certain amount of money needed to carrying out transactions and the rest is banked.

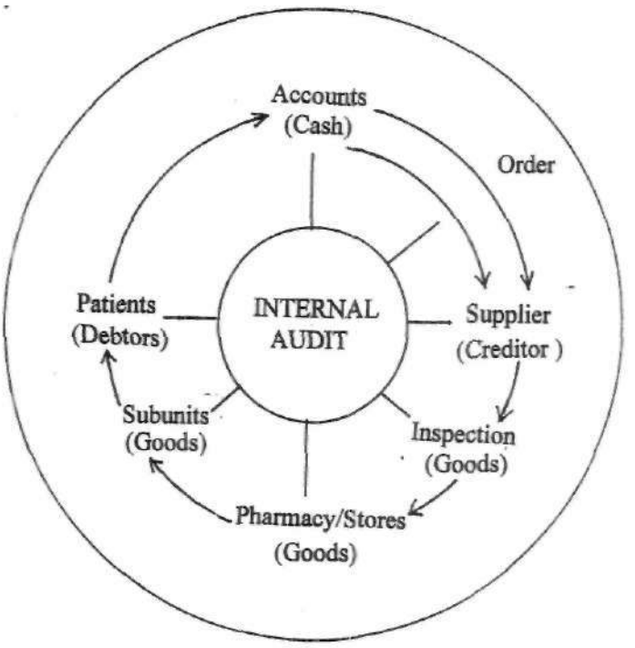
An imprest amount of N1000 is held by the petty cashier for settling minor expenses. Proved of expenses incurred is usually attached to the imprest cash voucher. All payments in excess of N1000 must be approved by the head of the hospital and large amount are paid by cheque.

All payments are reflected in either the cash payment voucher or cheque payment voucher and must be signed by the receiver and details of invoice with the P.V number on it put in the invoice file serially.

Unpaid invoices are kept in a separate file [unsettle bills] when it is paid it is transferred to the invoice file.

However, in most cases, patients are not able to pay for their bills, these are treated as debtors and a member of staff has to sign as a surety. Similarly, those that have retainership agreement with the hospital have their bills sent to them at the end of every month.

As a result of this, sometimes the hospital has to buy her drugs on credit to pay when the funds are available. The relationship can be represented as-



- order of goods/drugs by the pharmacy, central store is placed with suppliers by accounts department.
- Supplier[creditor] suppliers the ordered goods straight to the inspection unit in either the pharmacy or central store.
- The inspection units received the goods and the delivery notes, check the goods and the delivery notes, against a copy of the order form sent to them in advance, if satisfied, the documents are signed and stamped received.
- The store keeper or the pharmacist also checks the goods to be sure they are correct before signing and receiving them, then makes entry into the necessary books and tally cards.
- Goods are issued to sub-unit as per requisition and receipt acknowledged with signatures and necessary adjustment made in the tally cards.
- Drugs are issued to sub-unit and issued to patient as per doctors prescription and entries made in necessary books and tally cards.
- Money is paid by patients to revenue collectors and receipt given immediately. Unpaid bills are treated as debtors.

- Cash when collected is paid to the suppliers as per agreement/approved vouchers.
- Salaries and wages are prepared centrally and paid to junior workers by cash, senior staff through their bank accounts.
- The internal audit department comes in at every stage to monitor all the transactions that goes on in the hospital.

4.3 MANAGEMENT OF CASH AND MAKETABLE SECURITIES

For the purpose of a critical analysis of financial management in the hospital, questions were asked to assess the management of the current asset and current liabilities. The information gathered is presented and analysed in line with theoretical framework reviewed in chapter two.

Questions were asked to determine the sources and used of funds in the hospital, reasons for holding cash, the tools used in managing cash, methods used to determine minimum cash balance.

The major source of funds for the hospital include-

- medical bill with service and accommodation charges, service charge is 10% of total bill for patients in the general ward, 20% of total bills for patients in the private ward. Accommodation per night is N10 for children, N20 for adult in the general ward, N80 for private rooms with fan, and N100 for private room with A.C other components of the medical

bill may include a procedure amount [surgical cases only], laboratory investigation, x-ray investigation and the drugs.

- school fees
- mortuary and ambulance services

The funds are used for:

- purchase of drug
- salaries and wages/professional fees
- repairs and maintenance
- administrative expenses
- staff training
- sundry expenses
- capital expenditure

The flow of cash within the hospital is monitored by the use of official receipt and payment vouchers and the fact that no one person carries out a single task from the beginning to the end.

It was discovered that the source of fund is internally generated with little or no assistance from the government. This in turn affects the schedules of payments. 80% of those interviewed agreed to the fact fact that the money generated is from patients bills.

To answer the question of why the hospital hold cash, the responses gathered indicates that majorly cash is held for transaction purposes to enable the hospital meets her daily obligation. The investigation also revealed that the level of minimum cash balance is determined by the desire to meet current obligation

based on intuition and past experienced. The hospital does not apply any of the cash management models in determining the optimal average amount of transaction cash. Due To the uncertainty of cash payment [slow payments by patients and seasonal nature of cash inflow] and the fluctuation of cash balance, a variation of the stochastic control model – miller-or model ought to have being used. This would have set control limited such that when cash reaches an upper limit, a transfer of cash to fixed deposit would have been effected and the reverse if it reaches the lower limit Also precautionary motive in not considered in minimum cash balance.

It was discovered however that the hospital does not invest in marketable securities. A fixed deposit could have being utilized whenever there is excess liquid cash especially during the peak sales in the year.

Most purchases are on credit as such most payments are schedule hoping there would be inflow of cash from patients, that is the hospital control the inflow pattern of cash by synchronizing cash inflow and outflow. In cases where receipts are greatly affected, the hospital may realized it might not be able to time purchases with receipts properly. The hospital has not recognized and subsequently exploited the use of float in controlling cash flows. Using float would have given the firm ample opportunity to have more cash inflows before effecting payments. This would have helped in postdating cheques given to creditors in anticipation of sufficient sales to meet up with that obligations.

A major tool used by the hospital is the cash budget and the budget monitor. This is used to know the actual receipt and expenditure as against what was budgeted.

A look at the cash budget shows the seasonal nature of sales with high sales between the months of September through April. However the hospital has being running a deficit budget as expenditure normally out weights what was budgeted. The possible reasons given include low income generation, high cost of material due to inflation, rising cost of materials and extra budgetary expenditure, another factor here may be precautionary values may not have being included in the preparation of the budget.

The table below shows the summary for a period four years.

Budgeted and Actual Revenue

1994	Budgeted	9,8m
	actual	8.2m
1995	Budgeted	13.6m
	actual	17.0m
1996	Budgeted	19.2m
	actual	21.5m
1997	budgeted	22.1m
	actual	24.5m

BUDGETED AND ACTUAL EXPENDITURE in Naira

		TOTAL	CAPITAL	RECURRENT
			EXPENDITURE	EXPENDITURE
		000,000	000,000	000,000
	Budgeted	12.4	1.2	11.2
1994	Actual	8	0.6	7.4
	Budgeted	13.6	0.8	12.8
1995	Actual	16.9	1.4	15.5
	Budgeted	19.4	1.7	17.7
1996	Actual	22	2.8	19.2
	Budgeted	22.4	0.9	21.5
1997	Actual	24.9	1.1	23.8

The actual revenue is always more than the budgeted except for 1994 . This could be explain by the fact that either the target sets were too low or the hospital has a strong revenue/debt collection policy. However the amount generated is not enough to cover the expenditures. Which means the hospital requires external financing or need to discover other areas to raise more funds. On alternative source of funds for the hospital, the respondents suggested the following:-

- Transportation business
- Purchase of an ultra-sound machine for x-ray dept
- Commercialization of syrup production by the pharmacy.
- Agricultural projects

4.4 INVENTORY MANAGEMENT

There are two major stores in the hospital; the pharmacy store and the central/stationary stores were all stationaries used by the hospital and for patients record are kept, building, electrical, plumbing materials are also kept here and consumables like detergents and beverages. No income is expected here, the materials her are meant to facilitate the activities of the hospital.

The major area of concerned is the **pharmacy store**. Drugs, bought are first taken into the pharmacy store after inspection to be recorded in the different books and cards from where they are issued to the various mini pharmacy as required. The other pharmacy unit are:

- Main pharmacy [attend to in-patients, staff & students]
- OPD pharmacy [attends to out patients and those on discharge.]
- Maternity pharmacy [covers the maternity section]
- Paediatric pharmacy [operates drug revolving funds scheme.

Some essential drugs are also kept in the **emergency drug cupboard** in all the wards for treating patients before their drugs are collected from the phamarcy.

Questions asked was to find out how purchases are made, the method of payments, the nature of suppliers. Which method is used in ordering and checking the stock of the goods.

It was found out that drugs were purchased by means of LPO [local purchase order] being sent to the supplier before the end of the month.

The major suppliers of drug include

- Christian Health Association of Nigeria [CHAN]
- May & Baker
- Five suppliers in the open market
- Recently the Petroleum Trust Fund [PTF] drugs .

For the method of payment, a certain percentage of the total amount is usually required before the drugs are supplied and the balance paid installmentally.

However, problems came up when patient were not able to pay their bills as such the hospital in turn could not honour her obligation which resulted in a large accounts payable.

It was found out that none of the techniques of inventory management is employed. The level of inventory is determined by the level of expected sales, that is consumption rate, and also on intuition. Purchase of drug is done monthly which may also increase the ordering and carrying cost. Sometimes there is a situation of stock-out of a particular drug either because the particular quantity on hand was not cross checked before going to the market or lack of funds needed to purchase the drug at that time. Also the hospital has not being able to take advantage of discount since most purchases are on credit.

The hospital uses the **periodic inventory system** to control stock of inventory. Physical counts of the goods at hand and the balance on the tally cards is done quarterly apart from occasional on the spot checks by internal audit department. This is to ensure no pilfering, proper record keeping is maintained and to discover drugs nearing expiring date to be dispose of. Any damaged or

expired drugs is removed and the value is reflected in the Trading profit and loss account

This method has being so efficient because the flow of drugs to the pharmacy unit upto the patient it was issued to can be traced. Any difference notice traced to who is responsible.

However, to avoid a situation where a lot of fund is tied down to inventory, the method/techniques used in inventory management ought to be put in place for example it was discovered that some drugs in large quantity have not being issued out for the last two years.

A hospital without drugs is not complete. So when to order, the quantity, should be of paramount importance.

4.5 MANAGEMENT OF ACCOUNT RECEIVABLES

Due to the nature of the services provided the hospital does not invest in account receiveables or rather offer outright credit sales/services. Patients are expected to pay for their drugs/services immediately, however there were several cases of unpaid medical bill resulting in accounts receivables.

Questions were asked to determine the hospital policy to that effect and patients interviewed as to why they could not pay for their bills. It was discovered that initially treatment of patients was done free when the hospital was newly established because the drugs, were gotten free from donor agencies who required they be given free. With the turn of events in the country, the hospital started to purchase drugs, this drugs could not be given out free and so charges were

introduced. To the community and patients, they felt a missionary hospital is not suppose to charge any fee. The patients were asked why they are not able to make their payments, the following responses were obtained:-

- The economy is so harsh no money
- The medical bill is no high

. 70% of those interviewed claim it was the high medical bill while 30% said they didn't have the money because of their poor status. On the part of the management, they were of the view that it is the status of the people involved that made the bill looks so high. Another area is that most cases when brought are already at the critical stage which demands a lots of treatmen. It was gathered that prices are reduced to reflect the immediate surrounding and people of the area, some charges not even made like consultation fees. The hospital grants credit to those they have retainership agreement with like:-

- First Bank of Nigeria Plc, Afikpo.
- Union Bank of Nigeria –Uburu
- International Islamic reference organization of Saudi Arabia
- Golden Guinea Breweries etc.

Staff and relations of those working here are treated and the bill sent to them at the end of the month. Payment is usually received before the months run outs so the accounts receivable here is minimal.

The major problem the hospital has is how to recover bills from in-patients, the out patients either pay for their drugs and collect them or the drugs are not given when they don't pay.

The reverse is the case with in-patients, those who come with complications and have to be treated before even asking for money. On discharge they are not able to pay the bills and some even abscond as a result or even before they are discharged . The value of absconded patients bill for 1997 being =N=109,130.

To curtail this, the management decided on a `cash and carry' policy whereby drugs are not issued at all to any patients until the patient has paid. However, this policy was not very successful as many patients stopped attending the hospital. This policy was therefore stopped.

Now the method used to check this is for a member of staff to sign as a surety for a patient who wants to go home and promised to pay later, here if the patients fails to pay as per agreement, the amount is being deducted gradually from the staff salary which sometimes may take years to recover. To further reduce the signing of surety, junior staff are allowed to sign surety for bills less than N10,000 while a senior staff can sign for those above N10,000.

This method still leaves a huge sum as accounts receivable because most of the patients having being allowed to go home fails to come back and make settlements.

From this it shows that the credit standard rating is very poor, the hospital relies heavily on character. Well, this is not a product but a service and not just

any it pertains to a matter of life and death. Since from experience, it shows that many of the patients even well-to-do individuals in the community do not honour their obligation, the hospital may have to consider other aspects like demanding for collateral and the capacity of the patients studied.

Another factor affecting the level of accounts receivable apart from the economic condition and the credit standard here is the hospitals collection policy.

The method used by the hospital is to send a staff to remind them of their obligation, this is followed by a letter threatening legal court action but this is not usually done to protect the goodwill of the hospital. If the patients fail to pay, that becomes bad debts. For 1995-1997, the amount yet to be collected was over a million Naira.

The cost of credit to this hospital includes:-

- Capital tied down in receivables
- Failure to meet creditors and staff obligations
- Default and bad debt

The hospital does not make us of either the average collection period or ageing of accounts schedule to monitor her accounts receivables

4.6 MANAGEMENT OF CURRENT LIABILITIES

Current liabilities if managed efficient as stated earlier can be used as a source of short-term financing, however, failure to meet their obligation as at when due indicates that the firm may be having some liquidity problems.

The hospital presently has some problem with managing her current liabilities with the figure for accounts payable and accruals [salaries] running to N1.5 million.

Questions were asked to assess why the problem.

Account payable - Most often than not the purchase are done on credit with the intention of paying back with the money generated. However, when this is not realize the hospital is not able to settle her creditor. The problem ranges from poor patient turnover to failure of patient to pay their medical bill. So the money that would have been used for settlement or purchase of more drugs is tied down in accounts receivable. Since a hospital cannot function without drugs, the hospital goes back for more drugs, with the little amount available make some payments and collect more drugs. This resulted in accumulation of unpaid bills to the creditors.

With this method the hospital is unable to take discount since income is unpredictable. Also embedded in this is the fact that the hospital has being paying a higher amount for the drugs bought since no credit is free. Also linked to this is the problem of accruals, the salaries of staff depends on what is generated internally. The low level of income has also affected this areas resulting in arrears of salaries.

The problem here was compounded when the hospital adopted the federal government salary scale and all workers were converted to H.S.S (Health Salary Structure) and M.S.S (Medical Salary Scale) for medical doctors. This made the wage bile to increase by over 200%. Another set back discovered was the method

KASHIM

of employing some patients who cannot pay their bills so as to enable them pay for their bills. This increase the wage bill while at the same time increasing the level of funds tied in accounts receiveables.

4.7 PROBLEMS FACING THE HOSPITAL

From the analysis of the management of the current assets and current liabilities of the hospital, it can be said that the hospital is faced with financial problems especially its liquidity position. The required amount of money is not available to carry out her various projects and commitment.

The low income can be attributed to the management of the current asset especially the accounts receivables component. A lot of fund is tied down in account receivables. This in turn affected the payments to creditors and staff salaries.

Similarly because of lack of funds, the hospital have had to pay for higher prices knowingly or unknowingly. More so not being able to take price discounts from suppliers, thus having to pay for an in built cost of not taking discount.

Another problem the hospital has is her source of funds which is limited to only internally generated revenue. That means anything that affects the sources disrupts every other activities . For example. the general poor economic condition of the country has affected people purchasing power, this is shown in the low patients turnover. People no longer go to hospitals because inflation has affected the price of drugs. This low-patient turnover results in low sales, which means low income to run the organization.

Also the high wage bill resulting from the adoption of the Federal government salary structure is another problem facing the hospital. There was an increase in expenditure without a corresponding increase in the income. The sources of fund is still the same not even an assistance from the governments.

Other reasons given for the low income include the location of the hospital, poor access road to the hospital and price wars with clinics around.

The very low fees paid by patients for health services have resulted in a widening gap between expenditure and resources/income. Staff have to be paid, drugs purchase and a wide range of consumable equipments made available. As such fees charge should be able to cover the expenditure.

Another problem the hospital is battling with is the increasing cost of drugs purchased and rising cost of maintenance and repairs of her equipment. How do they keep prices low enough so that patient can afford to pay in the face of the increasing cost of drugs purchased.? This is a question both the hospital management and the patient/community should tackel.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

This project was a case study of Mater Misericordiae Hospital, Afikpo in Ebonyi State. It was an analysis of the management of current asset and current liabilities of the hospital in the light of modern financial management techniques.

The first chapter of the project elucidated the objective of the project, the problem statement of why the project came into being, the significance of the project and the scope and limitation of the study.

The second chapter was devoted to a review of a number of literatures written on the topic. Financial planning was considered as well as the sources of funds available to firms generally. Also various components of current assets and current liabilities was reviewed to bring out modern management technique that are used in managing a firms resources. Investment in fixed assets was also considered.

The methodology of carrying out the research was stated in the third chapter.

In chapter four, an analysis of the technique of current asset and current liabilities management in the hospital was done to see if the hospital made used of any of the modern technique, from where conclusion would be drawn and recommendation offer

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5.2 CONCLUSION

From the research concluded it was discovered that the hospital has a weak cash position this is attributed to the management of the current asset and current liabilities of the hospital. The hospital has high accounts receivable because of its credit and collection policy which has affected the level of investment in order areas.

It was also discovered that most of the current assets management models technique are not widely use in the hospital. The hospital has also not being able to make use of current liability as a source of short-term financing since they are not able to meet their obligation when due.

The economic depression in the country reflected itself in the management of the current assets of the hospital, shortage of cash as a result of poor patient turnover and a high accounts receivable. Inflation has also affected the prices of drugs and medical equipment with the incidence of payment falling on the final consumers.

The hospital makes use of cash budget to monitor her inflow and outflow of cash, however it was found out that the hospital has being running a deficit budget, expenditure out weight what was budgeted.

5.3 RECOMMENDATION

The following is recommended to help the hospital manage her resources efficiently.

1. The sources of funds available is grossly inadequate to run a hospital so large as this. The hospital should look for ways to boost her income such as the introduction of payment of consultation fees by patients as its obtainable in other hospitals. Increase in the students intake to the schools. The hospital can also diversify into other related business like commercialization of the production of syrups. Another area would be to invest in an ultra sound machine to boost their income.

To further enhance their source of funds, appeal should be made to the government, the rich and good spirited Philanthropic individuals and group and other bilateral donor agencies to donate to the hospital.

2. To reduce the problem of unpaid bill resulting in a high accounts receivables, the hospital should insist on a cash and carry policy for the drugs to enable the hospital recycle the flow of money invested in the purchase of drugs. Also the following steps can be used to reduce bad debt:-

- Conduct probing interviews during registration to varify a patients correct address so as to be able to trace such in the event of absondment.
- An aggressive debt collection policy should be embarked upon if possible turn the accounts over to collection agencies.
- Discount may be considered for those who pay early to encourage others.

The hospital should make us of the average collection period and ageing schedule to monitor her accounts receivables.

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3. Attempts should be made to try and invest excess funds during the peak sales in profitable securities or in a fixed deposit account.

4. The hospital should exploit the benefits of using float to control its cash flow and the use of other cash management technique.

5. The hospital should try and apply the various management models in order to enjoy economies of scale in stocking, ordering and purchasing of goods and drugs.

6. There was an increase in the wage bill and no increase in the source of fund. As a result of this a reduction in the number of staff strength is necessary to bring down the wage bill to a minimum level.

7. Also placement of embargo on staff recruitment till the situation improves

8. The hospital should review her method of purchasing drugs. Effort should be made to pay cash or rather take advantage of discounts given. Where discounts is not given, the hospital has the right to demand for discount on cash or early payment.

9. The government and other voluntary agencies should come to their assistance by giving personnel, equipment etc. The government may include voluntary missionary hospitals in the budget allocation to the health sector. Another way the government can help is by sending personnel on secondment to these hospitals. That is some government workers working for the hospital but paid by the government. The role of the Petroleum Trust Fund can also be extended to cover these hospitals in terms of provision of drug, medical equipment and renovations.

Another way of raising revenue is economizing through more efficient and judicious use of available health resources. Cost control measures must be put in all units.

- Minimizing wastage in the existing system
- Maximizing efficiently at all levels of care
- Ensuring quality of care
- Optimizing the use of health resources
- Maintenance culture enhanced.

With this recommendation, the researcher is convinced that if put in place will result in a better financial position.

Lastly, the researcher wants to state that this work is not conclusive, it is open for further research work and more recommendations to assist the management of these voluntary missionary hospitals in carry out their service to humanity effectively. What ever involves money must be manage efficiently.

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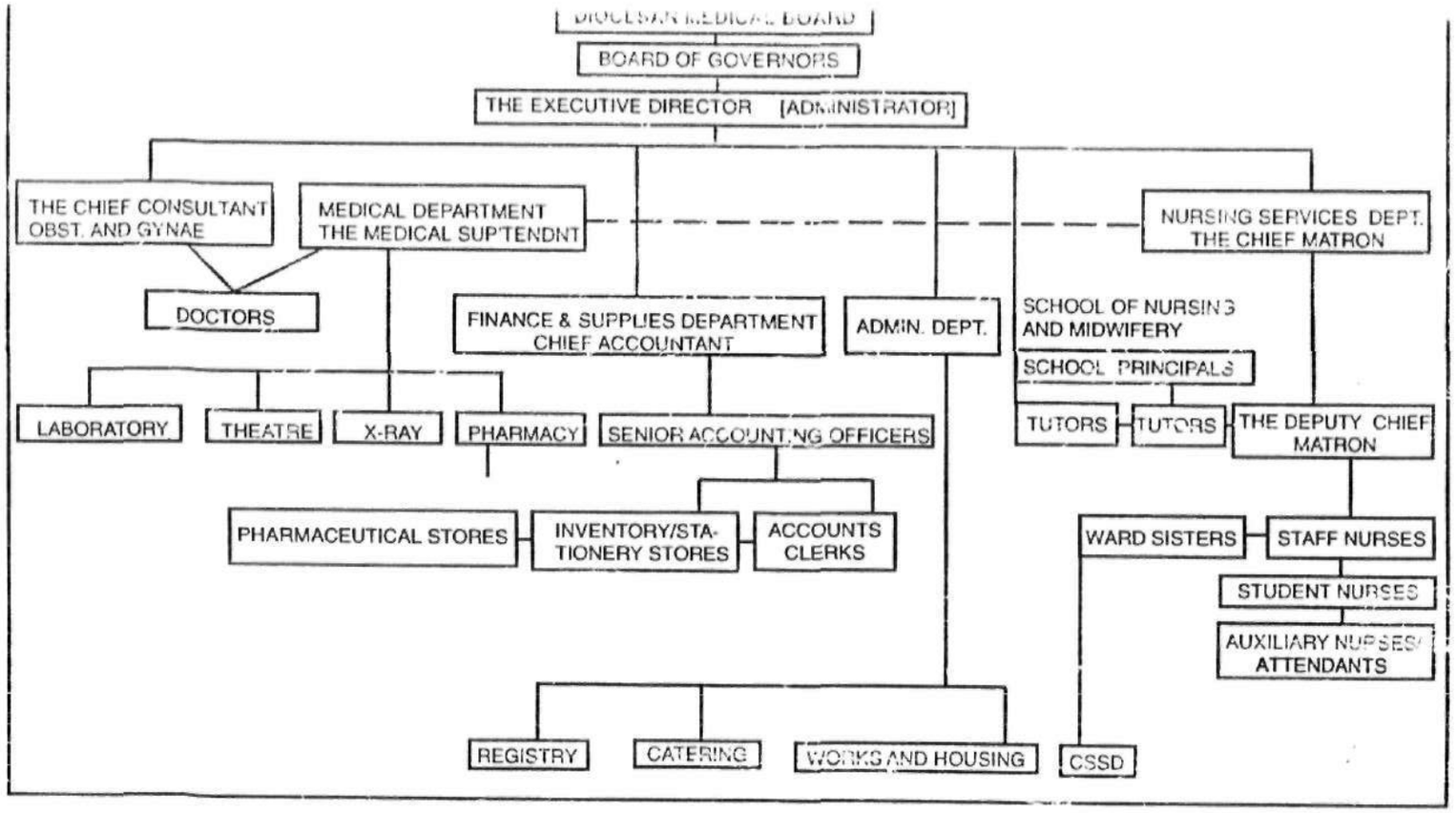
DIOCESAN MEDICAL BOARD
BOARD OF GOVERNORS
THE EXECUTIVE DIRECTOR [ADMINISTRATOR]
THE CHIEF CONSULTANT OBST. AND GYNAE
MEDICAL DEPARTMENT THE MEDICAL SUPTENDNT
NURSING SERVICES DEPT. THE CHIEF MATRON
DOCTORS
FINANCE & SUPPLIES DEPARTMENT CHIEF ACCOUNTANT
ADMIN. DEPT.
SCHOOL OF NURSING AND MIDWIFERY
SCHOOL PRINCIPALS
LABORATORY
THEATRE
X-RAY
PHARMACY
SENIOR ACCOUNTING OFFICERS
TUTORS
TUTORS
THE DEPUTY CHIEF MATRON
PHARMACEUTICAL STORES
INVENTORY/STA-TIONERY STORES
ACCOUNTS CLERKS
WARD SISTERS
STAFF NURSES
STUDENT NURSES
AUXILIARY NURSES/ ATTENDANTS
REGISTRY
CATERING
WORKS AND HOUSING
CSSD

MATER MISERICODIEA HOSPITAL,

1997 ANNUAL CASH BUDGET

DEPARTMENT	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
RECEIPTS	000	000	000	000	000	000	000	000	000	000	000	000	000
CASH BALANCE B/F	404	144	148	137	121	120	143	156	150	131	100	79	
OPD FEE ROOM	500	500	500	450	450	430	430	430	450	450	500	500	5,590
OPD/MAT. CARD ROOMS	60	50	45	40	40	35	35	30	30	30	35	35	465
LABORATORY	185	180	180	160	160	160	160	160	170	180	180	180	2,055
MATERNITY	320	320	320	310	310	300	300	310	310	310	310	320	3,740
MAIN PHARMACY	700	700	680	670	660	650	650	600	600	600	620	600	7,810
MOBILE CLINIC	55	55	55	50	50	45	45	45	50	50	55	55	610
X-RAY	60	45	45	45	40	40	40	30	30	30	35	35	475
SCHOOL FEES	10	5	5	5	10	40	10	5	20	80	20	5	215
MORTUARY AND EMB.	60	60	60	55	55	50	50	55	58	60	60	60	683
CASKETS	20	20	20	10	10	18	18	19	19	20	20	20	232
SUNDRIES	20	20	20	20	20	20	20	20	20	20	20	20	240
	2,394	2,099	2,078	1,961	1,935	1,908	1,901	1,860	1,907	1,961	1,955	1,989	22,115
PAYMENTS													
CAPITAL EXPENDITURE													
MOTOR VEHICLE	310	65	65	65	65	65	65						70
MED. EQUIPMENT			10	10	10				10	10			50
HOSP. FURN./EQUIPMENT			20	20	20					10	10		80
RESIDENTIAL FURN/EQUIPMENT	15	20							20	15	10		80
	325	85	95	95	95	65	65		30	35	20		910
RE-CURRENT EXPENDITURE													
DRUGS	700	700	700	700	700	650	650	650	700	700	700	700	8,250
SALARIES	600	600	600	600	600	610	610	610	610	610	610	610	7,270
PROFESSIONAL FEES	45	50	50	50	50	50	50	50	50	50	50	50	595
REPAIRS/MAINTENANCE	100	100	100	100	90	90	90	90	90	100	100	90	1,130
ADMINISTRATIVE EXPENDITURE	200	150	150	150	140	140	140	150	150	150	150	150	1,810
STAFF TRAINING/WORKSHOP		6	6	6	5	5	5	5	6	6	6	6	61
MORTUARY SERVICES	20		20	20	20		20		20		20		120
CASKETS		40				40		40		40		40	240
OLD DEBT	240	200	200	200	100	100	100	100	100	150	200	200	1,790
SUNDRIES	20	20	20	20	15	15	15	15	20	20	20	20	220
	2,250	1,951	1,941	1,941	1,015	1,765	1,745	1,715	1,776	1,881	1,876	1,866	22,396
CASH BALANCE C/F	144	140	137	137	120	143	156	150	131	100	79	123	(281)
	2,394	2,099	2,078	1,961	1,935	1,908	1,901	1,880	1,907	1,961	1,955	1,989	22,115

MATER MISERICORDIAE HOSPITAL

AFIKPO

BALANCE SHEET AS AT 31ST DECEMBER, 1995

	NOTES	995	
ASSETS EMPLOYED		₦ K	₦ K
Fixed Assets	1		28,660,000
Investment			12,500
CURRENT ASSETS:			
Stock:			
Drugs	2	2,004,647.76	
Stationery, Building & Plant Spares	3	3,357,198.-	
Sundry Debtors & Prepayments	4	133,336.80	
Cash and Banks Balances	5	527,762.84	
		6,022,945.40	
LESS: CURRENT LIABILITIES:			
Creditors and Accruals	6	892,148.69	5,130,796.71
Net Assets			33,803,296.71
REPRESENTED BY:			
Accumulated Fund:			
Capital (Revaluation) Reserve A/C			31,241,227.45
Excess of Income over Expenditure			2,562,069.26
			33,803,296.71

ASHIM IBRAHIM LIBRARY
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MATER MISERICORDIAE HOSPITAL

AFIKPO

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED

31ST DECEMBER, 1995

	NOTES	1995					
		₦	K	₦	K	₦	K
Medical/Earnings						16,406,853	
Stock as at 1/1/95				1,369,264.=			
Purchases of Drugs				6,067,131.=			
				7,436,395.=			
Less: Stock as at 31/12/95				2,004,647.76			
				5,431,747.24			
Less: Damaged & Expired Drugs		15,637					
Staff Drugs Consumption		573,316.50					
				588,953.50			
Cost of Sales						4,842,793.74	
						11,564,059.26	
OTHER INCOME:							
School Fees						161,797.=	
Donations and Sundries						373,350.=	
Gross Income						12,099,206.26	
Less:							
Repairs & Maintenance	7			1,928,417			
Administration Exps.	8			7,608,720		9,537,137.=	
Net Surplus to Accumulated Fund A/c						2,562,069.26	

MATER MISERICORDIAE HOSPITAL

P.M.B. 1111. AFIKPO ABIA STATE
TEL. NO. 088 — 521079

No 0001605

LOCAL PURCHASE ORDER

To: M. Mike _____ _____ 19____

_____

_____

Head	Subhead	A.I.E.

Please supply the undermentioned articles and charge to Mater Misericordiae Hospital.

ITEM NO.	QUANTITY	DESCRIPTION OF ARTICLE

AGUDO PRESS AFIKPO

This expenditure authorised by this order must not exceed _____

_____ naira _____ kobo (₦ : K)

Consign to: _____

At _____

Via _____

(b) (This section for use only when the goods are not required to be taken on charge in a store).

To: _____

I/c Work of Job

Please Complete and Sign the Certificate below:

Date _____ 19____ Signature _____

Rank _____

I certify that the stocks mentioned above have been received and used for the purpose for which they were bought.

Date _____ 19 _____ Signature _____

Rank _____

(c) (This section for use only when the goods are to be taken on charge in a store)

To the Store Keeper _____ Store

The goods mentioned above should be taken on charge in your store.

Date _____ 19 _____ Signature _____ Rank _____

I certify that the goods mentioned above have been received and taken on charge on S.R.V. No. _____

_____ *(See copy attached).*

Date _____ 19 _____ Signature _____ Store Keeper _____ Store

MATER MISERICORDIAE HOSPITAL
AFIKPO

TALLY CARD

TALLY CARD NO: _____

DESCRIPTION: _____

MINIMUM STOCK: _____

MAXIMUM STOCK _____

ORDERING LEVEL _____

DATE	PARTICULARS	L/F	QUANTITY RECEIVED			QUANTITY ISSUED			BALANCE			CHECKED BY
			No of Items	Price Per Item ₦	Value ₦	No of Items	Price Per Item ₦	Value ₦	No of Items	Price Per Item ₦	Value ₦	DATE:

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MATER MISERICORDIAE HOSPITAL
AFIKPO

TALLY CARD

NAME OF ITEM: _____

UNITS: _____

LEDGER PAGE: _____

DIVISION _____

Date	Invoice Reference	QUANTITY			Checked by and Date
		Received	Issued	Balance	

HOSPITAL STATISTICS FROM 1980 TO 1995

Year	Out Patient	In Patient	Operations		Deliveries	Deaths
			General Surgery	Gynae Surgery		
1980	38,792	6,317	1,494	655	2,957	273
1981	35,871	5,339	926	492	3,215	304
1982	31,612	5,511	1,055	596	2,787	357
1983	53,974	5,999	1,203	535	2,819	444
1984	28,912	4,818	828	206	2,109	289
1985	29,350	4,108	1,156	723	2,049	275
1986	21,188	3,662	1,091	573	1,769	206
1987	22,660	4,683	863	608	1,441	222
1988	28,230	5,150	786	601	1,419	232
1989	30,841	5,675	889	541	1,030	289
1990	22,741	4,127	733	971	1,160	253
1991	35,014	10,126	706	621	1,487	244
1992	32,882	6,509	662	1,051	1,744	236
1993	33,688	6,875	558	1,046	1,570	265
1994	22,532	4,898	375	615	1,059	201
1995	23,936	4,781	364	384	933	209

BRIEF HISTORY AND MILESTONE OF MATER MISERICORDIAE HOSPITAL, AFIKPO, EBONYI STATE.

1939: Negotiation for the land of which the hospital is built started by Fr. Martin McManus; the first parish Priest of Afikpo Parish.

1945: Land acquired from the Evuma and Ugwuegu villages and clearing began.

15th October, 1946:

Three Rev. Sisters of Medical Missionaries of Mary arrived, namely, Sr. Brigid Kavanagh, Sr. Michael Fanrell and Sister Regina Tierman [R.I.P]. Dr Sean Flannery arrived from Anua, in Uyo.

Three buildings - Sisters' Cottage, St Martins and a block comprising O.P.D., theater, pharmacy, labour ward. Bed complement 24.

1947: St. Thomas' Ward [Male Medical], named after bishop Thomas McGettrick. Bed complement 48.

1948: New out-patient department opened. First operation recorded.

1949: The turning point Dr. Godfrey hinds arrived. Rev. Sr. M. De sales Duignan drowned in Ishinkwo.

1951: A third ward St Joseph's [Female Ward]

1952: Recognition of the hospital by the Nursing and Midwifery Council of Nigeria for general nursing.

1953: First Maternity block opened. Bed complement 120. Installation of an automatic lydrams water pump

1955: Maternity hospital got official recognition as training scholar Grade II Midwives.

1958: Recognition for the training of Grade 1 Midwives. Another turning point Dr. Deirdre Twomey arrived.

1959: Fourth ward, [St Michael's] Children's ward built

1962: Another maternity block opened, containing a labor ward, theater, 1st stage room and an admission room. installation of electric generator by Fr. Ned. Grace SPS.

1966: Antenatal out-patient block and a school of midwifery.

1967: civil War started.

1968: Relief work. Inllux of refugees.

1970: War ended: Patient number tripled. School of Nursing and Midwifery reopened. Bed complement 250.

1972: Recognition for Nigeria Registered Nurses (NRN). Recognition for training of Medical Laboratory Assistants.

1975: Royal College of Obstetrics/Gynaecology Inspection. Partial accreditation. One year equivalent to 6months.One registrar and One senior house officer(SHO).

1975: Approval, Medical Students for Obstetrics Posting in Collaboration with UNTH.

1976: Recognition of Internship in Obstetrics/Gynaecology (O/C).

1977: Completion of the two storey student hostel.

1980: Completion of the new maternity building. Bed complement rose to 278.

1982: National Postgraduate Medical College of Nigerian. Accreditation in General Medical Practice Part I.

1983: Royal College of Obstetrics/Gynaecology . Full accreditation. One registrar and One SHO post.

1985: National Postgraduate Medical College of Nigerian. Accreditation 4Post in Obstetrics/Gynaecology.

1987: National Postgraduate Medical College of Nigerian. Accreditation in General Medical Practice Part II.

1989: Royal College of Obstetrics/Gynaecology . Re-accreditation. One registrar and One SHO post.

1991: National Postgraduate Medical College of Nigeria. Re-accreditation 4Post in Obstetrics/Gynaecology. 10 Bed Amenity ward opened.

1992: Internship Re- approval.

-Launching of the 73-Bed ultra modern paediatric ward.

1993: National Postgraduate Medical College of Nigeria. Re-accreditation General Medical Practice Parts I and II.

1996: West African College of Surgeon (Obstetrics and Gynaecology) Accreditation.

1996: Mortuary and embalmment services started. Commisioning of the 73- Bed ultra modern paediatric ward by His Lordship, Rt.Rev. Dr. M. N. Okoro. Bed complement 361.