THE USE OF FINANCIAL CONTROL SYSTEM ASA MANAGEMENT TOOL IN A MANUFACTURING INDUSTRY: A CASE STUDY OF NEWPAK NIGERIA PLC, KADUNA.

BY

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BEING A RESEARCH PRO.JECT REPORT SUBMITTED TO THE POST-GRADUATE SCHOOL, AIIMADU BELLO UNIVERSITY, /ARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER DEGREE IN BUSINESS ADMINISTRATION [M.B.AJ

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AUGUST, 1994.

DECLARATION

I hereby declared that this research project is the product of my research efforts and findings, and that it has not been presented any where for the award of any Degree. All articles and literature referred to have been duly acknowledged in the notes and references.

SIGN:.....

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DATE: 8/7/95

CERTIFICATION

This project report/dissertation entitled:-

"The use of financial control system as a management tool in a manufacturing industry: A case study of NEWPAK Nigeria PLC, Kaduna."

By Zubairu Yusuf Oziada meets the regulation governing the award of the degree of master of Business Administration [M.B.A]. of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This project Research is dedicated first to Almighty Allah, my late father Alhaji Zubairu Musa and my mother Hajiya Serifatu Zubairu.

For whatever I was, I am and may be in future has direct bearing to the above mentioned names whose contribution toward all aspect of my life has been commendable.

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ABSTRACT

FINANCIAL CONTROL is a combination of two terms, Finance and Control. Finance is the methods of obtaining optimum Financial resources for an organisation's operation. It mainly consist of both assets and liabilities items in the Balance Sheet of a business firms. Control, on the other hand is the process involve in the judicious acquisition, disbursement and utilisation of the obtained organisation's resources [assets, land, labour, financing, enterpreneural ability etc] to achieved defined objectives with maximum efficiency possible.

Financial control, thus put together involves all aspects of the acquisition, disbursement, utilisation and effective management of both assets and liabilities of a business.

Finance is the life-blood of any business. Its insufficiency and mismanagement leaves a business in financial difficulties, declining operation and sales, lower profits and hence its eventual liquidation as a result of its inability to meet its debts obligation as they due. Thus, the prudent control of financial resources promotes and enhances the liquidity, solvency and profitability of any kind of business.

It is in the light of the significance of financial control system in today's complex organisation that this research project assessed some problems face by manufacturing companies in using financial control system in the management of their operation taking NEWPAK NIG. PLC Kaduna as a case-study.

The study revealed that NEWPAK NIG. PLC has used various financial control system in the management of the entire operation particularly the financial performance though with some problems within the period understudy i.e 1990 - 1992.

It is hoped that the data collected, analysed along with the findings and recommendations of the study will be of help to the management of the NEWPAK NIG. PLC Kaduna, in particular and other interested manufacturing firms that may want to take a leaf from the case study in order to prepare for future opportunities.

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CHAPTER ONE

GENERAL INTRODUCTION AND OVERVIEW

1.1 INTRODUCTION

Financial Control is that managerial activity which is concerned with the planning and controlling of the business firm's financial resources. Business Managers are interested in this financial control system of any organisation because among the most crucial decision of the firm are those which relate to finance and an understanding of the theory of financial control provides them with conceptual and analytical insights to make these decision skilfully.

A company or business concern secures Capital it needs and employs it (Finance activity) and generates returns on the invested capital (Production and marketing activities). A business organisation, therefore is an entity that engages in activities to perform the functions of finance, production and marketing.

To many scholars, finance is the life-blood of a business whose prudent management energises and sustains the continuous flourishing of an enterprises, and its inefficient and ineffective acquisition and utilisation in the enterprises may eventually lead the business to precipice of economic collapse by impairing its profitability.

Thus, the prudent management of financial resources of business firm in one way or the other may determine the success of that business in the present day rising competition, progressive changes in technology, price changes and changes in both financial and material, resources, etc.

In Nigeria today, it is not all business organisation that seems to pay the requisite attention to the effective control of their financial resources. As it is not uncommon to hear businesses, whether small, medium or large scale, grappling with financial difficulties, labour problems due to non payment of wages and non-challant in dealing with the dynamics of time mentioned above.

Suffice to say, it is the realisation of the significance of financial resources and the need for their prudent management in Nigeria enterprises that this research project seek to assess the problems faced by Nigerian manufacturing firms in their financial control system taking **NEWPAK NIGERIA PLC** Kaduna as a case study.

It is hoped that the findings of this project work, analysis of data collected particularly the secondary data which contains the financial statements up to date of the company for years 1990 - 1992 along with the recommendation given in the final Chapter will throw some lights on the problems and weakness faced by the company in using financial control system as an effective management tools, and an areas that not only the case study company but even interested firms may take a leaf to minimised the effects of loss of profits, technical insolvency (inability of a business to pay its debt when they come due) and some liquidity problems facing their business.

1.2 STATEMENT OF THE PROBLEM

In deed, the need for, and prudent control of financial resources in business organisation be it small, medium or large scale business, made it an interesting area in finance that requires dynamic scholarly research work, at least to keep abreast with the changing dynamics of time.

The primary objective underlying the concept of financial control as an effective management tool in manufacturing company is that a firm seeks to maximise the wealth of its ordinary shareholders.
This is the basic premises underlying all finances and investment decision in a manufacturing concern.

The role of the financial manager therefore is to ensure that the company fulfils the primary objective of maximisation of shareholder's wealth. In term of the financing and investment decision of the company, this mean that the manager must be involved in making choice regarding:-

A. Source of Capital:- Knowledge of the alternative sources of funds, their relative cost, the interdependence of the costs and the advantages and disadvantages of the various alternatives must be known.

B. Repayment Terms:- The impact of alternative methods and timing of funds need to be repaid must be assessed interm of the impact on shareholders wealth.
C. Allocation:- Fund/Capital must be allocated between department or section uses in line with the primary objective. This involves application of formal investment appraisal techniques.
D. Control:- Investment decision must incorporate assessment of the cost versus benefit of the project to ensure optimal control and use of funds.
E. Management:- Decision regarding the level of working capital needs and control of working capital are fundamental for ensuring wealth maximisation.

In most cases financial control systems are designed by business organisation for the effective management of firms working capital because of its importance in realisation of wealth maximisation. Thus working capital management therefore involves all aspect of the administration of both current assets and liabilities using effective financial control system. It concerns the judicious acquisition, disbursement and utilisation of both assets and liabilities so as to achieve the corporate goals and objectives with maximum efficiency possible.

Generally, scholars has identified the following as the major problems in working capital management that every business organisation is attempting to solve through the use of effective financial control system.

[1] Determination of the size of financial resources that should be invested in different form of current asset, i.e current asset structure problem.
[2] The problem associated with how to prudently and effectively manage both the current assets and liabilities (item of working capital in balance sheet) so as to achieve the goals and aspiration of the organisation with maximum efficiency possible.
[3] Determination of the relative composition of current and non current assets in the total asset structure of the business, i.e current and non current assets composition problem, and.

[4] How the different types of current assets should be finance (obtaining current liabilities) i.e current assets financing problem.

However, apart from above general problem for working capital management companies do have their own individual peculiar problem in their working capital management, like the case of the company under discussion. It was found that through out the three years period under study (1990 -1992) it has recorded accumulated poor financial performance which the researcher felt is as result of the company's non-challant-attitude toward the effective use of financial control system for the management of their working capital.

After careful analysis of the financial statements of the company, it was discovered that the following short comings were behind all the other problem that are facing the company namely:

A Poor attention by management on the composition and financing of the working capital resources of the company (like stocks, work- inprogress, trade debtors and debts from outside sources).
B Too much drawings from the company's working capital resources for other uses rather than the company's normal routine operation.
C Too much reliance on credit facilities in the acquisition of raw materials.
D A lenient credit-collection policy that deprived the company of revenue from credit sales needed in the busines's operation.

As earlier mentioned it is hoped that the findings of this study along with its recommendation as per the working capital management problems facing the company, will help shade some lights on areas to increased attention toward effective use of financial control system in the management of the company's financial resources working capital inclusive.

1.3 THE SIGNIFICANCE OF THE STUDY

Indeed, the main purpose of this research project is to assess some problems facing **NEWPAK NIGERIA PLC** Kaduna in the management of its financial resources, and how these problems effect the use of financial control system as an effective management tool.

Broadly-speaking. this study has the following main objectives namely:-

[1] Assessing the problem facing the **NEWPAK PLC** in the management of its working capital (cash, inventory /stock. marketable securities. accounts *receivables, short term financing etc).*

[2] Assessing the problems facing **NEWPAK PLC** in the application of effective financial control system for working capital management and other financial operation.

[3] To assess the management support and contribution toward designing internal financial control checks in the organisation and the compliance of such laid down rules and regulation supporting the controls.

The significance of this study, thus lies in showing how the above problems effected the soundness of the profitability, financial performance of the case-study firm. Thus, **NEWPAK PLC** now looking for definite and lasting solution to all these problems with which to over come their present condition of non- effective use of financial control system in the management of the scare financial resources, a task this research work is set out to accomplish. Alternative strategies are carefully laid down in the concluding chapter as recommendation.

1.4 HYPOTHESES OF THE STUDY

In line with the above broad objectives and the significance of the research work, the following hypotheses has been adopted for the purpose of this research project work:

A Poor management support for the effective application of the financial control system adopted by **NEWPAK PLC** to obtain and judious utilisation of financial resources contributed to the poor financial performance of the company.

B Too much drawing from the working capital by the management without the consideration of the laid down rules and regulation in the financial control system.

C Too much reliance on credit facilities in the acquisition of raw materials and loan facilities, hence this unrealistic means of sources of working capital contributed in lowering the profitability of the company.

1.5 RESEARCH METHODOLOGY

The main source of information used for this desertion includes some account texts and journals, annual and quarterly accounting reports, the quarterly management report of the case study firm, reports from Federal Ministry of National Planning and federal office of statistic, annual report on the manufacturing companies in Nigeria, as well as personal interview with principal staff of **NEWPAK NIG. PLC** Kaduna.

Other methods include information from papers presented in symposia and seminars by scholars in various aspect of the subject matter. Information were also obtained from articles or journals written on Newspapers and magazine respectly by the association of Nigerian manufacturer.

It should be noted that the selection of any of these information for the purposes of analysis in this project will be based on its relevance to such element as laid down under the scope and limitation of the study as stated below.

1.6 SCOPE AND LIMITATION OF THE STUDY

Basically, this research project is mainly concern with assessment of some problems facing **NEWPAK NIG. PLC** Kaduna in using financial control system as an effective management tools and based on the findings of the study and analysis of data collected, recommendation will be made.

Although reasonable efforts have been put forward by the researcher to collect at least considerable amount of data for the writing of this project work, however, one cannot fail to emphasis on the inevitable constraints the researcher faced in the course of collecting such data for this project.

These obstacles relates to uncooperative attitude of the Directors of the company to grant the researcher audience in his bid to interview them personally, even after indentifying himself and reassuring them that the information so gathered will be used principally for writing final year project work rather than for any other dubious purposes.

Because of this problem therefore this research work limited itself on the financial performance of the company between (1990 - 1992) a period of three years only.

1.7 HISTORY OF NEWPAK PLC

This project work is a case study on **Newpak Nigeria PLC** Kaduna formerly New Nigeria packaging Company Limited based on its financial control system.

The company was incorporated on the 26th January, 1979 as a private limited liability company.
The idea of this company was first conceived in 1975 by the new Nigeria Newspapers Limited and uptill today **NNN Ltd** remains a major shareholder even though it has been quoted in stock exchange market as a public company.

The primary objective of the company is to manufacture **PRINTERS FOLDING BOXES** and **LABELS** for its customers. The company is purely a commercial venture with profit as its main pursuit and was commissioned on Tuesday 6th July, 1985.

The company imports 100% of its Raw materials, the majority of which is paper board. This is also the case with all packaging out fits in the country, notably Board pack/premier packaging Nigerpack, studio press, eagle package, Industrial cartons, EKO pack and John west packaging to mention but a few.

The company is an industry which serves a large market of small, medium and large users of folding boxes and labels.

The market covers such sub-sector as: Food and Beverages, pharmaceuticals, soap, detergent and Toiletries, footwear, perfumes and cosmetics, cigarette and confectionery. Recently the company has been floated on the second tier security market in order to raise more fund to reduce its long term loans and working capital problems.

CHAPTER TWO

LITERATURE REVIEW

In this chapter we examine the first and current literature written, that are related to the topic under discussion. Most importantly the discussion here was centred on the historical background and concept of financial control as an affective management tool in manufacturing and other business concern by examining its effective application.

2.1 HISTORICAL BACKGROUND

Anthony .F. defined financial control system as the process by which managers ensure that financial resources are obtained and use effectively in the accomplishment of the organisation's objectives. According to him:

A It is exercised by the management team within the framework established by the strategic plan. The corporate objectives having been defined and the details of the policy decision laid down. It is left to the financial control managers to implement the decision at middle management level.

B It is involved with the effective utilisation of financial resources, ensuring that imbalance does not develop and so destroy the corporate planning targets.

K. Oshisani in his book (Business Accounting and financial control) defined financial control as the process which assures that financial resources are obtained economically and used efficiently and effectively in the accomplishment of desired goal. According to him, it will be found that control parameters or bench - marks which become the standards against which subsequent actions are compared: are themselves the product of financial planning decisions.

However, since financial control is an assurance process, it includes the process of decision making. If the assertion is accepted that management consists of decision and action, financial control becomes a part of the process of making financial decision but not the decision themselves. It cover the entire process of monitoring action emanating from the decisions.

Seen as an integral part of financial management, it also form part of planning, budgeting, accounting, reporting and review. Therefore a financial control system or process has some principal characteristics as suggested by K. Oshisani and some of these characteristics are stated below:-

a Its focus is on financial objectives.
b It compares two types of data, planned or predetermined data and actual data.
c It permeates all aspects of financial management functions.
d It is concerned with those resources, revenues and expenditure which can be expressed in monetary terms or can be combined with other quantitative data to express same e.g Personnel, materials, procurement etc.
e It follows a definite cycle i.e it is rhythnic as in the budget cycle, accounting cycle, audit cycle, etc.
f To be effective it needs to be co-ordinated and integrated.

Still according to K.Oshisani the word "Control and Controls" are two terms which are often erroneously used interchangeable. Sometimes also, the latter is used erroneously as the plural of the former. In fact, they do not mean the same thing and they need to be clarify for the purpose of subject matter (financial control). To have more controls does not necessarily result in better control. The reverse is often true. Control is a leadership function (controllership) while controls, are operational functions. Control will however only be meaningful and effective if the control are functioning at tolerable and acceptable level. To do this they must possess some attributes.

Firstly, control must be capable of influencing the behaviour of managers and operatures. By their inherent in mechanical or natural systems, hence there is always some amount of subjectivity or bias. It is however important that the parts of the operations selected for control must be significant in impact and valve - setting to all parts in the system. Controls such as budget allocations, quota - distribution, standards of performance, cost saving goals, saving percentage etc, will be effective to the extent to which they are able to influence managerial behaviour.

Secondly, they must focus on result i.e they must be able to assure the pursuit of economy of acquisition as well as the efficiency and effectiveness in the use of financial resources.

Thirdly, they require co-ordination. An organisation usually consists of divisions, sections and branches. To this end, control devices which make up the control system must ensure that the work in these various arms are in harmony with one another. For example, checking and cross-checking in the Account Division though desirable should not be allowed to retard or disturb work in other programme division.

Fourthly, the best controls are those that are internally generated rather than those externally imposed. For controls to be cost-effective and result bearing, they must be:

1 Local in design i.e must be part of the routine and as close to the source of action as possible.
2 Meaningful, that is those affected must understand them and regard them as important, fair and reasonable.
3 Timely and realistic.

2.2 CONCEPT OF FINANCIAL CONTROL

In virtually all organisation settings, understanding the activities encompassing the finance function has become necessary for the successful discharge of managerial responsibilities. Even though procedures and application may vary according to custom, personalities and needs, certain general principles are practised by financial managers in almost all types of organisation.

Apart from recording, monitoring and controlling of the financial consequences of past and current operations, finance is concerned with:

[a] The investment decision:- Selection of projects from several available opportunities considering the timing, size, risk etc.
[b] Financial decision:- Obtaining the best of mix of financing, cost of obtaining these funds, also involves determining funds needs and productive use of the funds.

While the orientation is toward the future, that is to allocate today's resources to reap benefits tomorrow. There is also the managerial responsibility (financial control process) to assure that agreed upon plans are followed and that organisation objectives are pursue and met. The concept of financial control centre around three orientation, that is financial Accounting, Managerial Accounting and Auditing.

Financial Accounting Orientation:- It is the analysis classification and recording of financial transaction and the ascertainment of how such transaction affect the performance and financial position of a business" is concerned with accounting for external users. In view of the diverse range of external users of financial data, the accounting profession has developed general purpose financial statements; the balance sheet, trading, profit and loss account and funds flow statement, to record summarisation of transaction and other events affecting the entity including their impact.

As a service to external users who cannot directly command specific financial information from the entity and must rely on general purpose financial statements, the accounting profession has developed a network of accounting theory, standards, principle and procedures designed to ensure that financial reports addressed mainly to external users, confirm to specified standards of accounting and reporting, known variously as "agreed conceptual framework" or generally accepted accounting principles". In particular published financial statements are supposed to be relevant, objective and represent a "true and fair" view of the state of affairs of the reporting entity.

Financial report therefore, tend to follow a fairly regular pattern irrespective of the nature and size of the business. For example, the contents and appearance of published financial statements for a manufacturer, contractor or wholesaler would be similar except for details. Published financial report provide a 'Snapshot' of the entity at a specific point in fime and to that extent are an aid to management especially if the reports provide comparative figures, percentage, ratios, graph, diagrams and other interpretative devices. However, the valve of financial reports as an aid in the day by day task of management is limited because the reports are infrequent, incomplete and untimely.

Whereas the management of an enterprises calls for daily decision taking and the constant need for regular information, financial statements are published quarterly, semi-annually, or even yearly. Financial reports are summaries of many transactions embodying the results of many decisions. Detailed information rather than summaries is required for effective financial planning and control. Additionally, information about the present and the future is required for managerial purposes. Published financial reports are past-based and are useful only to the extent that they provide parameters for forecasting the future.

Managerial Accounting Orientation:- It concerned with the control aspects of the finance function, and deal with preparation of financial forecasts, performance, budget and product costing. The second group users of accounting information are internal users often refer to as decision - makers or managers responsible for the future of the entity, implementing the plans, and commanding and controlling operations of the entity day by day. Their intimate relationship with the entity warrants their commanding whatever financial data they need at dates of their choice. Information at their disposal is not intended for external users. The process of developing and reporting information for internal users is called management Accounting.

It is the application of professional knowledge and skill in the preparation and presentation of accounting information in a such a way as to assist management in the formulation of policies and in the planning and control of the operations of the undertakings. There is no general requirement that internal management reports output of management accounting confirm to generally accepted accounting principles because of their confidential nature and their focus on decision-making needs of management.

Tangential to management Accounting is cost accounting which is "the application of accounting and costing (ascertainment of costs) principles, methods and techniques in the ascertainment of costs and the analysis of savings and/or excesses as compared with previous experience or with standards".

The suggestion is that whereas cost accounting is backward looking, management accounting is forward looking. Cost accounting is concerned mainly with

cost determination and cost control. Management accounting is concerned with aiding management in enhancing efficiency, productivity and profitability in the utilisation of scare enterprise resources through more effective financial planning and control of operations.

Auditing orientation:- It concerned with Accountability and stewardship. "Accountability is a vital factor in management, whether of department or divisions, parts of enterprises or whole firms, public or private, quoted or unlisted" according to Charles Town. In financial management, money is the scare resources and its identification as capital or revenue is not overwhelming significance. What is critical is the decision as to whose hands are to be trusted with it and that decision is going to require Accountability and stewardship for making good plans that will deliver results deemed to be acceptable in the short and longer terms.

When the word accountability is used, it often refers to the process where in a subordinate has to explain why his or her performance has varied from that expected by some senior person or persons. To be effective, accountability has to be on common relevant ground, and to be efficient it has to be both pre-and post event. Even in industry with clearlines of authority and the full panoply of job descriptions and budgets, objectives and targets in place, accountability is not as simple as is often stated or implied.

Furthermore, accountability and stewardship has to be fair and seen to be so. Thus it is scarcely appropriate to hold people accountable for matters over which they have little influence or control inspite of what the book keeping may show. In order to achieve effective accountability and stewardship therefore Auditing orientation of financial control system introduce internal control system. Its focus is on controllability, orderliness of operations, protection of assets and assurance of accuracy and reliability of records. Its tools include internal audit, internal check and other accounting techniques.

Auditing both internal and external attempt to assure discipline in the entire financial control process by confirming the accuracy and reliability of the financial information while also attesting to the probity or otherwise of the various custodians and users of financial resources.

2.3 OBJECTIVES OF FINANCIAL CONTROL SYSTEM

The function of financial control system should be conducted in accordance with the basic goal of the organisation. In a profit oriented enterprises this goal should be the maximisation of wealth of its shareholders. In a not for profit organisation it should be the delivery of the maximum attainable of benefits to its members constituents or other beneficiaries that is feasible with the resources entrusted to the organisation.

The objective of financial control as management tool has traditionally been viewed narrowly to achieve liquidity and profitability. It is involved in statutory accounting, raising and managing capital funds, i.e accounting, budgeting, reporting, ensuring availability of fund, allocating funds to alternative use etc. The complexity of this task will differ from one organisation to another depending on several factors such as size and type of organisation, extent of competition, social and economic environment etc.

More broadly the financial control in a growing organisation or environment must assist top management in looking and thinking ahead, in seizing and making the future rather than being buttered and loosed by it. They go beyond customary making alternative choice and planning.

Therefore concerning the above stated objectives of financial control system, the scope or function of financial controller in a manufacturing firm like **NEWPAK NIG PLC** include the following.

A Determining the financial resources require to meet the organisations operation program.

B Forecasting how much of these requirement will be met internal generation of fund by the organisation and how much will have to be obtained from outside the organisation.

C Developing the best plans to obtain the external funds needed.

D Establishing and maintaining a system of financial controls governing the allocation and use of funds.

E Analysing the financial results of all operations reporting the facts to top management, and making recommendation concerning future operation.

Thus for an effective financial control system, the traditional role of the finance manager or controller as the case may be would require him or her to extend into the area of policy-making covering credit policy, pricing, budget standards, performance assessment and planning.

2.4 TYPES OF FINANCIAL CONTROL

Financial control system in a manufacturing company can be classified into different categories, based on what aspect is to be controlled, mode of effecting the control, focus and control system design. They are as follow:-

External Versus internal: External control is a control system operating independently of an organisation or a system. It focuses on accountability and stewardship. Its characteristic arising from its independence of posture include fairness, credibility, legality and lack of prejudices while internal control on the other hand refers to the whole control established by management to assist it in carrying its function in orderly manner, safeguard its assets.

Structural versus procedural: Structural controls refer to controls built along organisation lines or built into power vested in certain functionaries or section unit. They are often referred to as check and balance. For examples no payment voucher is valid without the approval of the vote controller or the Director of finance. The procedural control on the other hand refer to those built into the operational rules and processes such that once those rules and processes are not breached the built-in controls will ensure accountability and controllability. usually failure to follow the procedure will result in the failure of the built in controls.

Custodial Versus efficiency: Custodial control is a system of financial control installed to check against abuse or mis-use of resources. The system is based on two principles, to check the honesty of those persons who are entrusted with the custody, use and control of the company's financial resources as well as their stewardship, and to base acquittal on documentation of a highly objective nature. These principles are

known as custodianship and objective evidence respectively. Custodial control is however rather reactive and fails to check upon ability to perform or deliver. Efficiency control is therefore the opposite but also a supplementary control which seeks primarily to check the ability and actual performance in achieving objectives which contribute to the overall goals of the system.

2.5 FINANCIAL CONTROL ASPECT OF WORKING CAPITAL IN MANUFACTURING FIRMS

As earlier mentioned in the introduction chapter, the term working capital control or management is a combination of two concept viz; working capital and management". Weston and Brigham refers to the term working capital" as a firm:'s investment in short term assets; cash, short term securities and stocks."

While management or financial control simply means the judicious utilisation of organisational resources (assets, land, labour, capital, entreprenueral ability, etc) to achieved defined objectives with maximum efficiency.

Thus financial control system for working capital management involves all aspects of the administration of both current asset and current liabilities. It concerns the judicious acquisition, organisation, disbursement and utilisation of both current assets and liabilities so as to achieve the corporate goals and objectives with maximum efficiency possible.

The concept of working capital has been given different meaning by different scholars. As Bonneville, Doorway and kelley aptly observed: "The term working capital is not always defined in the same way. Businessmen are more likely to consider working capital as the total current assets. Members of the accounting profession usually disagree with this definition and state that working capital is the excess of current asset over the current liabilities. This difficulty arises through the use of the word "Capital" a word which is given many meanings.

Thus, while Keith V. Smith, view it as the sum of current assets of a business, like the weston and Brigham's definition above. Samuel and Wilke defined it as "The excess of current assets over liabilities. It is the same thing as "net-current assets". In

the same vein Brealy and Myers defined it as "Short-term or current assets and liabilities" The Smith; Weston and Brigham definition differ from that of Samuels and wilkes, Brealy and Myers by the omission of current liabilities that represent short term financial obligation that have to be met out of the available short term (or current) assets.

They all however agree on the concept of "net-working Capital" as the excess of current assets over current liabilities.

In the same vein pandy in his book Financial management, identified two concepts of working capital - the gross concept" and the "net-concept". The gross -concept simply refers working capital as the firm investment in current assets i.e assets that can be converted into cash within an accounting year, like bank balance, marketable securities, debtors & inventories. While the net concept refer to the difference between current assets and current liabilities.

Pandy, also argued that the two concepts of working capital (the gross and the net) are not mutually exclusive, but have equal importance from management view point. Thus the gross concept facilitates management decision on

a Optimum investment in current assets; and
b Financing of current assets.
And this is with a view to avoiding two major problems viz:-

[i] Excessive investment in working capital or
[ii] Inadequate investment in working capital.

As excessive investment in current assets impairs the firm's profitability; and inadequate investment affect the firm's survival by threatening the solvency of the firm if it fails to meet its current obligations. Therefore, the financial manager's working capital policy should be such that allow temporary needs to be quickly and easily met and surphuses similarly invested on short term investment out lets.

The net concept being the arithmetical difference between current assets and liabilities also do emphasises two things:-

[1] The liquidity position of the firm; and

[2] The extent to which working capital need may be financed by permanent sources of funds.

A weak liquidity position is a threat to the survival of the firm, while excess liquidity means idle investment. The point pertaining to the extent to which working capital funds may be financed by permanent sources of funds is equally important from a financial management point of view as it makes working capital easily amenable to use and control which is a central task in working capital management.

Howard Lesliers conception of working capital, is to some extent similar to that of Brealy and Myers. He defines working capital as constituting those assets held for current use within a business, less the amount due to those who await settlement in the short term for valve supplied in whatever form.

Indeed, the above definition by Leslie high-lights the importance of identification of source(s) of working capital financing

and taking a leaf from Inanga's analysis, one can early deduced that if net working capital represents arithmentical difference between current assets and liabilities [Pandey's view above], then going by the above definition by Leslie, the net working capital represent the portion of short term assets that is financed from medium and long term sources.

While the above Scholars devoted their analysis to what constitute working capital, Burchett and Hicks focus their attention on the usage of working capital. They defined working capital as:- "the portion of assets [the capital employed] of a Corporation which is in a form of what may or ordinarily will, over a short period of time be devoted to a variable operative purposes".

Perhaps, the above definition, described working capital as that portion of a company's capital; circulating assets or circulating capital [as some scholars defined it], that is devoted to its day-to-day uses. It thus, impliedly explains the usage to which the working capital resources are put in business operations.

2.6 IMPORTANCE OF FINANCIAL CONTROL ON WORKING CAPITAL

Pandy, identified the following as the major roles of working capital management in any kinds of business organisation and why working capital resources must be prudently and judiciously managed and control.

[1] There is hardly any organisation (small medium or large scale) which does not use working capital resources in its day- to-day business activities and hence there is a compelling need to organise for effective acquisition, utilisation and control of such resources.

[2] The volume of resource or investments held in and cost of capital /interest or short term funds required to finance them is of vital importance.

[3] Current assets and liabilities at times have some distinct characteristics in term of convertibility, maturity, etc. that makes it an area that requires special attention of the financial manager.

[4] For small firms that has relatively limited access to the long term sources of finance, but short term source, prudent management of their working capital become more imperative;

[5] The relationship and time lag between sales and cash receipts from the credit sales (operating cycle) is not instantaneous and hence the firm needs working capital to avoid financial difficulties.

[6] Working capital resources represent a sub-system within the firm's resources configuration and therefore, management has to ensure that its acquisition, disbursement, utilisation and control is compatible with the overall objectives and function of the organisation.

Sharing the same view with the above listed significance of working capital management, Howard Lesliers stated that:-

> "Working capital may be regarded as the life blood of business its effective provision can do much to ensure the success of a business while its inefficient management can lead not only to loss of profits but also the ultimate down fall of what otherwise might be considered as a promising concern."

Perhaps, Howand Lesilers observation seem to explain that a business that do not have a sound financial plan and policy towards its working capital resources may not be viable and survive in the long run when the going gets tough as its profitability continue to dwindle overtime.

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[11] Julian R. Franks and Harry H. Scholefield. Corporate Financial Management, 2nd ed. Gower - press Teakfield Limited Britain. [1979]. P17 - 30

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[13] Howard Leslie, OP Cit, P104

[14] Bonneville et al, OP Cit, P296 -413.

CHAPTER THREE

PROCEDURE FOR COLLECTION AND TREATMENT OF DATA

This chapter examine the specific procedures utilised in the course of obtaining the required data for the research project work under discussion. It also explained the methodology used in the treatment and analysis of the data with a view to providing the basis for easy understanding of the contents of the subsequent chapter that is data analysis, "chapter four ".

3.1 RESEARCH METHODOLOGY

The main sources of the information used in writing this research project were personal interview and discussion with top management staff, analysis of designed forms used by various departments to supply costing information to the finance department and cost centre.

Indeed this research work has made effective use of the following as methods of obtaining data for analysing the finding of the study:-

[1] Administration of questionnaires and oral interviews with the top management of the company and informal discussion with some staff members of the organisation.

[2] Analysis of the financial records/statement of accounts and organisation - chart obtained from the case study firm for three years period (1990 - 1992) to see the trends of financial performance of the firm and to facilitates an assessment of its financial control system problems over the period, and

[3] The use of the library-research method, examination of documents, journals,literature relevant to the topic of the research project.

The population/sampling technique and other sources of both primary and secondary data will be discussed in details in the next paragraph.

3.2 POPULATION OF THE STUDY

Essentially, the firm "**NEWPAK NIGERIA PLC**" which is the case-study forms the population of this research work. To be more explicit, the finance/Accounts department, production department and marketing /sales section whom indeed constitute the units responsible for the management of financial resources of the company, forms the sample of the study.

Generally, research are conducted by means of sample from which generation about the population from which it was taken could be drawn sample by definition therefore as defines by one popular scholar "osuala" :-

"The taking of any portion of a population or universe as representation of that population or universe".

Then, for this research project the three departments as mentioned above found to be responsible for obtaining and utilisation of financial resources of the company were chosen as the sample of the study.

3.3 QUESTIONNAIRES

The designed questionnaires were administered in the finance/Account department, marketing/sales department and production section. The questionnaires was designed in such a way that valuable information were obtained pertaining to the management level functions namely top, middle and lower level management, their actual roles in the management of scare financial resources of their organisation and their plans towards better financial control system in the company.

It covers areas of the objective of financial control system, the achievements or problems, the components of financial resources, how

they are obtained and managed efficiently and effectively in the organisation and the short-comings (limitation)associated with the activities.

In order to avoid mis-interpretation, questions were discussed with the respondents in advance and administered with the permission of the departmental heads. Close-ended questions with possible answers listed for the respondents to thick as applicable to their company so as to minimise/limits the chances given wrong/not-applicable answers were asked.

Questions jumped and not answered by respondents were asked during the interview with top management staff namely the managing Director, Financial Controller, production and marketing Managers.

3.4 INTERVIEW

Interview were conducted with the Managing Director, Financial Controller, Marketing and production Manager respectively.

The interview covers all aspects of financial control operations of the company. Infact it covers procedures and policies used by the company in the management of their financial resources, the specific problems they are facing and the success they recorded in the use of financial control system as a tool for effective management of the company.

The interview questions were also discussed in advance with the respondents before the commencement of the interview so that the answers relevant to the questions raised were the ones given. Efforts were made in trying to reframed questions jumped by the respondents and asked in additions to those earmarked on for the interview with the consent of the respondents. The respondents freely answers my questions probably to impressed me about their company's effective operation; some questions to support a point raised by respondents were also asked as the situation demands so as to obtained more information on how the respondents

Manages the financial Control System of their company and the problems they are facing in doing so.

3.5 ANALYSIS AND TREATMENT OF DATA

This section provides the basis or methods that was used in the analysis and treatment of data gathered in the next chapter. It is important that this section is well understood as it contains the format and guidelines that were followed in the analysis of the data in the subsequent chapter ("chapter four").

3.5-1 THE PRIMARY/SECONDARY DATA

The data gathered from the used of questionnaires, interviews and other findings which forms the primary source of information were explained theoretically, and when and where necessary transferred into tables and percentages arrived at to plainly convey the vital information.

Also, the Annual Financial statements obtained from the case-study company covering a period of three years (1990-1992) forms the secondary sources of information from the company. The profit and loss account and the Balance sheet were the two sets of statement of accounts obtained from the company. The data from this source were transferred into financial ratios and percentage to plainly explain the vital information, interpreted and suggestion offered by way of comments. Below, the components of secondary sources data analysis was discussed in detail.

A) Profit and Loss Account:- Also call the income statement. This measures the company's success in making profit or loss usually over one year period. However, some organisation in addition to this account prepare monthly management account for internal uses. The profit and loss account is divided into three parts namely:-

i, The revenue/income, that the firm has realised during the period and the cost of good sold.

ii, The expenses incurred by the business during the period and

iii Net income or loss for the period, if expenses are lower than gross income; profit is then realised and when expenses are greater than gross income the company incurs a loss.

The profit and loss account is useful for measuring current profitability of the company's financial operations. It allows comparison with previous profit and loss account through effective comparison of profitability, sales and expenses over several periods, management of any company can determines trends of the financial performance in the business operation

B) The Balance sheet: this can be defined as a classified list of debit and credit balances remaining on the company's books after the preparation of all books of account. Such balances are assets and liabilities of the company. The purpose of preparing a balance sheet is to present a true and fair view of the financial position at a given period of time usually a year for any company as a statutory requirement. Three things deserved notice in the Balance sheet and they are the total asset, total liabilities and owners equity. The detail explanation of these items in the Balance Sheet is given below:-

[i] The Assets are anything owned by the company that has a monetary valve. They can be tangible or intangible. They are often classified with the case with which they can be converted into money with the most liquid asset as cash.

[ii] Liabilities are the obligation (financial or otherwise) owned by the company to outsiders. They are often classified inorder of their solvency as they can due.

iii) Owners Equity consists of the funds or money that the Company's owners have invested plus any earnings retained in the business (Assets less Liabilities)

Having explained the meaning of the financial report/statement of accounts obtained from the case study company 'NEWPAK PLC.' The broad method of financial ratios analysis were used in analysing these secondary source of data.

3.6 FINANCIAL RATIO ANALYSIS

Ratios analysis or financial ratio analysis is a very useful way of analysing accounts. A financial ratio is one figure in a set of accounts. As Weston and Brigham aptly put it:-

"Ratio analysis related Balance-sheet, and profit and loss statement items to one another, permit the charting firm's history and the evaluation of its present position."

The main use of ratio analysis in a company are:-

i To help management diagnose a situation,

ii To help management in planning for the future and in financial control, and

iii To help management monitor performance of the business, with the information from ratio analysis, management can thus analyse business situation and monitor the performance of their own competitors.

Basically, financial ratios are classified into four main groups:-

A LIQUIDITY RATIOS:-

These are ratio which measure the firm's ability to meet its maturing short term current obligations.

B LEVERAGE RATIOS:-

Are ratios which measure the extent to which the company has been financed by debt.

C **ACTIVITY RATIOS:-**

Which measure how effectively the firm is using its resources, and

D **PROFITABILITY RATIO:-**

Are ratios which measure management overall effectiveness as shown by the return generated on sales and Capital employed [investment].

Suffice to say, ratio analysis can be used by both the firm and its investors as a means of judging a business performance. Equipped with this sort of information lenders or investors can decide whether to put money or not in a business. For internal control uses, management can utilised ratios analysis to helfs strengthen weak sports and reverse trends that are moving in a negative direction.

As Brealy and Myers correctly observed :-

"Ratios can help you to ask the right question but they don't answer them".

Thus, Financial Ratios analysis are means towards achieving an end either by management or an investors or analyst.

CHAPTER FOUR
DATA ANALYSIS

The chapter four provide the analysis of data collected (both primary and secondary data). It highlighted the financial control system at **NEWPAK Nigeria PLC** Kaduna, particularly problems facing the company in the management of their financial resources and cross-examined the validity or otherwise of the stated Hypotheses of the study.

4.1 FINANCIAL CONTROL SYSTEM AT NEWPAK NIGERIA PLC KADUNA.

The management of "**NEWPAK NIGERIA PLC**," Kaduna consist of the Board of Directors who are the policy making body of the company. It is headed by a Chairman. The Board also appoints the managing Director, who is the chief executive of the company.

The Managing Director is responsible for the entire business, its profits and the investment decision of the company. He is also responsible for considering a wide range of alternative goals to be pursued in the company. He is assisted in managing the day to day operation of the company by a cardre of Assistants, Departmental controllers and managers.

Suffice to say as discovered in the course of the research, the middle management of the company are continuously faced with such question as:

[1] Are current policies, rules and procedures for doing a particular work still appropriate?

[2] Are the activities and efforts of the subordinate organisational units properly co-ordinated and well-balanced in line with the company's goals?

[3] Is each employee still adequately effective in his work?

The Board of Directors relies on the initiatives the managing Director for the set goals to be adopted in the company. The Board reviewed and ratified the proposed goals and allows the chief executive and his departmental heads to monitor and maintains surveillance and control over the achievement of the set goals. They are responsible for the management and execution of the goals and objectives of the company.

The middle management were assisted by their Assistant officers down to the lower level operating superiors who are followed by the operating staff in the factory.

In the same vein it was also found out that the financial controller was at the helm of financial affairs and responsible for overall financial planning and control. He advises the company concerning dividend policy, capital expenditures, obtaining additional financing and the sources for doing so; obtaining other assets and investment decisions. He is assisted by two Departmental managers, viz:-

[1] The management Account manager

[2] The Finance Account manager.

These were followed by some senior Account officers and other subordinates. And while the management Accounts managers is responsible for ascertaining various cost elements and advising the financial controller on all various cost formation, assets, fund acquisition and other investment decision. The Finance Account manager is solely responsible for arranging for the acquisition of funds, their distribution and utilisation in the organisation.

The Financial Controller, his departmental managers and the internal - Auditor are responsible for establishing, maintaining and

auditing the company's financial policies, procedures and statement of Accounts, though external-Auditor do come on behalf of the shareholders for a major systematic-check against frauds and other irregularities. The Financial Controller and his subordinates undertake the financial analysis of the business and interpret the economic trends in the company, including the budget statement of federal government for the company.

Also as one of the highly placed officer of the financial department of the company put it:- "We make use of our computer division in the preparation and analysis of our financial statements and other records so as to have timely and accurate information, which can facilitate decision making in the organisation."

By and large, from the interview it was also gathered that the financial controller and his deputies, the marketing manager and the production manager were more directly involved in the organisation.

While the financial controller and his deputies overseas all forms of funds acquisition (whether sales, revenue or otherwise); their disbursement and utilisation in the company, marketing manager is responsible for sales (cash and credit sales) and other promotional programs; the production manager is charged with the smooth operations in the factory, raw material requirement and management in elusive. He however pointed out that they all works hand in hand with other Departments for overall realisation of effective and efficient use of the company financial resources through well designed Financial control system in existence.

In the same vein, respondents also explained that their company adopts the following financial control system in deciding the business optional financial resources:

1 Effective use of the Company's financial resources to cater for the smooth operations of the business by making sure that fund are

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available when needed; and having adequate stocks of both raw materials and finished goods to facilitates continuous production and meet customers demand and aspiration.

2 Departmental heads were usually asked to submit their monthly needs for approval at the middle management meeting and finally by the Chief Executive before acquisition and supplies are made by the procurement department and

3 Giving Credit to only refutable credit worthy customers and manufacturing companies that use package materials for their product and requiring deposits from them before giving them the allocation. This answer was also given when question was asked as to the credit policy of the company.

It was also discovered that the company made prudent management of their Financial resources by depositing excess fund in the company's Bank to earn interest and utilised those needed in the business operations of the company.

The company also provides for "trade-discounts" to those customers that makes prompt payment of the money they owed as a condition under which credit is extended (credit - terms). Asked further about the company's method of debt collection, respondents answered that mostly deposit are required from the customers, but in a situation where a total credit sales is made or the customer failed to balance-up the amount of money owing, depending on the agreement between the company and credit- customer, a letter of reminder is send to the debtor and where it failed threat is made that non payment will attract black listed as explained by a marketing officer.

Question was then asked as to whether the company undertake any research on its customers before extending credits to them since sales is one major sources of the company fund. The answer obtained was simply

"NO" because to the respondent's view, the position of the credit customers, viz refutable Industrial companies and wealthy individual determines their credit worthiness.

Asked about the major sources of short term and long term financing for the company, the respondents answer that they relies on their Bankers for short term loan and overdraft. While that of the long term financing mostly comes from income generated from profitable capital investment, ordinary shareholders funds, long term Bank loan and debentures.

When asked, what are the limited factors considered by the company's management for effective management of financial resources through the existing Financial Control System. According to the financial controller he identified both internal and external factors effecting the use of Financial Control System as an effective management tool in the organisation:

The internal factor are:

[a] The company's resources and capabilities.

[b] The Company's working capital requirement and

[c] Staff salaries and other operating expenses.

While the external factors on the other hand includes:

[a] Company's external sources of obtaining financing

[b] Activities of competitors

[c] Economic trends in the country and fluctuations in the prices of inputs from the company's suppliers, and

[d] Changes in technology use in the factory.

But one find contradiction in this answer, because if the actions of competitors are usually considered as limiting factor in controlling financial resources, the company should not have been delaying supplies to customers who already put some money as deposit in the company as this will eventually discourage the potential customers from doing business with the company in favour of competitors supplying the same product.

This also, indicate that there is a problem of non-implementation of policy. Because if the limiting factors above where as a matter of policy, considered in financial resources management, then the likelihood of loosing customers to competitors as a result of being dissatisfied should not have been taken lightly.

However the respondent explained that their company believes in the production of quality package product and that this coupled with the efforts of the marketing department in intensive advertisement and other sales promotion programs, and given wide publicity of their sales representatives in some part of the country help them in retaining their customer loyalty.

Asked about their company's policies towards better Financial Control System, a senior Account officer identified the following steps to be taken:

[1] Practical implementation of all approved plans

[2] Appraisal of plans periodically,

[3] Prudent use of financial resources

[4] Monitoring the performance of the workers towards defined goals, and

[5] Comparing actual performance with budgeted plans to find drawbacks, and make arrangement for corrective action.

As for the success recorded in their company for the use of financial control system in the management of the company financial resources, they highlighted the following points:

[1] It enhances the prudent management of our financial resources to some extent.

[2] It helps the company in maintaining sound capital structure and promotes liquidity and solvency position of the business.

[3] It facilitates efficient management of the company's resources in different departments in the organisation and enhance co-ordination of the activities of the various departments, and

[4] It make us cost conscious, as it has greatly reduced unnecessary spending's.

By and large, from the interviews and questionnaire it was discovered that **NEWPAK PLC**, has a formal system of Financial Control, that is through top and middle management decision, planning and control which are reviewed annually. Still when asked the degree of the flexibility in planning and financial control function of their company, they answered that their company believes in flexible plans and budgeting covering one year. As mentioned earlier the Board of Directors are the highest authority for approval of plans exceeding one year; with the one year plan relying on the blessing of the Managing Director and where there is difference between planned and actual performance in financial control system. Then the head of Department where such difference occurred in held responsible and the usual policy is to investigate and discover the courses for corrective action.

Below, an analysis of the Financial statement of the case-study company is made using Ratio Analysis as explained in the procedure for collection and treatment of data (chapter three). These analysis is also hope to help in seeing trends in the performance of the company and facilitates an assessment of its Financial Control System problems over the three year [1990- 1992].

4.2 FINANCIAL RATIO ANALYSIS OF NEWPAK PLC KADUNA, [FINANCIAL STATEMENT 1990 - 1992]

As earlier explained in chapter three the following financial ratios with at least two example will be calculated for the company under each of the four major ratio namely Liquidity, Leverage, Activity and Profitability ratio.

[A] LIQUIDITY RATIOS

1 Current ratio

2 Acid - test ratio/Quick ratio.

[B] LEVERAGE RATIOS

3 Debt to Total Asset - Ratio

4 Debt to Equity Ratio/Debt to Network Ratio

[C] ACTIVITY RATIOS

5 inventory Turn over Ratio

6 Receivable Turnover Ratio/Debt Turnover Ratio

[D] PROFITABILITY RATIOS

7 Return on total assets ratio/Earning power

8 Return on Equity - ratio.

The above listed ratio analysis are calculated using information extracted from **NEWPAK** Financial statement for three years (1990 - 1992) with the help of tabulation of the figures as detailed below and the photocopies of the financial statement attached.

[A] The Liquidity Ratio: These are ratios which measure the firm's ability to meet its maturing short term/current obligations.

[i] Current Ratio is given as

$$\frac{\textbf{Current assets}}{\text{Current liabilities}}$$

TABLE 4.2-1

Current Ratio Position of the company

	1990	1991	1992
	₦	₦	₦
Current Asset	6,272,589	3,138,193	7,122,092
Current Liabilities	4,042,886	2,762,780	6,326,943
Current Ratio	1.55	1.14	1.13

Source:- Computed from **NEWPAK PLC** Financial statement

The current ratio is the first test of the solvency of a company. It indicate the ability of a company to meet its current obligations. It appears that the **NEWPAK PLC** solvency position is a bit favourable because the above current ratio shows that for every naira the company must pay within a year, there is ₦1.55 in 1990, ₦1.14 in 1991 and ₦1.13 in 1992 respectively in asset that is either cash or will become cash during the year to pay for the Naira. This is within the recommended ₦1.00 to ₦2.00 ratio in most text book.

[ii] Quick - Ratio or Acid test Ratio in given as

$$= \frac{\textbf{Current Asset Less Inventory/Stock}}{\text{Current Liabilities.}}$$

TABLE 4.2.-2

Quick Ratio/Acid test position of the company

	1990	1991	1992
	₦	₦	₦
Current Assets	6,272,589	3,138,193	7,122,092
Inventory/stock	2,811,975	1,136,935	3,740,061
Current Liabilities	4,042,886	2,762,780	6,326,943
Quick Ratio	0. 86	0.72	0.53

This is more severe test of immediate solvency than the current ratio as stock and work in progress (Inventories) amount are excluded. Using this method therefore the company's solvency position is not favourable because it cannot meet the standard of ₦1.00 requirement for every asset that will be sold to pay current obligation as recommended.

B) Leverage Ratios:- These are ratios which measure the extend to which the company has been Financed by debt.

[iii] Debt - to Total - asset Ratios is given as

$$= \frac{\textbf{Total debt}}{\text{Total Asset}}$$

TABLE 4.2-3

Debt to total - asset Ratio

	1990	1991	1992
	₦	₦	₦
Total Current Liabilities	4,042,886	2,762,780	6,326,943
Long term - loan	9,411,530	122,774	164,888
Total debt	13,454,416	2,885 554	6,491,831
Total current Assets	6,272,589	3,138,193	7,122,092
Fixed Asset	5,196,400	6,153,747	5,907,858
Total Asset	11,468,989	9,291,940	13,029,950
Debt to total asset	1.17	0.31	0.50
Ratio	1.17x100 = 117%	0.31x100 = 31%	0.50x100 = 50%

The company's debt ratio in 1990 is 117%, in 1991 it fell to 31% and in 1990 it again rises it 50% of the firm's financing its total assets. This means that the company have relied mostly on the outside creditor in 1990 but drastically reduce in 1991 and 1992 to finance its total assets requirement. Because the ratio tell us that for each an every ₦1 worth of asset, outside creditors have supply ₦1.17kobo in 1990, ₦0.30 in 1991 and ₦0.50 in 1992 while the remaining ₦0.70 and ₦0.50 for 1991 and 1992 respectively were supply by the shareholders of the company to finance its acquisition.

Thus the trend is favourable but the company should try not exceed the 50% debt financing from outside, therefore the need to raise more money from equity capital is very important because"no investor will like to hold the horns of a cow with another person milking her". Perhaps this may explain why the company is now quoted in the Nigerian stock exchange market to raise fund from the prospective shareholders.

[iv] Debt to Equity ratio/Debt to Networth Ratio is given as:-

$$\frac{\textbf{Total debt}}{\text{Networth Equity}}$$

TABLE 4.2-4

Debt to equity Ratio/Debt to Networth Ratio

	1990	1991	1992
	₦	₦	₦
Total debt	13,454,416	2,885,554	6,491,831
Ordinary shares	4,725,000	4,725,000	4,725,000
Share premium	51,400	51,400	51,400
Reserves	1,008,400	1,008,400	1,008,400
Networth equity	5,784,800	5,784,800	5,784,800
Equity ratio	2.33	0.49	1.12

This also tell us that for every ₦1 from shareholders equity, the company has raised ₦2.33 in 1990, ₦0.49 in 1991 and ₦1.12 in 1992, in the form of debt (current and long term debt) which means that the money from outside creditors have slight muti- doubled those invested by shareholders in the business. Thus the company will sooner or later find it difficulty in raising additional funds, as creditors are likely to be reluctant to lend the company more money and the Financial Controller may likely subject the shareholders to undue - danger if he continue to borrow more funds from outside.

[c] Activity Ratios: These are ratios which measure how effective the firm or company is using its resources.

[v] Inventory turnover ratio is given as

$$\frac{\text{= sales}}{\text{Inventory}}$$

TABLE 4.2-5

INVENTORY TURNOVER RATIO

	1990	1991	1992
	₦	₦	₦
Sales/Total Revenue	8,164,256	4,657,830	9,199,738
Stock and work in progress	2,811,975	3,740,061	1,136,935
Inventory turnover ratio	2.90 times	1.25 times	8.09 times

As prescribed in text book, generally the higher the inventory turnover, the more efficient the inventory management of a business/company. Thus, the inventory turnover ratio of NEWPAK is not stable for the three years period, 2.90 times in 1990, 1.25 in 1991 and 8.09 times in 1992 respectively. These suggest that the stock level drastically reduced in 1992 and excess stock/inventories of course are unproductive and represent an investment with a zero rate of return and hence lowers the company's profitability. This explained while in 1991 the inventory level is higher then 1990 and 1992 thus recorded lower total revenue.

vi Receivable turnover Ratio also called debtors turnover ratio is given as:

$$\frac{\text{= Annual sales}}{\text{Account Receivable}}$$

TABLE 4.2-6

Receivable Turnover Ratio

	1990	1991	1992
	₦	₦	₦
Sales total revenue	8,164,256	4,657,830	9,199,738
Total debtor or A/c Receivable	3,294,373	1,941,470	3,310,311
Turnover Ratio	2.48times	2.40times	2.78times

Also, as stated in some text books, the higher the valve/amount of trade-debtor/Receivable turnover, the more efficient in the Management of debtor account as a working Capital Asset. It indicates the number of times in the average that debtor [receivables] turnover or payment are

received from debtor. In the case of the company under study, the valve of the trade debtors declined in 1991 it was 2.40 times as compare to previous of 1990 it was 2.48 times but improve slightly again in 1992 at 2.78 times. Thus as mentioned earlier the company is either having problem with its collection policy or with both its credit and collection policy. Perhaps they have a lenient credit policy or a lenient debt collection policy or both.

D PROFITABILITY RATIO:

These are ratio which measure Management overall effectiveness as shown by the returns generated/realised from sales and investments.

[vii] Return on total-Asset ratio, also call earning power ratio is given as:-

$$= \frac{\text{Net profit after tax}}{\text{total Asset}}$$

TABLE 4.2-7

RETURN ON TOTAL ASSET RATIO

	1990	1991	1992
	₦	₦	₦
Profit & loss after tax	(2,470,161)	(3,820,914)	131,733
Total current Asset	6,272,589	3,138,193	7,122,092
Total Fixed Asset	5,196,410	6,153,747	5,907,858
Total Assets	11,468,989	9,291,940	13,029,950
Return on total asset	(2.154)	(0.411)	0.01
Ratio in percentage	215.4%	41.1%	1%

The return on total asset is a measure of the profitability associated with all financial resources invested in a company's total asset (fixed and current asset). Thus as shown in the table above, the company earns a loss of (₦2.154k) and (₦0.411) on each Naira it invested in total asset in 1990 and 1991 respectively. In 1992 it earns a marginal returns of ₦0.01 kobo on each naira invested in total assets during the year and hence also highlights the non-profitability associated with business.

[viii] Return on Equity - ratio is given as

$$= \frac{\text{Net profit after taxes}}{\text{Shareholder equity/Net worth}}$$

TABLE 4.2-8

Return on Equity - ratio

	1990	1991	1992
	₦	₦	₦
Profit & Loss after tax	[2,470,161]	[3,820,914]	131,733
Ordinary shares	4,725,000	4,725,000	4,725,000
Share /Premium	51,400	51,400	51,400
Capital /Reserve	1,008,400	1,008,400	1,008,400
Owner Equity	5,784,800	5,784,800	5,784,800
Return on Equity Ratio	[0.427]	[0.661]	0.023

The return on Equity ratio measures how efficiently a company's management has work for its shareholders, that is maximisation of shareholders wealth. When a company is earning a higher profit/returns, effective use of long term debt will help increases the shareholders wealth. In the case of NEWPAK PLC in 1990 and 1991 it earn a loss of [₦0.427 kobo] and [₦0.661] on each Naira invested by the stock holders. In 1992 it earn a marginal return of ₦0.023 kobo per each Naira invested by the stock holders.

This call for immediate improvement in efficiency of the management function of the company through the financial control system as an effective management tools so as to fully maximised the wealth of the shareholders of the company.

By and Large, as mentioned earlier, ratio analysis can be used by both a company and its investors as a means of financial planning and control to judge the company's performance overtime. Equipped with this kind of information lender/investors can decide whether to put money in a company or not. And for internal control purposes management can made

use of ratios analysis to help strengthened lapses and reverse trends that are moving in a negative direction. For example NEWPAK PLC may make use of these analysis to identify areas of weakness in the financial control system and thus effect improvement in the performance of their business operation.

4.3 VERIFICATION OF HYPOTHESES

In this section, with the help of all the above analyses we crossed examined the validity or otherwise of the Hypotheses of the study as earlier mentioned in chapter one.

HYPOTHESIS:

Poor management support for the effective application of the financial control system contributed to the poor financial performance of the company. Broadly speaking management function should be concern with the prudent utilisation of organisational resources [assets, land, labour, capital entreprenueral ability etc.] to achieve defined company's goals with maximum efficiency possible in a manner consistent and compatible with the overall corporate objective.

In the above hypothesis it is argued that there is lack of prudent management of the Financial resources of the company because of the non-compliance with policies underlying the Financial Control System. To verify this statement let us go back to Financial statement of the company which gives the composition of the items of working capital of the company and the sources of financing them.

From the statement we can see that the company has been varying it s investments among its items of working capital, both current asset and current liabilities. Throughout the three years period [1990 - 1992] stocks and work in - progress plus cash at Bank and at hand carried the highest percentage of investment in current assets. This indicate that over the

period the company has too much of its funds tied-up in stock and work-in-progress and others lying idle in bank account. It means the management is not taking advantage of short term sources of investment like government treasury bill, marketable securities or commercial papers for examples so as to earn some returns.

HYPOTHESIS:2

Too much drawings from the working capital or financial resources of the company by the directors of the company for private uses without due consideration of the laid down rules and regulation as stipulated in the financial control system designed.

During the interview and response to questionnaires it was discovered that the expenses on the top management staff usually poses problem in controlling the financial resources of the organisation. In 1990 and 1991, the top management staff's expenses only constitute 50% of the total operating expenses of the company. Some of these expenses according to the respondent does not even have a direct bearing to the company's business operation. With this trends therefore, no matter how effective a financial control system is, it is bound to fail and this account for the company poor financial performance in 1990 and 1991. According to the financial controller, their fair success in 1992 was largely due to stick compliance of policies underlying the financial control system during the period having realised the implication of non compliance of the company's financial guidelines.

HYPOTHESIS:3

Too much reliance on credit facilities in acquisition of raw materials and loan facilities, hence this unrealistic mean of sources of working capital contributed in lowering the profitability of the company.

When the production manager was asked to comment on its operation during the years under reviewed. He said the company often stayed without production activities due to lack of raw materials. The reason according to this respondent is that some of the company suppliers both domestic and foreign refused to supply them these materials because of the frequent non-payment of accrued owning by the company. Also the company's Bank is no longer giving short term loan due to global economic recession generally.

As a result of this trend it is often difficult for the company to operate at a full capacity and this has contributed greatly for the poor financial performance of the company over the years.

CHAPTER FIVE

GENERAL SUMMARY,FINDINGS, RECOMMENDATION AND CONCLUSION

In this chapter, a general summary of the chapters and research finding is provided, recommendation based on the findings are offered and an overall conclusion of the study drawn.

5.1 GENERAL SUMMARY OF THE PROJECT WORK

We have in the first chapter seen the introduction, statement of the problem, the significance, scope and limitation of the study, the brief history of the case-study Company [NEWPAK PLC,] and the hypothesis which are cross-examined and verified in the chapter four.

The chapter two shows how the literature relevant to this study were reviewed. In chapter three the procedures for Collection and treatment of data were highlighted. Population of the study, questionnaires, interviews and methods of analysing Secondary data were discussed using financial ratios.

Chapter four present the analysis of the various data Collected. Financial Control System operative at **NEWPAK PLC** Kaduna, the questionnaires, the interview and Financial Statement of the Company were critically analysed. Problems faced by the Company in its Financial Control system were discussed. Financial ratios analysis Computations, tables and percentages were used to highlights and verified the problem so as to plainly convey the vital information which was interpreted by way of comments. Also with the help of all the above analysis, the hypothesis of the study were cross-examined and confirmed in the chapter four.

5.2 SUMMARY OF FINDINGS

This section Summaries the findings of the study and the problems facing the **NEWPAK PLC** Kaduna in the use of Financial Control System as an effective management tool as discussed in the data analysis [chapter four].

That the Board of Directors of the Company headed by a chairman are at the helm of all affairs of the Company. They made and approved all strategic Plans and Policies of the Company. While the Managing Director, his Departmental Controllers and Managers are responsible for the running of the day to day affairs of the Company.

The Financial Controller, his deputies, Finance Accounts and Management Accounts Managers, the Marketing Manager and production Manager were more directly involved in the Management of financial resources of the Company, but work hand in hand with other Department for overall realisation of the Company's goals. The Company has a formal System of Management its Financial Control System through the top and middle management decision and plans. The other findings of the research work are stated below:-

[1] According to one of the respondents, the company relied on short term loan and Bank overdraft as the major sources of financing. But this was refuted in data analysis with the help of the secondary data/Financial statement. Apart from the short term financing the company usually seek for long term loan as indicated in the financial statement.

[2] There is non-implementation of policy of considering competitors actions as one of the limiting factor above as the likelihood of loosing dissatified customers to rival firms was ignored.

[3] The company adopt the following policies in determining its optimum Financial resources needs, viz effective use of Financial Control, requiring Departmental requests before acquisition and supplies are made, and given credit to only refutable credit worthy customers.

[4] They made prudent management of its financial resources by depositing them in banks to earn interest and utilised those needed in the business.

[5] Production of quality package product, advertisement and sales promotion programs are said to be the company's plan toward better product and retaining customers loyalty.

[6] The company believe in flexible plans and budgeting covering one year, which relies on the blessing and approval of the middle management and Managing Director.

[7] The liquity ratio of the company indicated, that the liquidity position of the company is good; while Leverage ratio of the company shows that the company generally relies heavily on outside creditors to finance its business operations. The activity ratios of the company as computed indicated that the company follows a lenient credit collection - policy and is not generating sufficient business to cover the cost of its investment in total asset. The profitability ratio also presents that the company is not earning sufficient profit to cover its expenses and has problems of inefficiency in the management of the organisations resources.

[8] The following are said to be the company's policies toward better financial resources and Financial Control System.

[a] Practical implementation of all approved plans

[b] Appraisal of plans periodically.

[c] Prudent use of Financial resources.

[d] Monitoring the performance of the workers towards defined goals, and

[e] Comparing actual performance with budgeted plans to find draw backs and make arrangement for corrective action.

[9] The following are also said to be the problems facing the company in the use of Financial control system in the management of their financial resources.

[a] Difficulty in obtaining financing when needed,

[b] Difficulty in determining who is a credit worthy.

[c] Delays in getting payment from some of the company's trade debtors.

[d] Frequent non-availability of raw materials for daily production activities.

[e] Too much overhead expenses that do not have direct bearing to the company's production activities (for example to management expenses).

[10] The following too were said to be the success recorded by the company using effective Financial control in the management of their Financial resources especially where it fully implemented.

[a] It enhances the prudent management of the company's Financial resources.

[b] It helps the company in maintaining sound capital structure and promotes liquidity and solvency position of the company.

[c] It facilitates efficient management of the company's resources in different departments or sections and enhance co-ordination of the activities of the various Departments, and

[d] It makes them cost anxious and has greatly reduced unnecessary spending's.

5.3 RECOMMENDATION

In the light of the findings of the study as listed above, the data analysed in chapter four and the problems highlighted facing **NEWPAK PLC KADUNA** in the use of effective Financial Control System as management tools. The following options and suggestion which are the personal recommendations of the writer are deemed necessary and useful for the purpose of overcoming or minimising the problem facing the company.

It goes without saying therefore that a quality Financial control function, of course, can only operate effectively in the framework of a well organised company and that the finance team cannot exist in a vacuum. There has to be a supportive corporate framework with total backing from the chief executive. Five key factors are essential:

[i] There has to be a clear definition of the role of the centre and of the business units who is empowered to do what, what the responsibilities are, where the frontiers are and what is and is not negotiable.

[ii] There has to be a clear-cut organisation structure with defined relationships and interrelationships, such as inter-trading between the business units.

[iii] It is only when this has been established that it will be possible to set out the responsibilities of central financial management as against business unit management and business unit financial managements.

[iv] There have to be clear-cut and strict procedures for setting objectives, plans and budgets.

[v] Reporting disciplines have to be firmly established and backed by top management. This means taking sanctions in cases of ill-discipline.

For its part management looks to its financial control system to provide it with the necessary strategic support in the form of connections with the banks and the financial world, to ensure that relations with the authorities are on a proper basis, to handle the full range of financial transactions, and to manage the information system so as to made sure that there are no unpleasant surprises.

The following suggestion should be taken into account when designing financial control system for any business organisation.

First, the financial control system should be able to identify the essential information needs, agree these with management and provide the information in a way that makes business sense as well as satisfying all the legal requirements.

Financial control system should be able to correlate information from the various departments or section of the company to provide a total company picture.

It is also essential that what is produced using financial control system is information to be acted on and not just a collection of data, there have to be reference point such as budgets and plans.

There must also be common practices, common understanding and company wide principles for both the internal and external information, to ensure that all the information is produced in the same basis.

Financial control system has to be able to install, not impose, company wide rules so that there is a common basis for organisational interrelationship such as intertrading and intercharging. These rules have to be reasonable and simple so as to be readily understood and accepted throughout the company.

Finally, the financial control system view is to look at the company as a whole and to give management at all levels an impartial perspective, it has to have management's confidence. This is critical as the definition of good and bad performance indices also means the definition of good and bad performance, as measured by figures most of all. Managers must therefore have confidence both in the reliability of the figures and in the impartiality of those carrying out the interpretation.

It will be apparent that the financial controller are in an extremely exposed position: they are key members of the management team with an input to corporate strategy plan i.e. the financial control system.

5.4 CONCLUSION

The study has covered all aspect of financial control system presently in operation in this company. The limitation highlighted above may not cover all the short-coming in the financial control system.

However, the evaluation and appraisal of the system carried out has shown that the system is sufficient and covered all aspect of financial resources requisition and utilisation. The present day economy demand

for a very strong and solid financial control system for any business organisation to survive, since the introduction of second-tier foreign exchange market when naira continues to depreciate against other currencies. This has increased price of imported goods and consequently prices of locally manufactured goods also increased.

This research work has afforded me the opportunity to clig deep into past and present records relating to financial control system of packaging industry particularly **NEWPAK PLC** which has enhanced my knowledge, experience and interest in financial resources management using the financial control system adopted by the company as an effective management tool.

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Balance Sheet As At 31st December 1991

	NOTE	1991 ₦	1991 ₦	1990 ₦	1990 ₦
FIXED ASSETS	1		6,153,747		5,196,400
DEFERRED CHARGES	2		-		4,918,724
CURRENT ASSETS					
Stock	3	1,136,935		2,811,975	
Debtors	4	1,941,470		3,294,373	
Bank and Cash Balances	5	59,788		166,241	
		3,138,193		6,272,589	
CREDITORS					
Amount falling due within one year	6	2,762,780		4,042,886	
NET CURRENT ASSETS			375,413		2,229,703
TOTAL ASSETS LESS CURRENT LIABILITIES			6,529,160		12,344,827
CREDITORS					
Amount falling due after more than one year	7	85,363		9,396,790	
PROVISION FOR OTHER LIABILITIES & CHARGES	8	37,411		14,740	
			122,774		(9,411,530)
			6,406,386		2,933,297
CAPITAL AND RESERVES					
Share Capital	9		4,725,000		4,725,000
Share Premium			51,400		51,400
Revaluation Reserves	10		1,008,400		1,008,400
Profit and Loss			621,586		(2,851,503)
			6,406,386		2,933,297

ALHAJI I. Y. ABDULLAHI)
)
) DIRECTORS
)
ALHAJI S. A. BAYERO)

The Notes on page 13 to 17 form an integral part of these accounts.

Profit and Loss Account for the Year Ended 31st December, 1991

		1991		1990	
		**	**	**	**
Turnover			4,657,830		8,164,256
Cost of Sales	11		5,245,356		7,333,211
GROSS (LOSS)/PROFIT			(587,526)		831,045
Distribution Expenses	12	175,116		189,732	
Administration Expenses	13	3,113,289		3,201,696	(3,391,428)
			(3,288,405)		
					(2,560,383)
			(3,875,931)		
Other Income			92,354		104,962
Loss on ordinary activities before taxation			(3,783,577)		(2455,421)
Tax on profit on ordinary activities			(37,337)		(14,740)
Loss after Taxation			(3,820,914)		(2,470,161)
Extra - ordinary Item			7,294,003		
Profit for the Financial Year.			3,473,089		(2,470,161)
Loss Brought Forward			(2,851,503)		(381,342)
			621,586		(2,851,503)

The Notes on page 13 to 17 form an integral part of these accounts.

NEWPAK PLC

NOTE 1. FIXED ASSETS

	Land	Industrial Building	Building In Progress	Plant And Machinery	Motor Vehicles	Loose Tools	Furniture And Fittings	Total
COST/VALUATIONS	₦	₦	₦	₦	₦	₦	₦	₦
At 1st January '91	91,358	2,498,068	115,968	4,667,307	232,823	8,911	311,983	7,926,418
Additions	-	-	-	2,392,913	-	-	-	2,392,913
Disposals	-	-	-	(1,807,502)	-	-		(1,807,502)
	91,158	2,498,068	115,968	5,252,718	232,823	8,911	311,983	8,511,829
DEPRECIATION								
At 1st January 1991	-	358,304	-	1,933,349	121,114	8,728	308,523	2,730,018
Charge for the Year	-	62,452	-	344,065	34,923	-	-	441,440
Disposals	-	-	-	(813,376)	-	-	-	(813,376)
At 31st December 1991	-	420,756	-	1,464,038	156,037	8,728	308,523	2,358,082
NET BOOK VALUE								
At 31st December, 1991	91,358	2,077,312	115,968	3,788,680	76,786	183	(47,663)	6,153,747
At 31st December, 1990	91,358	2,139,764	115,968	3,733,958	111,708	183	3,460	5,196,400

Notes to the Accounts

(Cont'd)

NOTE		1991 ₦	
2.	**DEFERRED CHARGES**		
	Foreign Exchange Equalization	–	4
	Development Expenditure	-	-
		-	4
3.	**STOCK AND WORK-IN-PROGRESS**		
	Raw Material & Consumables	1,080,112	2 2
	Spare Parts	56, 823	
	Prepayments for Stock-in-Transit	-	5
		1,136,935	2 8
4.	**DEBTORS**		
	Trade Debtors	1,853,976	3 2
	Other Debtors	9,058	
	Staff Debtors	78,706	
		1,941,740	3 2
5	**BANK AND CASH BALANCES**		
	Current Account balances	49,929	
	Cash in Hand	9,859	
		59,788	
6.	**CREDITORS:** Amount falling due within one year.		
	Bank Loans and Advances (secured)	2,324,353	3 1
	Trade Creditors	410,437	88
	Other Creditors	12,990	
		2,747,780	4
	Accruals	15,000	
		2,762,780	4 0

Notes to
ıe Accounts.

(Cont'd)

		1991 ₦	1990 ₦
7.	**CREDITORS:** Amount falling due after more than one year.		
	Bank Loans and Overdraft (Secured)	-	9,306,339
	Amount owed to Associate Company	85,363	85,363
	Other Creditors	-	5,088
		85,363	9,396,790
8.	**PROVISION FOR LIABILITIES AND CHARGES**		
	Taxation	37,337	14,740
	The charge of taxation in these accounts is based on the provisions of the Companies Tax Act 1979 as amended to date.		
9.	**CALLED UP SHARE CAPITAL**		
	Authorised Share Capital 10,000,000 Ordinary shares of 50K each	5,000,000	5,000,000
	Issued and Fully Paid		
	9,450,000 Ordinary Share of N0.50k each	4,725,000	4,725,000
10.	**REVALUATION RESERVES**	1,008,000	1,008,000

This arose as a result of valuation carried out by Messrs Sowemimo & Co. A firm of Estate Surveyors and valuers based on open market values on 29th July, 1985. No provision was made in this account for Capital Gains Tax as thecompany has no intention of disposing off these assets.

		1991 ₦	1990 ₦
11.	**COST OF SALES**		
	Raw materials consumption	4,336,911	6,393,013
	Depreciation	406,517	412,500
	Production Wages	294,295	269,928
	Production Overheads	207,633	257,770
		5,245,356	7,333,211

BALANCE SHEET AS AT 31ST DECEMBER, 1992

	NOTES	1992 N	1992 N	1991 N	1991 N
FIXED ASSETS	1		5,907,858		6,153,747
CURRENT ASSETS					
Stock	2	3,740,061		1,136,935	
Debtors	3	3,310,311		1,941,470	
Bank and Cash Balance	4	71,720		59,788	
		7,122,092		3,138,193	
CREDITORS					
Amount Falling Due Within one year	5	6,326,943		2,762,780	
			795,149		375,413
TOTAL ASSETS LESS CURRENT LIABILITIES			6,703,007		6,529,160
CREDITORS					
Amount Falling Due After more than one year	6	85,363		85,363	
PROVISION FOR OTHER LIABILITIES AND CHARGES	7	79,525		37,411	
			164,888		122,774
			6,538,119		6,406,386
CAPITAL AND RESERVES					
Share Capital	8		4,725,000		4,725,000
Share Premium			51,400		51,400
Revaluation Reserves	9		1,008,400		1,008,400
Profit and Loss			753,319		621,586
			6,538,119		6,406,386

ALHAJI ABDULLAHI ADAMU

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ALHAJI S A BAYERO

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The Notes on pages 7 to 14 form an integral part of these Financial Statements.

PROFIT AND LOST ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1992.

		1992 N	1992 N	1991 N	1991 N
Turnover			9,199,738		4,657,830
Cost of Sales			6,537,433		5,245,356
GROSS PROFIT(LOSS)			2,662,305		(587,526)
Distribution Expenses	11	566,485		175,116	
Administrative Expenses	12	1,903,580		3,113,289	
			(2,470,065)		(3,288,405)
			192,240		(3,875,931)
Other Income			10,426		92,354
Profit / (Loss) on Ordinary Activities Before Taxation			202,666		(3,783,577)
Tax on Profit on Ordinary Activities.			(70,933)		(37,337)
			131,733		(3,820,914)
Extra Ordinary Items			—		7,294,003
Profit for the Year			131,733		3,473,089
Profit / Loss Brought Forward			621,586		(2,851,503)
			753,319		621,586

The Notes on Pages 7 10 14 forms an integral part of these Financial Statements.

NOTES TO THE ACCOUNTS

NOTE

1. FIXED ASSETS

	Land	Industrial Building	Building in Progress	Plant & Machinery	Motor Vehicle	Loose Tools	Furniture & Fittings	Total
COST/VALUATIONS	N	N	N	N	N	N	N	N
At January, 1992	91,358	2,498,068	115,968	5,252,718	232,823	8,911	311,983	8,511,829
Additions	-	-	-	-	-	-	244,439	244,439
	91,358	2,498,068	115,968	5,252,718	232,823	8,911	556,422	8,756,268
DEPRECIATION								
AT Januaray, 1992	-	420,756	-	1,464,038	156,037	8,728	308,523	2,358,082
Charge for the year	-	62,452	-	344,065	34,923	-	48,888	490,328
	-	483,208	-	1,808,103	190,960	8,728	357,411	2,848,410
NET BOOK VALUE								
At 31 December, 1992	91,358	2,014,860	115,968	3,444,615	41,863	183	199,011	5,907,858
At 31st December, 1991	91,358	2,077,312	115,968	3,788,680	76,786	183	(47,663)	6,153,747

NOTES TO THE ACCOUNTS

NOTE		1992 N	1991 N
2.	STOCK AND WORK-IN-PROGRESS		
	Raw Materials and Consumables	2,971,057	1,080,112
	Spare Parts	-	56,823
	Prepayment for Stock in Transit	769,004	
		3,740,061	1,136,935
3	DEBTORS		
	Trade Debtors	3,030,892	1,853,706
	Sundry Debtors	191,338	9,058
	Staff Debtors	88,081	78,706
		3,310,311	1,941,470
4.	BANK AND CASH BALANCES		
	Current Account Balances	55,261	49,929
	Cash in Hand	16,459	9,859
		71,720	59,788
5.	CREDITORS: Amount Falling Due Within one year.		
	Bank Loans and Advance (Secured)	3,716,612	2,324,353
	Trade Creditors	2,379,442	410,437
	Sundry Creditors	205,889	12,990
		6,301,943	2,747,780
	Accruals	25,000	15,000
		6,326,943	2,762,780
6.	CREDITORS: Amount falling due After more then one year.		
	Bank Loans and Overdraft (Secured)	85,363	85,363
	Amount owed to Associated Company	-	-
	Other Creditors		
		85,363	85,363

NOTES TO THE ACCOUNTS (Contd...)

NOTES		1992 N	1991 N
7.	**PROVISION FOR LIABILITIES AND CHARGES.**		
	Taxation	79,525	37,337
	The charges of taxation in these accounts are based on the provisions of the Company Tax Act 1979 as amended to date.		
8.	**CALLED-UP SHARE CAPITAL**		
	Authorised Share Capital 10,000,000 Ordinary Share of 50K each.	5,000,000	5,000,000
	Issued and fully Paid:		
	9,450,000 Ordinary Share of 50K each.	4,725,000	4,725,000
9.	**REVALUATION RESERVES**	1,008,400	1,008,400
	This arose as a result of valuation carried out by Messrs Sowemimo & Co., a firm of Estate Surveyors and Valuers based on open market values on 29th July, 1985. No provision was made in this Accounts for Capital gains Tax as the Company has no intention of disposing off these assets.		
10.	**COST OF SALES**		
	Raw Materials	5,128,010	4,336,911
	Depreciation	406,517	406,517
	Production Wages	492,528	294,295
	Production Overheads	510,378	207,633
		6,537,433	5,245,356

Appendix 1

NEWPAK LIMITED

ORGANISATION CHART

(Finance/Accounts)

