WORKING CAPITAL MANAGEMENT IN THE PRODUCTION SECTOR (A CASE STUDY OF SEVEN-UP BOTTLING COMPANY PLC).

BY

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DECLARATION

I hereby declare that this project report has been written by me, and that is a record of my own research work. All sources of information and where applicable, other writers views have been duly acknowledged in the form of bibliography.

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DEDICATION

THIS THESIS IS DEDICATED

TO MY PARENTS

ALHAJI ABUBAKAR SHEHU
HAJIA ZULAIHAT ABUBAKAR

TO MY WIVES

BINTA ABUBAKAR
MARYAM ABUBAKAR
SALAMATU ABUBAKAR

AND TO ALL MY CHILDREN

CERTIFICATION

This project entitled: WORKING CAPITAL MANAGEMENT IN THE PRODUCTION SECTOR - A CASE STUDY OF SEVEN-UP BOTTLING COMPANY PLC. by ABUBAKAR NUHU SHEHU meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria. and is approved for its contribution to knowledge and literary presentation..

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ABSTRACT

The deeper study and analytical approach to business finance has led to an ever-growing realisation of the importance of working capital and its influence on the success or other wise of business operations.

Working capital may be regarded as the life blood of a 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 to the ultimate down fall of what otherwise might be considered as a promising concern.

Working capital management is the functional area of finance that covers all the current accounts of the firm. is concerned with the adequacy of current assets as well as the level of risk posed by current liabilities It is a discipline that seeks proper policies for managing current assets and liabilities and practical techniques for maximising the benefits from managing working capital

A deeper understanding of the importance of working capital and its satisfactory provision can lead not only to material savings in the economic use of resources but can also assist in furthering the ultimate aim of a business : namely, that of maximising financial returns on the minimum amount of capital which need to be employed.

With this in mind, this study is directed towards the management of working capital at seven-up bottling company Plc. It is hoped that the findings, the analysis and recommendations made in relation to the study will be of help to the management of the company and students of managerial finance.

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CHAPTER ONE

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- SIGNIFICANCE OF STUDY
- SCOPE OF STUDY
- DEFINITION OF TERMS
- LIMITATIONS OF STUDY

CHAPTER ONE

INTRODUCTION

Working Capital Management usually is considered to involve the administration of assets - namely, cash and marketable securities, receivables and inventories - and the administration of current liabilities. Administration of fixed assets (assets normally not converted into cash within the year), on the other hand, is usually considered to fall within the realm of capital budgeting. By and large, investment in current assets is more divisible than investment in fixed assets, a fact that has important implications for flexibility in financing. Differences in divisibility as well as in durability of economic life are the essential features that distinguish current from fixed assets.

Determining the appropriate levels of current assets and current liabilities, which determine the level of working capital, involves fundamental decisions with respect to the firm's liquidity and the maturity composition of its debt. In turn, these decisions are influenced by a trade off between profitability and risk.

In a broad sense, the appropriate decision variable to examine on the asset side of the balance sheet is the maturity composition, or liquidity of the firms assets - i.e, the turnover of these assets into cash. Decisions that affect the asset liquidity of the firm include the management of cash and marketable securities, credit policy and procedures, inventory management and control, and the administration of fixed assets.

Generally, in the business world and in the academic circles, different views are held about working capital. There are those who consider working capital as whatever remains of the operating capital of a business after the purchase of fixed assets. In his definition, D. Garbuth defines working capital as "the amount that remains for the working or running of a business after the purchase price of fixed assets has been paid".

On the other hand, there are those who go further to include the payment of long-term debts. For this group, working capital can be defined as whatever is left of the operating capital of a business after the payment for fixed assets and long-term debts of a business enterprise.

The modern views about working capital are not too different from the two definitions given above. The

modern views tend to lay more emphasis on the management aspect of working capital. One school of thought defined working capital as "the excess of current assets over the current liabilities". This excess which is generally positive may be referred to as 'net working capital and available to management for day to day operation of the business organisation. Another school of thought views working capital as "the sum of all current assets". This is referred to as the 'gross working capital'. Within the same modern view is the change in financial position concept of working capital. There are often occasions when circumstances warrant the treatment of the working capital as a sub-unit of a sources and application of funds statement. This merely involves bringing together all the working capital items of a normal statement.

In this study, emphasis shall be on all aspects of the administration of both current assets and current liabilities.

1.2 STATEMENT OF PROBLEM

The goals of working capital management is to manage each of the firms current assets and current liabilities in such a way that an acceptable levels of net working capital is maintained. The major current assets of

concern are cash, marketable securities, accounts receivable and inventory. The problem is that each of these assets must be managed efficiently in order to maintain the firm's liquidity while not keeping too high a level of any one of them. The basic current liabilities or concern are accounts payable and accruals. There is a problem also of how to ensure that each of these short-term source of financing are cautiously managed to ensure that they are obtained and used in the best way possible.

It is observed that the financial Manager faces a number of problems in managing each major component of his firms working capital. It is necessary to consider some of them

i. To ensure adequate funds when they are needed. It is necessary to possess cash to obtain economic resources ahead of the cash that will be received from the customers buying the goods produced from those resources.

ii. To prepare for contingencies: The problem here is that, frequently when a large expenditure is planned, the amount of funds required is not accurately known in advance. To avoid embarrassing situations, firms should be liquid enough in preparation for contingencies.

iii. To strike a balance between liquidity and profitability objectives of the firms. While the firm should have enough cash to meet its bills, it is necessary to check excessive liquidity. Earnings that would have accrued from the investment of such excess funds are lost.

iv. To have an organisational optimum level of inventory. An inventory level that is too large would result in tying down much of company's fund while inability to hold adequate amount of inventory could lead to production hold-ups, lost sales and customer's goodwill.

v. Current assets represent a sizeable proportion of the total assets of a business firm. As current assets tend to be relatively volatile, they are to receive careful attention from the financial manager.

From the above, it is then clear that maintenance of appropriate trade-offs from time to time between the conflicting levels of investment in each of the current assets and conservation of funds from delayed payments short-term debts is a serious problem in managing working capital. Consequently, working capital management must meet all aspects of the administration of both current

assets and current liabilities. This project will examine the various techniques for determining the optimum levels of working capital components.

1.3 OBJECTIVE OF STUDY

It is the objectives of this study to

1. Look at how the Seven-up Bottling Company Plc manages the various components of her working capital.
2. Find out whether there are areas of deviations when the practice in the company is compared with the theoretical background.
3. Identify the causes of deviation if any
4. Make necessary recommendations.

1.4 SIGNIFICANCE OF STUDY

As earlier mentioned, the term working capital is used to refer to the firm's current assets (primarily cash, marketable securities, accounts receivable, and inventories). Net working capital usually refers to current asset minus current liabilities (primarily, accounts payable, accruals of various types and short-

term borrowing). Still working capital refers to the firm's operations, that is, with the level of production and sales. Therefore, it is of importance at the end of the study to reveal to management how the short-term financing is to the survival and growth of the firm as a matter of continuous concern.

1.5 SCOPE OF STUDY

This study is concentrated on the management of working capital through the comparison of the financial statements of the seven-up bottling company plc from 1989 to 1993.

This will be evaluated, analysed and interpreted to the activities, condition and performance of the company.

1.6 DEFINITION OF TERMS

- Working Capital: is concerned with the management of the firm's current accounts which includes current liabilities.
- Current Assets: by accounting definition, are assets normally converted into cash within one year.
- Current Liabilities:- of concern are accounts payable and accruals.

- Net Working Capital:- is the difference between a firm's current assets and current liabilities.
- Cash:- Sometimes refers to currency plus checking account balances held at commercial banks and sometimes also includes near-cash assets such as marketable securities or bank time deposits.
- Credit Period:- refers to the period over which credit is granted, usually measured in days from the date of the invoice.
- Credit terms:- include both the length of the credit period and the discount offered.
- Collection Policy:- refers to procedures undertaken to collect accounts that have not been paid with the specified period.
- Credit Policy:- refer to credit standards, credit terms, and collection policy collectively of the firm.
- Raw-materials:- are materials, parts and subassemblies that are purchased from others and that become a part of the final product.
- Work in Process:- These are goods in various stages of production.
- Finished goods:- these includes completed products awaiting sales.
- Inventory:- may be defined as goods held for eventual resales by the firm.

- Ratio:- is referred to as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things".
- Financial Analysis:- a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm.
- A Plan:- is a statement of what is to be done in some future period and effective ways of doing it.
- Carrying costs:- are the variable costs per unit of holding an item in inventory for specific period of time.
- Total Cost:- of inventory is defined as the sum of the order and carrying costs.
- Lead Time:- is the time normally taken in receiving the delivery of inventory after order has been placed.
- Order Cost: can be expressed as the product of the number of orders and the cost per order.
- Economic order Quantity:- is that inventory level which minimises the total of ordering and carrying cost.
- The Re-order Point:- is that inventory level at which an order should be placed to replenish the inventory.
- Safety Stock Level:- a stock allowance to cover errors in forecasting the time or the demand during the lead time.
- Trade Credit is defined as credit extended in connection with goods purchased for resale.

- Commercial paper:- is the term applied to short-term unsecured promissory notes of large corporations.
- Certificates of Deposit:- is an instrument evidencing a time deposit at a commercial bank or other financial institution.
- Treasury bills:- is an unconditional by the treasury (e.g CBN) to pay to the holder of the bill a specified amount at maturity.
- Liquidity Ratios:- which measures the firm's ability to meet its maturing short-term obligations.
- Gearing or Leverage ratios:- measure the funds supplied by owners as compared with the financing provided by the firm's creditors.
- Coverage ratios:- measurers the firm's ability to meet certain fixed charges.
- Activity Ratios:- measures how effectively the firm employs the resources at its command.
- Profitability Ratios:- this measures the firms earnings with respect to a given level of sales, certain level of assets or the owners investment.

1.7 LIMITATIONS OF STUDY

1. This work is a case study of the Seven-Up Bottling Company Plc on its working capital Management for the period of 1989 - 1993.

CHAPTER TWO

LITERATURE REVIEW

- CONCEPT OF WORKING CAPITAL
- CASH MANAGEMENT AND MARKETABLE SECURITIES
- MANAGEMENT OF ACCOUNTS RECEIVABLE
- INVENTORY MANAGEMENT
- INVESTMENTS IN SHORT-TERM SECURITIES
- CURRENT LIABILITIES
- PLANNING, CONTROL AND DECISION MAKING IN WORKING CAPITAL MANAGEMENT.

2. The Annual reports and Account for each year ended was analysed making the necessary comparison.
3. Another aspect of the limitation to this work is the use of the ratios analysis.
4. Industrial ratio were also compared with.
5. Interpretation of the ratios will be carefully done.

CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPT OF WORKING CAPITAL

There are two concepts of working capital gross concept and net concept. The gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, debtors, bills receivables and stock (inventories). The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors, bills payable, bank overdraft and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess of current assets.

2.2. CASH MANAGEMENT AND MARKETABLE SECURITIES

The firm's requirements for working capital and outside financing over the short run are essentially determined by business expectations and its operating plan. Through the use of pro-forma analysis, the financial officer can determine, at any point in time, how much cash will be available and how much outside financing will be required. One function of the financial manager is to see that the required amount of financing is obtained at minimum cost to the firm. But the manager is also responsible for evaluating the operating plan itself, especially its intentions and procedures with respect to cash, accounts receivable and inventory.

The term "Cash" sometimes refers to currency plus checking account balances held at commercial banks and sometimes also include "near-cash" assets such as marketable securities or bank time deposits.

to affect the point at which a customer pays his bill fall within account receivable management. On the other hand, the decision by the firm as to when to pay a bill involves accounts payable and accrual management.

Another important aspect of cash management is the cash budgeting which involves a projection of future cash receipts and cash disbursements of the firm over various intervals of time. It reveals to the financial manager the timing and amount of expected cash inflows and outflows over the period studied. With this information, he is better able to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over the cash and liquidity of the firm.

Cash budgets may be for almost any period of time. For near-term forecasts, monthly periods probably are the ones used most frequently because they take into account seasonal variations in cash flows. When cash flows are extremely volatile but predictable, budgets at more frequent intervals may be necessary for determining peak cash requirements. By the same token, when cash flows are relatively stable, budgeting at quarterly or even longer intervals may be justified. Generally, the farther in the future the period for which one is trying to predict cash flows, the more uncertain the forecast.

The expense of preparing monthly cash budget usually is warranted only for predictions concerning the near future.

i. CASH SHORTAGE PENALTIES

Too little cash can cause problems for the firm in both the short and the long runs. Short run problems ranges from the inability to pay some bills on time while the ultimate long-run problem is financial insolvency which may lead to bankruptcy.

Included among many insolvent companies are firms with sizeable profits, but unable to pay their debts, or meet day-to-day expenses. These promising and profitable companies may have been on the road to substantial growth, diversification, or product development, but did not calculate or plan properly firm's solvency, profitability and growth.

ii. REASON FOR HOLDING CASH

John Maynard Keynes[3], the famous British economist identified three motives that both individuals and companies have for holding cash which are the

transactions motive, the precautionary motive and the speculative motive.

- The transactions motive is the need for cash to meet payments arising in the ordinary course of business. These payments involve such things as purchases, labour, taxes and dividends.

- The precautionary motive for holding cash has to do with maintaining a cushion or buffer to meet unexpected contingencies. The more predictable the cash flows of the business, the fewer precautionary balances that are needed. Ready borrowing power to meet emergency cash drains also reduces the need for this type of balance. It is important to point out that not all of the firms transactions and precautionary balances need to be held in cash, indeed, a portion may be held in marketable securities near-money assets.

- The speculative motive relates to the holding of cash in order to take advantage of unexpected changes in security prices. When interest rates are expected to rise and security prices to fall, this motive would suggest that the firm should hold cash until the rise in interest rates and rise in security prices. For the most part, companies do not hold cash for the taking advantage of expected changes in interest rate. Consequently, we

concentrate only upon the transaction and precautionary motives of the firm, with these balances held both in cash and in marketable securities.

iii. THE CASH CYCLE

To size up our problem of cash management, let us examine the flow of cash through a firm's accounts. It is useful to think of the process as a cycle in which cash is used to purchase materials, from which are produced goods, which are then sold to customers, who later pay their bills. The firm receives cash from its customers and the cycle repeats. From the diagram below, we can represent the cash cycle.

Fig. 1

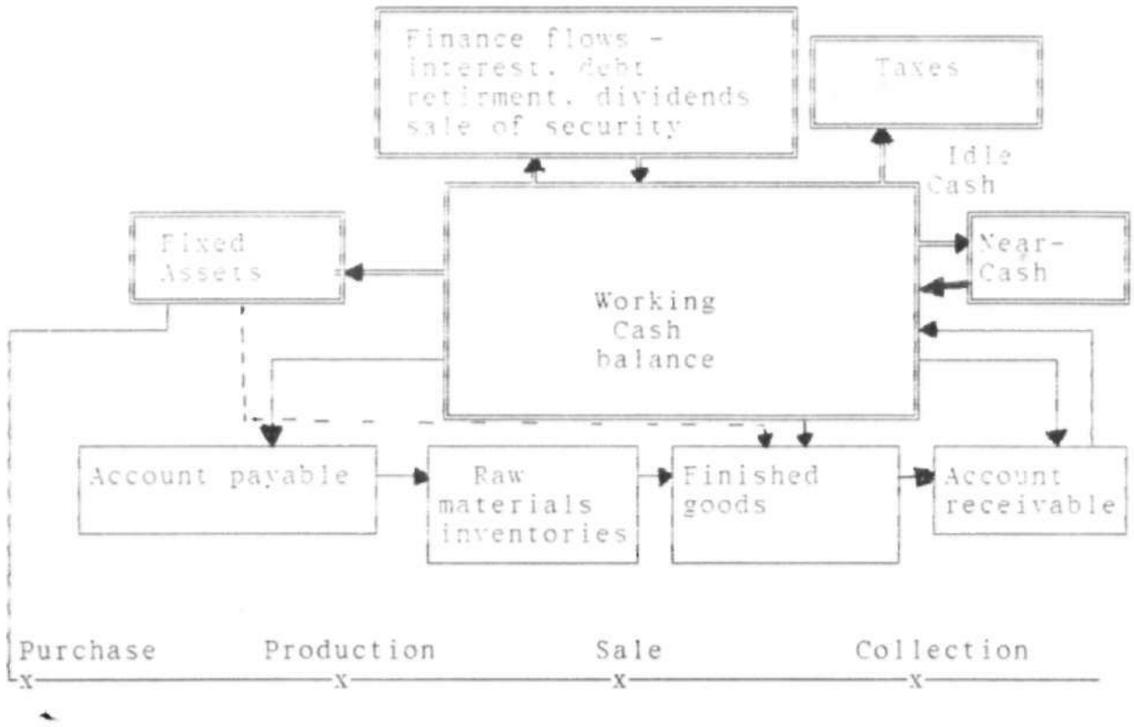
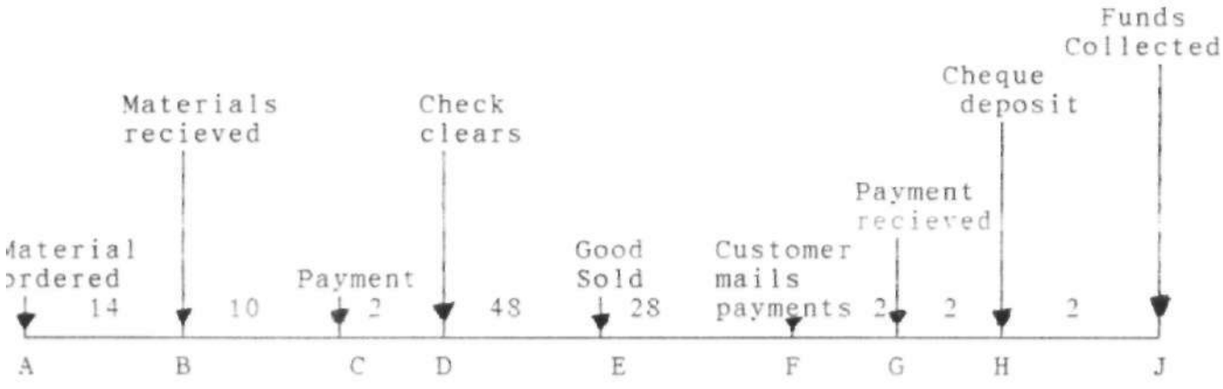


Fig. 2

DETAILED OF THE CASH CYCLE



Opportunity to improve efficiency in collecting and disbursing funds center on flows through the current section of the balance sheet, depicted in the bottom part of the diagram in Fig 1. We diagram these flows in more detail in fig 2, which shows the steps along the way as funds flow through the firm's accounts. For a raw material to be ordered at A and received 14 days later at B. Terms of 2/10, not 30 are offered, so the firm pay the invoice 10 days later at C. However, it takes 2 days for the cheque to clear and the firm's bank account is not charged until pint D. The firm turns its inventory six time per year, so 60 days after the materials are received, the product is sold and the customer is billed. The collection period is 30 days, 28 for the customer to pay and 2 for the cheque to arrive by mail G. The firm processes the payment and deposits it 2 days later at H. Another 2 days elapses while the firm's bank collects the funds from the customer's bank.

The firm's total financing requirement is affected by the total time lag from point B to point J. The firm itself can control some factors that determine the various lags, but some it cannot, some of the lags affect the cash balance, while others affect other components of working capital such as accounts receivable and

inventory. In addressing ourselves to cash management we are concerned with time period BCD and FGHJ. Time period AB is beyond the firm's control and does not directly affect its financial statements, although it may affect production schedules. Time period DE is determined by the firm's production process and inventory policy and affects the total investment in inventory. Time period EF is determined by the firm's credit term's and the payment policies of its customers, and affect the total investment in accounts receivable.

For a firm's efficient cash management, it must have to look into the following three areas that is consenting working balances, speeding collections and controlling disbursements.

In a summary cash management and marketable securities can be explain as:-

1. Cash is the most important current asset for the operating of the business. Cash is the basic imput needed to keep the business running on a continuous basis, it is also the ultimate output expected to be realised by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more or less cash shortage will disrupt the

strategies for cash management. The firm should evolve strategies regarding the following four facets of cash management:-

i. Cash planning:- Cash inflows and outflows should be planned to project cash surplus or deficit for each period of the planning period. Cash budget should be prepared for this purpose.

ii. Managing the Cash Flows:- The flow of cash inflow and out flow should be properly managed. The inflows of cash should be accelerated while as far as possible, the outflows of cash should be decelerated.

iii. Optimum Cash Level:- The firm should decide about the appropriate level of cash balances. The cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.

iv. Investable Cash:- The idle cash or precautionary cash balanced should be properly invested to earn profits. The firm should decide about the division of such cash balances between bank deposits and marketable securities.

2.2.2 DECISION TECHNIQUES FOR EFFICIENT CASH MANAGEMENT

For the management to meet the motives that have been discussed earlier, that is the transaction precautionary and speculative motives, the finance manager can be aided by a number of techniques. These include cash budgets, acceleration of cash inflows and control of disbursements of cash.

(a) CASH BUDGETS

Ability to spot cash surplus or shortage situation in advance is one of the advantages of cashflow projection. The basic tool of cash flow projection is the cash budget.

The cash budget summarizes the estimated cash inflows and the estimated cash disbursements of a business over the budget period which may be weekly, monthly or half-yearly. It is indispensable when it comes to planning for borrowing, repayment of debts, payments to owners of the business and the efficient utilisation of idle cash balances.

The normal starting point for a cash budget is a sales forecast by months. Cashflows can then be derived from the sales forecast. This will reflect the credit

terms of the firm and historical experience of the customer's attitude towards prompt payment of accounts. All other sources of cash will be identified and estimate made of what is expected during the period. Such other sources include disposal of fixed assets, rents, interest, dividends and others. When all these are assembled a reasonable estimate is made of the total cash available. Then an estimate of the total disbursements comes next. These disbursements include raw material costs, production expenses, payroll, administrative and selling expenses, income taxes and others.

When the estimated cash receipts are compared with the estimated cash disbursements, a difference would emerge. The difference would indicate surplus cash or shortage of cash. If the difference shows surplus cash the finance manager would start to plan what to do with such surplus. And if the difference shows cash shortage, he may have to plan for borrowing.

(b) ACCELERATION OF CASH COLLECTION

Certain cash collection methods are used to accelerate cash inflow from account receivable and thus play active part in the cashflow cycle. These include concentration banking and lock-box system.

Under a concentration banking system a company establishes a number of centres for the collection of customers payments. Customers are requested to send payments to the centres instead of sending to the company's headquarters. Payments received at a collection centre are immediately deposited at a local bank.

2.2.3 MANAGING WORKING CAPITAL

The management of current assets basically involves two processes:-

1. Forecasting Needed Funds:- Changes in the firm's operations can have almost immediate effects on the working capital needed. For example, if suppliers increase the price of raw materials, more money will be tied up in inventories than previously. Even if the firm can increase the price for its final product, it will need additional working capital to support its sales efforts. An alert manager will observe operating activities and estimates the level of working capital required for future periods.

2. Acquiring Funds:- Once the needs have been estimated, the manager must acquire the necessary funds

from the best source, for the lowest cost, and for the time period involved.

The effective management of working is the primary means of achieving the firm's goal of adequate liquidity. It is, after all, the working capital - cash, marketable securities, receivables, and inventory - that will be available in the near term to pay bills and meet obligations. It is the net working capital - excess of current assets over net current liabilities - that helps measure the degree of protection against problems that might cause a shortage of funds.

Managing working capital requires a number of actions, including the following:-

1. Monitoring levels of cash, receivables and inventory - on a daily or weekly basis, the manager should know how and much funds are tied up in each of the current asset accounts. Question should be asked. Are the amounts in each account appropriate? How do the balance compare to previous balances? to the firm's standards? to industry norms? Any deviations from expectations should be investigated.

2. Knowing percentage of funds in Current Accounts:- Working capital represents a large investment for most firms. 30 to 60 percent of a firm's total assets are

tied up in current accounts. The manager should be aware of the relationship between current and fixed assets and any changes in the percentage of funds in current accounts.

3. Recording time spent managing Current Account:- Although estimates vary, somewhere between one-third and two-thirds of the financial manager's time is spent managing the working capital. A knowledge of how much time each member of the finance department spends with current accounts can offer an insight into the effectiveness of working capital management.

2.2.4 FORECASTING CASH FLOW

Once the Financial Manager has identified the firm's policies on cash flow management, he or she must face the problem of predicting the amounts and timing of future inflows and outlays of cash. This is a difficult process for most firms because cash flows are affected by many factors and may involve numerous accounts, operating divisions, or even subsidiaries. But the stakes are high. The failure to prepare for the proper level of cash poses three risks to the company.

(1) Default:- The failure to pay interest on principal payments on a firms borrowings is a default, a situation that may result in legal actions by the firm's creditors.

(2) Overdue Bills:- The failure to pay short-term obligations, such as payables, is loss serious than default on loans but may result in a lowering of the firm's credit rating in the business community. This may be accompanied by higher interest rates when the firm applies for loans or may cause creditors to refuse to ship supplies on credit.

(3) Lost Savings on Purchases:- Inadequate cash may cause the firm to lose opportunities to make special cash purchases or to take generous trade discounts on purchases of goods.

In attempting to minimising these risks, the firm pursues the twin goals of cash forecasting namely:-

(i) Liquidity:- By predicting cash surpluses or shortages, the firm achieves liquidity - sufficient money in the bank to pay debts as they come due.

(ii) Profitability:- Accurate cash forecasting achieves profits by allowing the firm to take profitable discounts on purchases, invest surplus funds, or reduce the costs of maintaining idle cash balances.

CASH FORECAST

A useful tool to deal with the forecasting aspect of cash flow management is the cash forecast. This is a schedule over time of cash inflows and outlays. Several characteristics of this tool are important:-

(a) Focuses on Receipts and Payments:- The cash forecast ignores profits or losses, sales and costs as such. It concentrates on the cash receipts, regardless of when the sales were made. Thus, cash sales would be included, as would the collections on the accounts receivable, which were created by credit sales. With respect to debts of the firm, only the cash payments are included. The creation of liabilities does not involve flow of cash and is omitted.

(b) Non cash Expenses Excluded:- It should be obvious that, since non cash expenses such as depreciation involve no payments, they are not considered in a cash forecast. Cash payments to purchase machinery would be included.

(c) Joint Effort of Several Department:- Although the cash forecast is prepared under the direction of the Financial manager, it represents a joint effort of several operation departments. The sales prediction, and

indirectly the collections on receivables, is provided by the marketing personnel. The production expenses are calculated with production - department manages and cost accountants. Other departments are involved to the degree that they are responsible for receiving or disturbing cash.

When deposited they are again immediately transferred telegraphically from the local bank to a concentration bank - the commercial bank with which the firm has its major deposits account.

Setting up a "lock-box" system begins with renting local post office boxes. Local banks in town where the post office boxes are rented are authorized to pick up customer's remittances mailed to the boxes for a faster transfer to the company's major bank. If, however, the operating cost of these systems exceed the returns available from investing the cash, the systems could be dropped.

2.3 MANAGEMENT OF ACCOUNTS RECEIVABLE

Central Management's concern with accounts receivable is similar to inventory. First, the company's credit policy should aid the execution of strategy. This means that liberality in granting credit to customers and in making collections should be consistent with stress placed on credit as a sales appeal. Defining the function (service) that it is to perform is primary. Second, budgetary limits may then be set for the total capital allocated to accounts receivable. These limits will arise from the capital - allocation process and will reflect a balancing of alternative uses of capital. And third, turnover ratios can be set to check the soundness of accounts and to avoid further losses from an accumulation of uncollectible accounts. As with inventory, even more detailed constraints, such as "aging" the account receivable (that is, listing those thirty day's overdue, sixty days overdue, etc), move from general financial limitation into operations. The basic task of central management in the area of account receivable, then, is to set policy regarding (1) purpose

(2) allocation of capital among competing uses and (3) maintenance of the quality of the asset.

A special issue is the use of outside financial institutions - banks, credit companies and factors - to provide customer credit. Outside firms will be glad to extend installment credit because this is profitable business by itself. For help in carrying regular commercial accounts receivable, the company must pay same, the size of the fee depending on who makes the credit investigation, who collects the accounts when due, and who bears the risk of bad accounts. The basic question that central management must resolve is whether to reduce capital needs for accounts receivable by turning to outside firms. The answer lingers on two factors: (1) How important to the company is close customer contact and integration of credit with other services provided to the customer? (2) How does the cost of outside service (the fee paid or the installment profit foregone) compare with income that can be earned by using the capital saved for other purpose?

According to R.H Cole[4], accounts receivable constitute important element of working capital. Finished goods inventory must be on hand before sales are made. Most sales are made on credit.

Policies that stress short credit terms, stringent credit standards and highly aggressive collection policies tend to minimise bad debts and the amount of funds tied up in receivables. But such policies may restrict sales and profit margins. Conversely, extremely lenient credit extensions may well inflate receivables and bad debts, without compensating increases profit. Accounts receivable management then aims to achieve a trade between stringent and liberal policies.

2.3.1 FACTORS AFFECTING DECISIONS ON INVESTMENT IN RECEIVABLES:-

R.H. cole[5] is of the opinion that capital, competition and types of goods are among the most influential factors affecting decision on investment in receivables. Others are the company's market share and the general economic conditions.

(a) <u>Capital and Financial Resources</u>

A company operating with a limited capital structure is forced in most instances to adopt strict credit policies in order to keep itself in a position to meet the demands of its own creditors. Similarly, companies

with poor liquidity positions may find that they cannot afford to grant credit even though a policy of liberal credit may clearly result in higher earnings. Thus the poorer the company's financial position, the less freedom of action that is open to management in fixing credit policies.

(b) Customer and Competition

Customer may limit a company's freedom of action in deciding whether to offer credit or not closely related to customer is competition.

The firm's credit policy should be what obtains in the industry generally. Too stringent credit terms may lead to loss of customers to competitors, while too lenient terms may attract poor credit risks from competitors.

(c) Type of Product

In certain businesses credit may not be granted to all, for example the food chains where business is conducted mostly on cash basis. Credit facilities are therefore usually shorter for goods of perishable nature or with high turnover. On the other hand, credit facilities are longer in industries that deal in durable goods, for example, engineering and building industries.

(d) **Market Share**

A company may decide to increase its market share by being a bit more lenient in its credit terms since there exists a strong possibility that an increase in the credit period will increase sales, assuring competition to remain constant. Alternatively, the company could cut its prices or intensify promotional activities.

(e) **General Economic Condition**

At times companies take into consideration the nature of the economy. K.T. Onuoha[6] wrote, "In Nigeria the problems of credit control and debt collection in modern marketing are monumental. and must be recognised by business enterprises as a major constraint in their drive to enhance profitability and long term survival of their companies".

2.3.2 DECISION MAKING POLICIES ON ACCOUNT RECEIVABLE

C.H. Creps and R.F. Wacht[7] identified five areas of decision making involving accounts receivable management:-

(i) Establishment of credit terms

(ii) Gathering credit information

(iii)Credit evaluation

(iv) Credit granting decision and

(v) Collection of receivables.

(1) Establishing Credit Terms: In establishing credit terms a company is faced with the selection of the period for which the credit will be granted and the size and amount of cash discounts allowed for early payment.

(a) Credit Period:- This is the period over which credit is extended. A firm may lengthen its credit period to increase sales and hence profit. But such increases may be offset by rise in collection costs and incidence of bad debts.

(b) Cash Discount:- The effect of granting cash discounts may be analysed similarly to the credit period. For example, if a firm changes its terms from "net within 30 days" otherwise, it will attract customers who want to take discounts, thereby increasing gross sales. Also, the average customer will pay more promptly to take advantage of the discount. Offsetting those benefits in the cost of the discounts taken. The optimal discount is established at the part where costs and benefits are exactly offsetting.

In general cash discounts should not be encouraged unless the cost has been allowed for when fixing the price of the product. Thus the person paying within the terms will be obtaining the goods at the normal price.

(ii) Gathering Credit Information

The customer desiring credit is normally required by the firm to out a credit application form which would call for certain information about the customer's credit-worthiness, apart from the credit application, the firm can obtain additional credit information about the customer from other sources. These sources include commercial banks, salesmen, financial statements, personal interviews with the customer, trade references, credit rating and report form specialised institutions.

- Bank credit information usually include the level of bank balances maintained and data relating to extensions of bank credit. However this is of limited use because it only reflects on the particular bank and the manager of a bank may be reluctant to report unfavorably on one of its customers.
- Salesmen could also provide useful credit information when given proper training.
- The financial statements of customers could prove to be a useful source of information about the solvency of their businesses.

- Through personal interviews a credit manager could obtain a better understanding of the abilities and problems of some of his customers.
- Trade references, credit rating and reporting agencies offer sound guides as to a customer's credit-worthiness. The information that a customer has reliably and regularly discharged his commitments is a good indication of his reliability.

Unfortunately, these types of reputable and well-developed agencies are not known to be available in Nigeria. But in the United States of America for instance, Dun and Bradstreet Inc. provides valuable information which are of primary importance to the credit manager.

(iii) **Credit Evaluation**

When all the available credit information concerning a potential credit customer have been assembled, they must be analysed to determine the customer's credit-worthiness. "The five C's of credit - character, capacity, capital, collateral and conditions often provide useful guides in this evaluation.

- Character refers to the probability that the customer will honour his obligation when and as they become due. To most experienced credit men this moral factor is the most important factor in credit evaluation.

- Capacity relates to the customers ability to pay. This is often gauged by his past records, business methods and an analysis of his financial position by the use of accounting ratios.
- Capital is measured by general financial condition with special emphasis on tangible net worth and profitability.
- Collateral represents assets that the customer may offer as a pledge for credit extension.
- Conditions encompass factors such as general economic conditions or the intensity of competition.

(iv) Credit Granting Decision

When an applicant's credit standing is either far above or far below established credit standards, credit worthiness (or absence of it) is easy to determine. The difficult decision relates to customers that are marginally credit worthy at best. In such cases credit managers should attempt to balance potential profitability against loss from default.

Once the decision has been made to extend credit to a particular customer, a line of credit has to be established for him. Such a line is stated as the maximum the customer may owe at any one time. Each line of credit should be reviewed periodically because what

was an acceptable at any time in the futures. Hence periodic reviews are essential parts of receivable management.

(v) Collection of Receivables

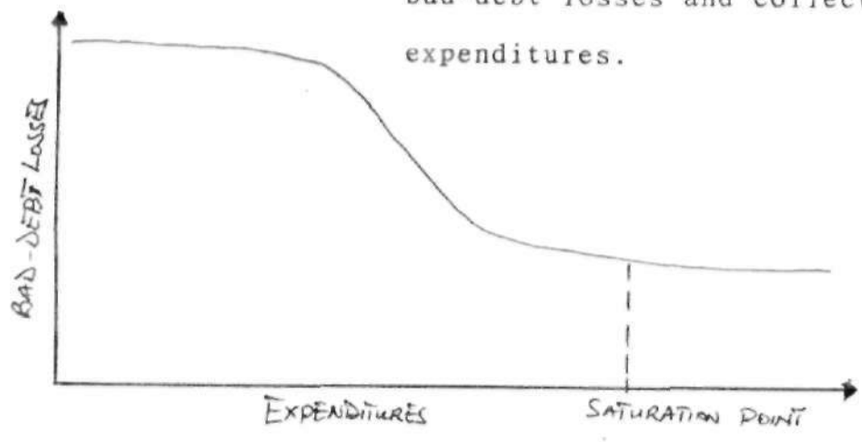
Various authors are of the same view on the above subject in discussion. An extract from the principles of finance (Notes, questions and answer) of Mallam Ibrahim F. Okeji[8] (1994), the collection policy refers to the procedures the firm follows to obtain payment of over due accounts. For example, a letter may be sent to such customers when the account is 10 days overdue, a more severe letter, followed by a telephone call, may be used if payment is not received within 30 days: and the account may be turned over to a collection agency after 90 days. The collection process can be expensive interms of both out of pocket expenditure and lost of goodwill, but at least some firmness is needed to prevent an undue lengthening in the collection period to minimise outright losses. Again, a balance must be struck between the cost and benefits of different collection policies.

James C. Van Horne[9] in his explanation to the collection policy said is determined by the combination of collection procedures it undertakes. These procedures include such things as letters sent, phone calls,

personal calls, and legal action. One of the principal policy variables is the amount expended on collection procedures. Within a range, the greater the relative amount expended, the lower the proportion of bad-debt losses and the shorter the average collection period, all other things the same.

The relationships, however, are not linear. Initial collection expenditures are likely to cause little reduction in bad-debt losses. Additional expenditures begin to have a significant effect in reducing the amount of bad-do debt losses. Beyond a point, however, additional expenditures tend to have little effect in further reducing these losses. the hypothesized relationship between expenditures and bad-debt losses is shown in fig 3 below.

Relationship between amount of bad-debt losses and collection expenditures.



If sales are independent of the collection effort, the appropriate level of collection expenditure again involves a trade off - this time between the level of expenditure on one hand and the reduction in the cost of bad-debt losses and reduction in investment in receivables on the other.

Suppose that we are considering the present collection program in relation to new ones and that the programs are expected to produce these results:

TABLES 1

	Present Program	Program A	Program B
Annual Collection expenditure	=N=116,000	=N=148,000	=N=200,000
average collection period	2 months	1½ months	1 month
Percentage of default	3	2	1

Assume that present sales are =N2.4m and they are not expected to change with changes in the collection

effort. If we go through the same type of reasoning as we did for the discount policy where receivables were reduced and for bad-debt losses, we obtain the results in table 2.

ABLE 2

Evaluation of Collection Programs

	Present program	Program A	Program B
Annual Sales	=N=2,400,000	=N=400,000	=N=2,400,000
Turnover of receivables	6	8	12
Average reeivables	400,000	300,000	200,000
Reduction in receivables from present level		100,000	
Reduction in receivables from program A level			100,000
Return on reduction in receivables (20%)		20,000	20,000
Bad-debt losses (% of annual Sales)	72,000	48,000	24,000
Reduction in bad-debt losses from present losses		24,000	
Reduction in bad-debt losses from program A losses			24,000
Opportunity saving on reduced recievables plus reduction in bad-debt losses		44,000	44,000
Additional collection expenditures from present expenditures		32,000	
Additional collectionn expenditures from prgram A expenditures			52,000

In the last three rows of the table we see that the opportunity saving resulting from a speed up in collections plus the reduction in bad-debt losses exceeds the additional collection expenditures in going from the present program to program A, but not in going from program A to program B. As a result, the firm should adopt program A but not increase collecting expenditures to the extent of program B.

According to J.F. Weston & E.F. Brigham[10], collection in receivable, is the final step in managing credit extension. Customers who pay promptly require little or no collection efforts. Some are slow paying while some may prove to be ultimately uncollectible. The objective of collection policies is to speed up slow paying accounts and reduce the percentage of bad-debts.

Collection patterns of major customers that are solventy, should be different from those of a financially weak customer. For some customers, collection procedures may be followed up by suspension of deliveries or services. This is however, a delicate situation in the relationship with the customer concerned.

Collection of receivables is normally the responsibility of the sales Department or the credit control Department. Collection efforts include delivery

of invoices, despatch of statements, reminder letters, telephone calls, telegrams, collection by drafts, despatch of registered letters, calls by salesmen, specialist debt collectors, and legal action.

2.4 INVENTORY MANAGEMENT

Inventory represents a major current asset investment by most manufacturing firms. Inventory is necessary for the "Production" sale process of the firm to operate with minimum of disturbances. A stock process is required to ensure that required items are available when needed. Finished goods inventories must be available to provide a buffer stock that will enable the firm to satisfy sales demands as they arise. The financial manager must be concerned about all types of inventories like raw materials, work in progress and finished goods. He must monitor inventory levels to make sure that excess inventory build ups do not occur.

The Financial Manager views inventory as an investment that consumes Naira. He attempts to make sure that not too many Naira are invested in it and likes low levels, especially of finished goods inventories, in

order to assure quick deliveries and a minimum of stockouts.

The production manager is concerned with raw material, and work in progress inventories. He likes to make sure that sufficient inventory is available to permit continuous production. His actions directly on the level of the finished goods inventory. Purchasing is concerned with raw materials and generally prefers higher levels of inventory. The conflicting viewpoints of all these parties must be resolved in order to have efficient inventory management. The financial manager must act as a watch dog over inventory levels.

2.4.1 IMPORTANCE AND TYPES OF INVENTORIES

Because inventories represent so important a segment of the total assets of most business firms, it is vital that they be managed efficiently. With the development of the computer, there have been considerable advances in the management of inventories during the last 25 years. As information on sales and inventory levels has become more reliable and more quickly obtainable, the need for inventory to buffer information lags has been greatly reduced. Moreover, there have been major improvements in

control, transportation and warehousing. All of these developments have made possible and greater turnover of inventories.

Inventories provide an important link in the production and sales of a product. For a company engaged in manufacturing, a certain amount of inventory is necessary in the production of the product; this inventory is known as "goods in process". Although other types of inventory - namely, in-transit, raw materials and finished-goods inventories - are not necessary in the strictest sense, they are important if the firm is told at all flexible. For example, inventory intransit - that is, inventory between various stages of production or storage - permits efficient production scheduling and utilization of resources. Without this type of inventory, each stage of production would be dependent upon the preceding stages finishing its operation on a unit of production. As a result, there would probably be delays and considerable idle time in certain stages of production. Thus, there is an incentive for the firm to maintain in-transit inventory.

Raw materials gives the firm flexibility in it purchasing. Without it, the firm must exist on a hand-to-month basis, buying raw materials strictly in keeping

with its production schedule. Moreover, the purchasing department often is able to take advantage of quantity discounts, by so doing, raw materials inventory may be bloated temporarily. Finished-goods inventory allows the firm flexibility in its production scheduling - and it its marketing. Production does not need to be geared directly to sales. Large inventories allow efficient servicing of customer
demands. If a certain product is temporarily out of stock, present as well as future sales to the customer may be lost. Thus, there is an incentive to maintain stocks of all three types of inventory.

The advantages of increased inventories, then, are several. The firm can effect economies of production and purchasing can fill customer orders more quickly. In short, the firm is more flexible. The obvious disadvantages are the total cost of holding the inventory, including storage and handling costs, and the required return on capital tied up in the investment in inventory. Inventories, like accounts receivable, should be increased as long as the resulting savings exceed the total cost of holding the added inventory. The balance finally reached depend upon the estimates of actual savings, the cost of carrying additional inventory, and

the efficiency of inventory control. Obviously, this balance requires coordination of the production, marketing and finance areas of the firm in keeping with an overall objective.

2.4.2 INVENTORY COSTS

While a firm may derive many benefits from maintaining inventories, such advantages are not free from certain costs. Inventory costs may be classified into three major categories, namely - ordering costs, carrying costs and stockout costs.

Ordering Costs:- These are expenses excluding purchase price of the inventory necessary to affect delivery of the items to the firms. They include cost of preparing and processing requisitions, purchase orders and other administrative paper work. Ordering costs are generally independent of the size of the order. They are fixed costs.

Carrying Costs:-

Carrying costs in contrast to ordering costs tend to increase in proportion to the size of the inventories being maintained. They include storage costs, cost of capital tied up in the funds used to procure the inventory, insurance premiums, taxes, pilferage, costs of deterioration and obsolescence.

Stock-out Costs:-

It is not easy to forecast the cost effects of a next stock-out. It may cost the business an important customer or it may not cause any serious trouble. The amount of these costs depends on when the stock-outs occur and their duration. Usually when stockouts occurs the costs might include idle capacity when production is held up. Stock-out costs also include loss of sales and customers goodwill due to the company's inability to satisfy their orders.

2.4.3 OBJECTIVES OF INVENTORY MANAGEMENT

Basically the goal of any inventory management should be to establish a level of each kind of inventory which will minimize costs and maximise the revenues associated with the investment in that particular group of assets. This suggests that a systematic approach to inventory management must have as its basis some method of balancing expected costs and benefits from purchasing and carry inventories.

The objective should therefore be to hold the annual total costs of inventory to a minimum, and at the same time to prevent hold-ups in production or unsatisfied

customers orders due to stock-outs of raw materials and finished goods inventory. Adherence to this objective could ensure that corporate funds are allocated efficiently to investment in inventories.

2.4.4 BENEFITS OF HOLDING INVENTORIES

As shown in Fig 4, by holding inventories the firm is able to separate the processes of purchasing, producing and selling. If firms were not willing to hold adequate raw materials and finished goods, purchasing would take place only when immediate production and sales were anticipated. When a customer signed a purchase agreement, the firm would not be able to offer rapid delivery. When the firm scheduled production run, it would achieve more of the economies that longer runs provide. Inventories are used to provide cushions so that the purchasing, production and sales functions can proceed at heir own optimum paces.

Fig. 4

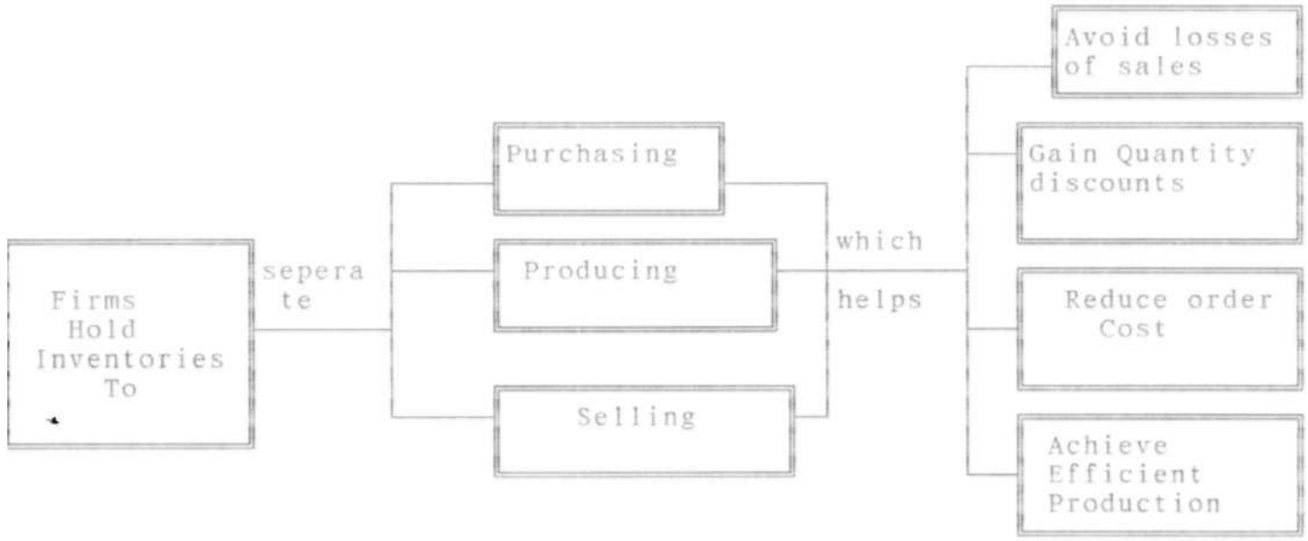


Fig. 4 "Why firms hold inventories"

In achieving the separation of these functions, the firm realizes a number of specific benefits:-

(1) Avoiding Losses of sales:- If the firm does not have goods available for sale, it will lose sales. customers requiring immediate delivery will purchase their goods from the firm's competitors, and others will decide that they do not need good after all, if they must wait for delivery. The ability of the firm to give quick services and to provide prompt delivery is closely tied to the proper management of inventory.

(2) **Gaining Quantity Discounts:-** If a firm is willing to maintain large inventories in selected product lines, it may make bulk purchases of goods at large discounts. suppliers frequently offer a greatly reduced price if the firm orders double or triple it's normal requirement. By paying less for its goods, the firm can increase profits a long as the costs of maintaining the inventories are less than the amount of the discount.

(3) **Reducing Order Costs:-** Every time a firm places an order, it incures certain costs. Forms must be typed, checked, approved and mailed. When goods arrive, they must be accepted, inspected and counted. The invoice must be checked with the goods and then sent to the

accounting department so that the supplier can be paid. The variable cost associated with individual orders can be reduced if the firm places a few large rather than numerous small orders.

(4) **Achieving Efficient Production Runs:-** Once an assembly line or piece of machinery is prepared to receive certain raw materials and perform selected production operations, a set-up cost has been incurred. This cost must be absorbed in the subsequent production run. If the set-up cost is =N=200 and the run produces 200 units, the cost is =N=1.00 per unit. A longer run of 2,000 units would reduce the set-up cost to =N=0.10 per unit. Inventories assist the firm in making sufficiently long runs to achieve efficient production. If the firm had to change set-ups frequently, it would experience high unit costs of production.

Adequate inventories also protect against shortages that would delay or halt production. If the firm has scheduled a long run and begins production, only to discover a shortage of a vital raw material the production may be halted at considerable cost to the firm.

2.4.5 TECHNIQUES FOR THE CONTROL OF INVESTMENT IN INVENTORIES

For a given level of inventory, the efficiency of inventory control affects the flexibility of the firm. Two essentially identical firms with the same amount of inventory may have significantly different degrees of flexibility in operations due to differences in inventory control. Inefficient procedures may result in an unbalanced inventory - the firm may frequently be out of certain types of inventory, and overstock other types, necessitating excessive investment. These inefficiencies ultimately have an adverse effect upon profits. Turning the situation around, differences in the efficiency of inventory control for a given level of flexibility affect the level of investment required in inventories. The less efficient the inventory control, the greater the investment required. Similarly, excessive investment in inventories impacts profits adversely. Thus, the effects of inventory control on flexibility and on the level of investment required in inventories represent two sides of the same coin.

(i) ECONOMIC ORDER QUANTITY (EOQ)

The use of EOQ model contributes to sound inventory management. Placing an order for inventory costs money in terms of purchasing and delivery costs. If the firm is buying raw materials, it has to decide the lots in which it has to be purchased on each replenishment.

If the firm is planning a production run, the issue is how much production to schedule (or how much to make). These problems are called order quantity problems, and the task of the firm is to determine the optimum or economic order quantity (or economic lot size). Determining the optimum inventory level involves two types of costs; (a) Ordering costs (or set-up costs) and (b) carrying costs, which were earlier discussed.

Assumptions that are necessary for EOQ

(1) There is a known constant stockholding cost i.e carrying cost is known.
(2) There is a known constant ordering cost
(3) The rates of demands are known
(4) Constant price per unit is known
(5) Replenishment is made instantaneously i.e the whole batch is delivered at once.
(6) No stockout are allowed.

The EOQ ignores buffer stock which are maintained to carter for variation in lead time and demand. The EOQ for a firm can be determine by means of (a) Formula (b) Tabulation and (c) Graphical.

(a) Formula

$$EOQ = \sqrt{\frac{2DC_0}{C_c}}$$

$$Cc = P \times Cs$$

OR

$$EOQ = \sqrt{\frac{2DCo}{PCs}}$$

Where: D = Annual Demand in unit

Co = Ordering cost/order

Cc = Carrying cost/item/annum

P = Price of materials/unit

Cs = Storage cost in %

(b) **Tabulation:-** Example . A company with annual requirement D = 600 unit, price/unit P= 40K, ordering cost/order Co = =N=3,000.00, stock holding cost Cs = 25% of P. find EOQ.

SOLUTION

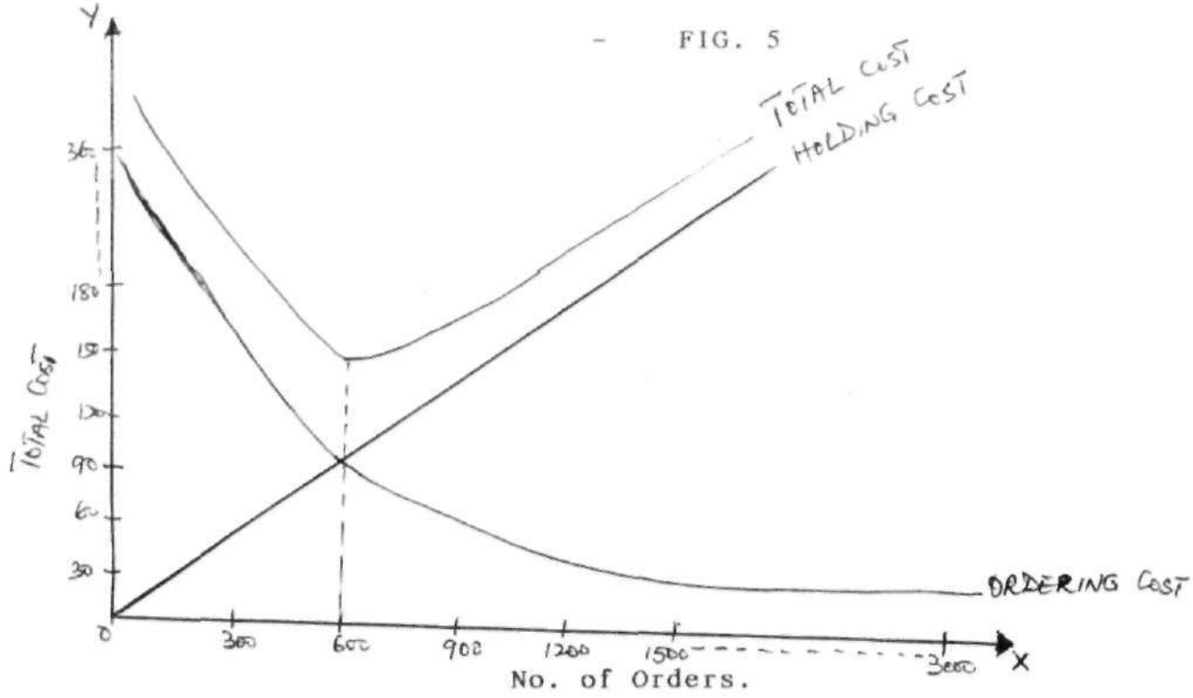
TABLE 3

Quantity purchase per order Q	No. of order, D/Q	Annual ordering cost D/QxCo	Average inventory held Q/2	Annual Holding cost =N=	Total Cost
200	30	90	100	10	100
300	20	60	150	15	75
400	15	45	200	20	65
600	10	30	300	30	60
1000	6	18	500	50	68
1200	5	15	600	60	75
3000	2	6	1500	150	156
6000	1	3	3000	300	303

Total cost = ordering cost + Annual Holding cost. From the table one can easily arrive at the EOQ by observing that the minimum value of total cost is =N=60 which is justified by the equality of the ordering cost (=N30) and the annual Holding cost (=N=30) therefore EOQ = 600 unit.

(c) GRAPHICAL APPROACH

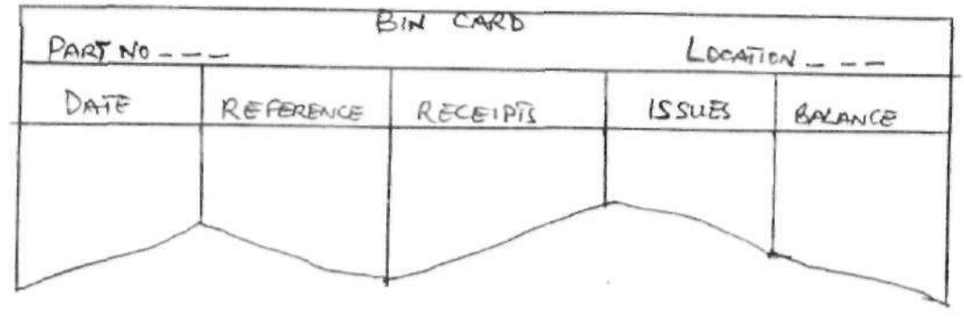
FIG. 5



(ii) **The two-Bin System**

Under this system of inventory control, stock is replenished whenever the amount of stock at hand falls to some predetermined levels.

FIG. 6



(iii) The Periodic Review System

At periodic intervals, the amount of inventory is reviewed and an order is placed. The amount to be ordered is determined by subtracting the amount at hand from the pre-determined amount.

2.4.6 INVENTORY LEVELS

(1) Re-order Point

The problem, how much to order, is solved by determining the economic order quantity. This is a problem of determining the order, or re-order, point. The reorder point is that inventory level at which an order should be placed to replenish the inventory. To determine the re-order point under certainty, we should know:

(a) The lead time (b) the average usage and (c) the EOQ.

The lead time is the time normally taken in receiving the delivery of inventory after order has been placed. By certainty it means that usage and the lead time do not fluctuate. Under such situation, the re-order point is simply that inventory level which will be maintained for consumption during the lead time. That is

Re-order point = lead time x Average usage.

(ii) Safety Stock Level

It is difficult to predict usage and the lead time accurately. The demand for material may fluctuate from day to day or from week to week. If the actual usage increases or the delivery of inventory is delayed. The firm can face a problem of stockout. The stock-out can prove to be costly for the firm. Therefore, in order to guard against the stock-out the firm may maintain a safety-stock- some minimum or buffer inventory as cushion against expected increased usage and/or delay in delivery time.

Thus, the formula to determine the re-order point when safety stock is maintained is

Re-order point = Lead Time x Average usage + Safety Stock.

2.4.7 FINANCIAL MANAGER'S ROLE IN INVENTORY MANAGEMENT

The techniques of inventory management, discussed earlier, are very useful in determining the optimum level of inventory and finding answers to the problems of the economic order quantity, the re-order point and the

safety stock. These techniques are very essential to economise the use of resources by minimising the total inventory cost.

Majority of companies, inventory represents a substantial investment. Thus, the goal of the wealth maximization is related to the efficiency with which inventory is managed. Consequently, the financial manager has an important role to play in the management of inventory, although it is not his operating responsibility to control inventory. The financial manager should see that only an optimum amount is invested in inventory. He should be familiar with the inventory control techniques and ensure that inventory is managed well. He should introduce the policies which reduce the lead time, regulate usage and thus, minimise safety stock. The net effect would be to reduce inventory investment and increase the firm's prospects of making more profits.

2.5 INVESTMENT IN SHORT-TERM SECURITIES

If a company has temporary idle funds, they could be invested in earning assets such as short-term marketable

securities. Such investments should be planned so that they are realisable when needed by the firm.

These short-term securities include:-

- Treasury Bills
- Commercial and finance papers
- Certificates of deposit and other that could be introduced.

2.5.1 Treasury Bills

A treasury bill is an unconditional promise by the government to pay to the holder of the bill a specified amount at maturity. Treasury bills are issued for short period of time, normally 3,6 or 12 months. Maturities on these bills are spaced one week apart, so that the financial Manager can purchase the bills that will mature at approximately the same time as a forecasted need for cash. Two characteristics of treasury bills should be noted.

1. Non-interest Bearing:- Treasury bills are sold at a discount on a bid basis, mainly to securities dealers and large commercial banks, who resell them to individuals and firms. For example, a bank may purchase a =N=10,000 face value bill of =N=9,625 and immediately

resell it to a firm for =N=9,675. If the firm holds the bill for a full 12 months, the treasury will redeem the bill for =N=10,000. The difference between the =N=10,000 face value and the =N=9,675 discount price is the profit to the firm for holding the security.

2. **Most Secure and Liquid Marketable Securities:-** Treasury bills are the most secured and liquid kind of marketable security. With respect to safety, the government guarantees their redemption. With respect to liquidity, there is a large active market for the bills, they can be quickly and easily sold prior to maturity if the firm runs shorts of cash.

2.5.2 Commercial and Finance Papers

Commercial paper refer to short-term, unsecured promissory notes of large nonfinancial corporations. Financial paper refers to similar notes from finance companies. These notes are issued by firms needing cash for periods of 30 to 270 days. They are purchased by individuals or other firms with excess cash that have a desire to earn a higher yield than available from treasury bills. In return for the higher yield the firm accepts slightly greater risk and less liquidity.

Commercial paper is normally purchased through a bank or securities dealer, while the bulk of finance paper is purchased directly from finance companies. In both cases, the paper is often held to maturity, since a limited secondary market exists to transfer paper. In some cases, finance companies honour requests to buy back their paper, usually charging a fee for this service.

Commercial and finance papers have grown in importance over the years. At one time, conservative managements insisted that treasurers limit their short-term-investments to treasury securities. The excellent repayment record and higher yields of paper from large, stable companies have encouraged investors to become more active in the paper market.

2.5.3 Certificates of Deposit

Is a receipt for a time deposit at a bank or other financial institution. The bank agrees to pay the bearer the amount of the deposit plus a stipulated amount of interest at maturity. The certificate of some strong banks may have been popular with financial managers for two reasons.

(1) Secure high yields:- Certificates of deposit are secure investments with slightly higher yields than treasury bills, yields that are competitive with those on commercial and finance paper.

(2) Highly Liquid:- Unlike commercial papers, there is a large and active secondary market for certificates of deposit, they can be quickly sold before maturity, if desired.

2.6 CURRENT LIABILITIES

This section deals with the management of current liabilities. Treatment shall, of course, be limited to all debts that are scheduled for payment within one year such as trade credit, bank loans and accruals.

2.6.1 Trade Credit

In the ordinary course of operation, a firm buys its materials on credit from suppliers, recording the debt as an account payable. "Trade Credit is a spontaneous source of financing in that it arises from ordinary business transactions".

Trade credit is a convenient method of doing business. A firm that does not qualify for credit from financial institution may receive trade credit. The buyer should, however, continue to uphold his credit-worthiness by maintaining prompt payments.

Sometimes trade credit can be more expensive than the other forms of short-term financing. In such circumstance, careful financial analysis may lead to the substitution of alternative forms of financing.

Forms of Trade Credit

Most trade credit is extended via the open account. Under this arrangement, goods are shipped and an invoice is sent to the purchaser, but the purchaser normally does not acknowledge the debt in writing. Payment is made later according to the terms of the agreement.

The major advantage of the open account is its simplicity and low administrative cost. Before granting credit via an open account, most suppliers perform a credit check.

A less common form of trade credit is the promissory note, usually called "note(s) payable, trade "on the balance sheet". The note is a written promise to pay,

that must be signed by the purchaser. Such notes usually bear interest and have specific maturity dates. They are used most often in situations in which the purchaser has failed to meet the terms of an open credit agreement and the supplier wishes a formal acknowledgement of the debt and a specific agreement regarding payment date. In exchange for lengthening the payment period, the purchaser usually pays interest. Thus, when we see "note(s) payable trade" on a balance sheet, we usually can take it as an indication of some degree of financial difficulty. In a few industries, promissory notes are used as the standard vehicle for granting credit instead of the open account. In such cases, the presence of trade notes on the balance sheet does not indicate difficulty.

A third form of trade credit is the trade acceptance. Under this arrangement, the purchaser acknowledges the debt formally by accepting a draft drawn by the seller calling for payment on a specified date at a designated banks. After acceptance, the draft is returned to the seller and the goods are shipped. Trade acceptances of buyers with high credit ratings sometimes are marketable. On the due date, the holder of the acceptance, whether the original seller of the goods or

another holder, presents the acceptance to the bank for collection from the purchasers.

The trade acceptance is not widely used, mainly because of the rigidity and cost of the procedure.

2.6.2 Loans from commercial Banks

Commercial bank lending is another important way of short-term financing. As the financing needs of the fund increase, it requests the bank to provide the additional funds.

Bank lending may take the form of overdraft, various forms of loans, discounting bills and factoring. Overdrafts are the most common means of borrowing from a bank. They have the appearance of other simplicity to the customer, who is permitted to overdraw a current account into debt up to an arranged figure. As interest is charged on the daily 'cleared' balance the customer has the advantage of paying interest only on the actual amounts borrowed from day-to-day and not on the arranged advanced for the whole period. This system is suitable for a firm, where borrowing for working capital will normally fluctuate within the arranged limit.

"If there is a solid portion of borrowing, the cash generation should be sufficient to repay this hard core over a relatively short time period". To achieve this and, there should be proper planning and control of bank overdrafts and short-term loans.

Line of Credit

A line of credit is a formal or informal understanding between the bank and the borrower concerning the maximum loan balance the bank will allow the borrower. Fore example, a bank loan officer may indicate to a financial manager that the bank regards his firm as good for up to =N=10,000 for the forthcoming year. Subsequently, the manager signs a promissory not for =N=4,000 for 3 months. He is said to have taken =N=4,000 of his total line of credit.

2.6.3 Repayment of Bank Loans

Because most bank deposits are subject to withdrawal on demand, commercial banks seek to prevent firms from using bank credit for permanent financing. A bank may therefore require its borrowers to "clean-up" their short-term bank loans for at least one month each year.

If a firm is unable to become free of bank debt at least part of each year, it is using bank financing for permanent needs. Such a firm should develop additional sources of long-term financing.

2.6.4 Accrued Liabilities

The term accrued liabilities (sometimes referred to as accrued expenses) is continually recurring short-term liabilities. It includes accrued wages, taxes due, rent payable, interest and commission payable, dividend payable and royalties.

(i) Accrued Wages

Full recognition of the liability for wages and salaries earned, but not paid, should be made at the close of each accounting period. Accruals include not only hourly wages and salaries up to the close of business but also estimates of bonuses accrued.

(ii) Tax due

Another item among the current liabilities is the tax due. Generally, this consists of corporate tax on the profits of the company as assessed for tax.

A company should however take payment of tax into account when devising the cash budget. The tax, of

course, is part of the profit made and although the funds should be put to use in the company's business before payment of the tax, the sum must be withdrawn from these activities or other wise provided to meet the tax at the proper time.

(iii) Rent Liabilities

Where property is held under a lease agreement with cash rents payable currently to the leasor, rent should be accrued reliably with occupancy as an expense. The unpaid portions are shown as current liabilities.

Other current liabilities are dividend payable, accrued royalties and commission. When dividends on stock are declared but not paid, the amount of the declaration becomes a liability to the corporation.

2.6.5 MANAGEMENT OF CURRENT LIABILITIES

Management of current liabilities is done with the following objectives:-

(a) Make sure funds are available to meet obligations.

(b) Delay payments until when absolutely necessary

(c) Maintenance of good credit

(d) Refinancing

2.7 PLANNING, CONTROL AND DECISION MAKING IN WORKING CAPITAL MANAGEMENT

2.7.1 INTRODUCTION

A major role of the financial manager lies in setting corporate goals and the policies to achieve them. The major departments including marketing, production, personnel and finance, participate in the activity of determining the firm's direction and courses of action. This involves the management of resources and decision making both in the near and long term.

Planning is the specific process of setting goals and developing ways to reach them. In other words, planing represents the firm's efforts to predict events and be prepared to deal with them. In many firms, the task of planing is coordinated by a department of one or more persons designed as the corporate planning department, long-range planning department, or budgeting department. Whatever the title, these individuals are responsible for receiving inputs from sales, production,

finance and other operating areas of the company. By coordinating the process of planning, management assures that the different departments are working towards the same goals and taking actions consistent with the overall objectives of the firm.

2.7.2 PLANNING

Another task of management is to look ahead - to plan. In the simplest terms, a plan is a statement of what is to be done in some future period and effective ways of doing it. Why should a firm plan? Planning requires effort and therefore is not without cost. In an uncertain world, events are likely to deviate from even the most carefully formulated plan. A planning system improve coordination in an organisation and encourages the kind of thinking that identifies difficulties before they occur. Many potential problems can be avoided and significant operating and financing economies achieved. A rather modest planning system usually will pay for itself many times over in terms of efficiency and lower costs.

Financial planning is one part of a larger planning process within an organisation. A complete planning

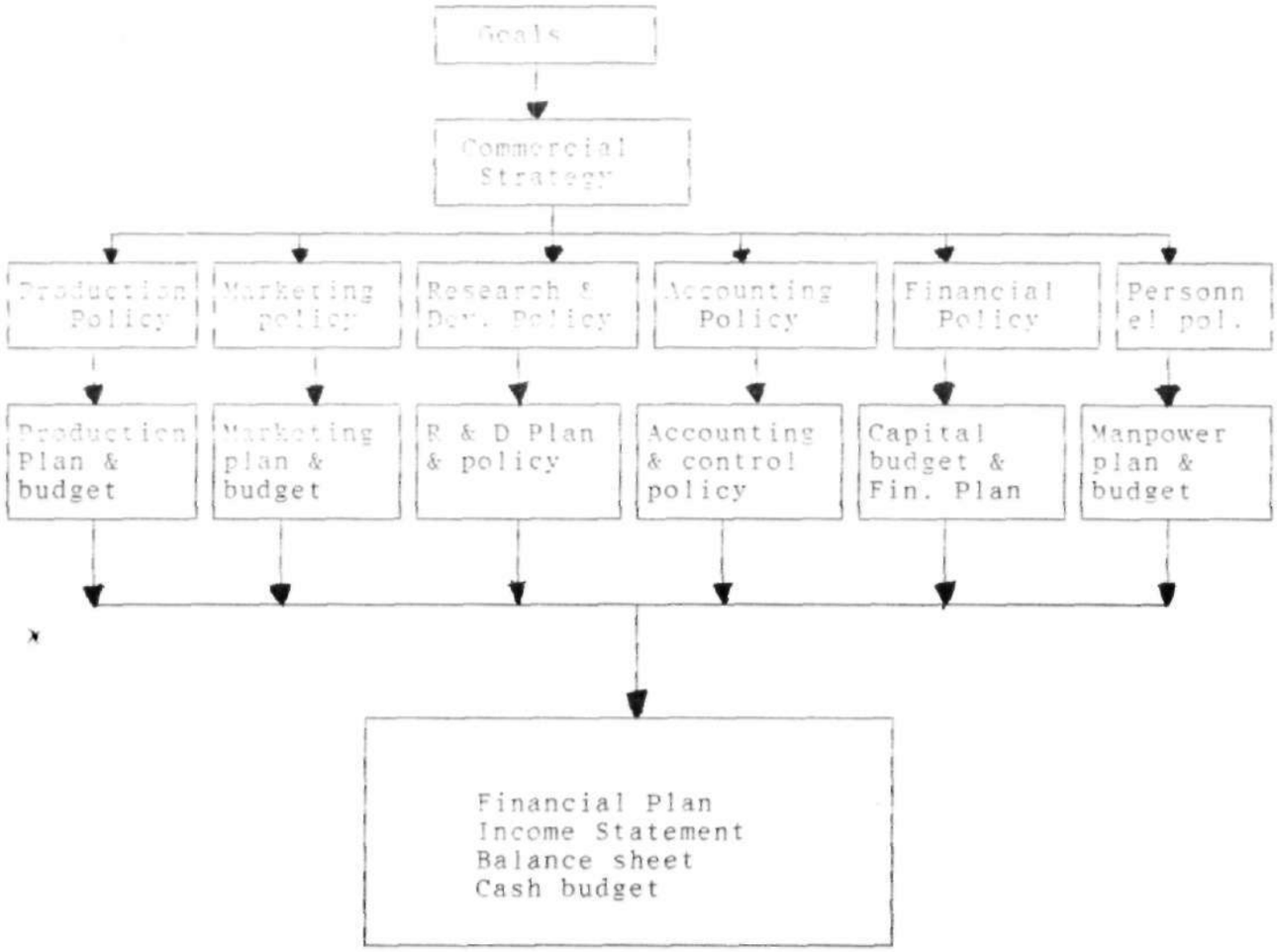
system begins at the highest level of policy with the firm's basic goal or purpose, usually stated in qualitative, mission-oriented, terms. From this, is derived the firm's commercial strategy, defining the products or services it will produce and the markets it will serve. Supporting policies then are developed in production, marketing, research and development, accounting, finance and personnel. The extent to which the system is formalised with detailed planning and budgeting systems in each area depends in part on the firm's size and the complexity of its operations.

Broadly conceived, financial planning can be viewed as the representation of an overall plan for the firm's in financial terms. Narrowly conceived, financial planning may refer only to the process of determining the financing requirements necessary to support a given set of plans in other areas.

The basic elements of the financial plan are the projected income statement and balance sheet. Supporting elements may include a cash budget, personnel budget, production budget, purchasing budget, income and expense budget and so on. These may be prepared by various organisational units within the firm and may be stated in terms of Naira, physical units or people. These detailed

budgets represent time-phased schedules of the expenditures, people, materials and activities required to accomplish the objectives set forth in the overall financial plan.

Fig. 7



Financial Plan

(i) PLANNING PROCESS

As a general rule, the firm's formal planning process involves the efforts of many operating and financial Manager. Once plans are agreed upon by the operating units, they are usually presented to the management committee or chief operating officer of the firm. At this level they are challenged and either approved with possible modifications or returned to the operating units for further analysis. The final plans, whether short term or long term, become the blueprint for the firms operations.

Planning basically involves two major areas for analysis.

1. External Factors:- The starting point in the planning process is the operating environment of the firm. The planner evaluates the outlook for the economy as a whole. Will the firm be operating during a period of economic growth and expansion? Will the next one to three years be a period of recession and stagnation? As part of the total environment, the firm considers the expected level of activity in its industry and possible changes in the market for its products. Is the industry anticipating growth or decline? Does the firm have a stable market for its product? Is the firm's competition

gaining or losing strength? Thus, the analysis of external factors considers both the overall economy and the individual industry as a frame work for the next operating periods.

2. Internal Factors:- Some factors are internal in the sense that they are under the control of the firm. For example, such items as cash levels, kind and amount of inventories and the nature of the fixed assets are operating elements that can be varied by the firm. This is not true for the external factors, such as a national recession or an industry decline.

Controllable Internal Factors

The most developed portion of the firm's short-and-long-term plans deals with internal factors and stresses:

(a) Market Demand for the Product Line or Services:- The firm can decide, after a careful evaluation of the external factors, what mix of products or services it will offer in the marketplace. If the firm produces its existing product line, what sales are likely? If it changes or modifies its products, will sales increase or decrease?

(b) Future Costs:- A firm may have a number of opportunities to reduce the costs of its products in

future periods. The purchase of new and more modern equipment may increase fixed cost while reducing variable costs. Should the equipment(s) be purchased? Better scheduling or planning may help minimize production or administrative expenses. High-cost areas in the firm may be examined to see how economies could be achieved.

(c) Sources of Funds:- As the firm plans expenditures, it analysis the funds available to finance its activities. If sufficient funds are not predicted, steps are taken to locate money as needed at reasonable costs.

These factors are internal only in the sense that the firm has the ability to influence them to a greater or lesser degree. The firm cannot have very much impact on the overall level of economic activity for the entire nation, but it can affect the demand for its products by more aggressive advertising or changes in product pricing or design. It cannot make money available in the economy, but it can find institutions and individuals who will make funds available for its needs.

(ii) BENEFITS OF PLANNING

As a result of the planning process, the firm realises a number of benefits.

(1) Anticipation of problems and opportunities:- Planning involves people at different levels in the organisation and forces them to think ahead. This encourages managers on varying levels to anticipate possible problems and to attempt to identify potential opportunities.

(2) Coordination of Actions:- Because they are involved in planning discussions with others in management positions, managers begin to coordinate courses of action. Frequently, early coordination facilitate the achievement of company goals by increasing communication and reducing potential conflicts. The very process of setting goals and subgoals gives the different operating area a common focus and encourages everyone to pursue compatible courses of action.

(3) Assistance in Control:- Plans may be used as tools to help managers control their areas of operation. A detailed plan gives departments and divisions specific goals to pursue and means to achieve the goals. As the firm conducts its operations, managers can watch for variations from the plan that indicate a need for tighter supervision and control.

(4) Providing Standards of Performance:- A comparison of plan with actual performance during the planning period can be used to provide a standard of achievement. Did the company reach the goals outlined in the plan? If not, why not? Did certain areas perform exceptionally well? Answers to such questions help the firm evaluate its own performance during a recent operating period.

2.7.3 CONTROL

The purpose of control is to help to ensure that operations and performance conform to the plans. There are two broad elements at the control process. Firstly, the comparison of actual and planned performance on a regular and continuing basis and secondly, the longer term process of reviewing the plan itself to see whether it needs modification in the light of the comparisons made or because of changes in the parameters on which the plan was based, for example, new government regulations, material shortages, new competition. It follows therefore that effective control is not possible without planning are planning without a complementary control system is pointless. In organisational systems control

is exercised by the use of information, frequently of a financial nature.

FEEDBACK AND CONTROL

Control in organisational system is exercised by information feedback loops which gather information from the output side of a department, function or process which is used to govern future performance by adjusting the output side of the system.

The elements in the basic control cycle are:-

(a) A standard specifying the expected performance:- This can be in the form of a budget, a procedure, a stock level, an output rate, a standard cost or some other target.

(b) A measurement of actual performance:- This should be made in an accurate, speedy, unbiased manner and using relevant units of measures. For example, time taken, Naira spent, units produced, efficiency ratings and so on.

(c) Comparison of a and b frequently, the comparison is accompanied by an analysis which attempts to isolate the reasons for any variations.

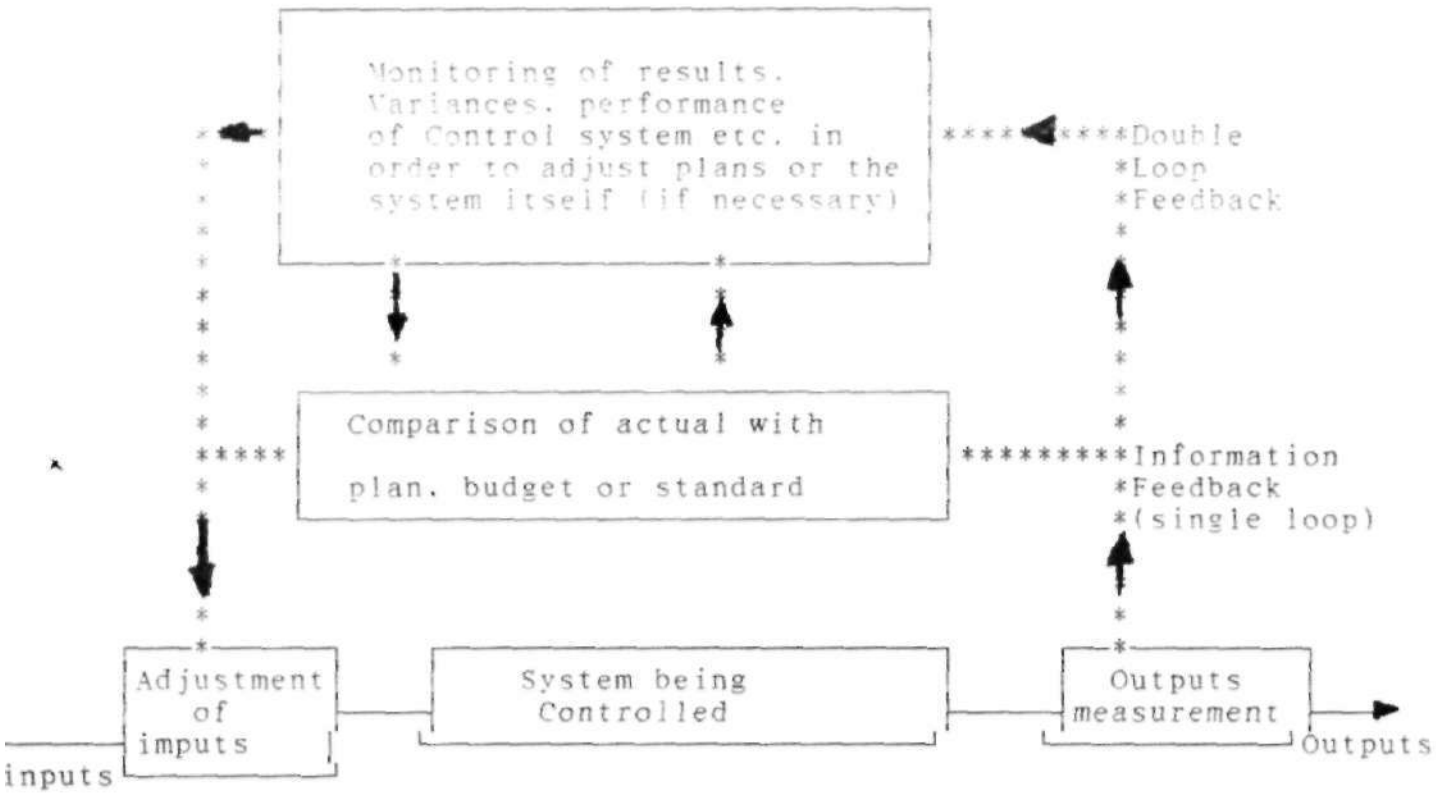
(d) Feedback of deviations or variations to a control unit. In an organisational context the "Control Unit" would be a manager.

(e) Actions by the manager to alter performance in accordance with the plan, target or standard.

The type of feedback mentioned is feedback of relatively small variations between actual and plan so that corrective action can be taken to bring operations in line with the plan. The implications of this is that existing performance standards and plan are essentially correct and appropriate. This type of feedback, also known as single loop feedback, is the normal feedback associated with budgetary control and standard costing systems. It should be noted that a higher order of feedback exists, known as double loop feedback, which is designed to ensure that the plans, budgets and standards - and indeed the organisational structures and control systems themselves - are revised to meet changes is conditions.

Fig.8

CONTROL AND FEEDBACK CYCLES



2.7.4 THE DECISION PROCESS

Decision making is an all pervasive managerial task and because many decision depend on financial factors it is important that the cost Accountant is totally familiar with the processes involved and the sort of information that should be supplied to decision makers. The stages in the overall decision process are as follows:-

(a) Definition of Objectives:- The decision maker must be aware of the organisation's objectives which should, wherever possible, be quantified. If the organisation's objectives are clearly specified and are communicated widely there is less likelihood of sub-optimal decision making taking place. This is where local or departmental objectives are pursued to the detriment of overall orgnisational objectives.

(b) Consideration of alternatives:- There are various ways of achieving objectives and ideally an exhaustive list should be prepared covering all possible alternatives. However, this is a theoretical ideal which is difficult to achieve in practice.

(c) Evaluation of alternatives:- This is the process of making quantitative and financial comparison between the various alternatives so that the ultimate

decision maker is provided with a relevant and correctly specified financial basis for the final decision. Clearly this is the stage in the decision process where the expertise of the cost Accountant is required so that relevant information can be supplied.

(d) Selection of the Course of action:- This is the stage where the actual choice is made by the decision maker. Decision making involves personal, social, psychological and political factors as well as the more objective financial and quantitative considerations. An important factor in virtually all practical decisions is the risk and uncertainty involved. This means that it is important that the information supplied by the accountant shows the effects of risk and uncertainty and the range of likely outcomes. Where uncertainty exists - which it does in virtually every decision making situation - it can be positively misleading to provide information which shows only a single value of profit or contribution with no indication of the variabilities which may occur.

(d) Levels of Decision Making

Management is involved with decision making at all levels:-

- At the strategic level:- for example, the Board of Directors deciding to diversify the company's

products or to acquire a subsidiary.

- At the tactical level:- for example, the sales Manager deciding upon an advertising campaign in a given region or the production controller deciding whether to sub-contract part of an order.

- At the operational level - for example, the credit supervisor deciding to suspend deliveries to a bad payer or a work's foreman deciding which men will deal with a particular job.

Decision making always involves a choice between alternatives. Decision makers need information on which to base their judgement; without information decisions are no more than inspired guesswork.

(ii) Types of Decisions

Decision range from those at the top level involving many external factors where a high degree of judgement is involved to more routine internal decisions with limited scope. Decisions are classified into programmed and non-programmed categories:-

(a) Programmed decisions:- These are relatively structured decisions within a clearly defined area. The decision rules are known and frequently these types of decisions can be incorporated into computer based management information systems. A typical example is a

re-order decision based on usage and re-order levels in an inventory control system.

(b) Non-Programmed decisions:- These are decisions for which decision rules and procedures cannot be devised. Generally they are non-repetitive decisions, involving many external and internal factors, frequently with high levels of risk, and requiring information from a variety of sources.

(iii) Information for Decision Making

It is important to understand that all decision making relates to the future. It follows therefore that the decision maker requires information regarding such things as future costs and revenues, future material supplies and prices, the likely state of the market in the future and so on. Information for decision making must therefore be oriented towards the future and invariably involves forecasting, estimating and extrapolation. Whilst it is self evident that we cannot foretell the future, it is found that past experience and records of performances, costs etc, frequently provide a sound basis for forecasting particular aspects of future operations.

However, this is only correct if future conditions are expected to be broadly similar to those in the past. If not, then an organisation's experience and records are

likely to be of substantially diminished value. Information has no value in itself, its value derives from improvements in the decision which are taken based upon the information. To enhance the value of information it must be capable of being used effectively, and surveys have shown that information which has the following characteristics is more likely to be used.

- Relevance:- i.e appropriate to the manager's sphere of activity and to the decision in hand.

- Timely:- i.e produced and available to the manager in time for him to use. Frequently an approximate answer speedily prepared will be the most valuable.

- Accurate:- i.e sufficiently accurate for it to be relied upon by the manager and sufficiently accurate for the intended purpose.

- Understandable:- i.e in a form readily usable by the manager. The voidance of unexplained technical terms, the use of summaries, the use of graphical and other display methods are all ways to make information more understandable.

Summary

(1) - Planning is concerned with the future and consists of five stages: Setting objectives, Assessing the environment, Reviewing resources, Establishing feasible goals, and Implementation.

2. - Effective control must be preceded by planning, and planning without complementary control is pointless.

(3) - Control is exercised by feedback control loops whereby information regarding the output or performance is compared to the plan or standard and adjustments made (if necessary) to the imputs.

(4) - The decision process involves, the definition of objectives, consideration of alternatives, evaluation of alternatives and the selection of the course of action.

(5) - Management are involved with decision making at all levels, strategic, tactical and operational.

(6) - Decisions can be classified into programmed and non-programmed.

(7) - Future orientated information is necessary for decision making.

(8) - Information should be relevant, timely, accurate, and in an understandable form.

CHAPTER THREE

- RESEARCH METHODOLOGY

- HISTORICAL BACKGROUND OF 7UP BOTTLING COMPANY PLC.

CHAPTER THREE

3.1 RESEARCH METHODOLOGY

OVERVIEW

Research methodology deals with the techniques of locating and collecting data, analysis and classifying the data logically and their subsequent interpretations.

Of the four techniques of conducting a research namely Documentary, Experimental, Descriptive and Case study methods, the last one, the case study, is the one used in this project work. The descriptive research or survey may include observational techniques, interviewing and questioning though, in this kind of study.

A case study amounts to careful and thorough examination of a situation, hence the history and observation of the case are important, e.g its ownership structure including the management and operatives who could play a role in the style of management. The practical observations of an operation adds reality to the picture and makes the findings reliable and valid.

It is to be noted however, that a case study has limitation to its judgement because the observation is

subjective. Interviewing and questionnaires were administered in this case for objective findings and summaries.

Description of Research Methodology

We are therefore saying that the data collected were principally from a primary source. In measuring the data. financial ratios were used in most cases and compared over period of time (1989 - 1993).

As earlier said, observation was considered very important in this study because it would allow researcher to see for himself on first hand how seven-up bottling company plc operates.

This work will not be complete without a short history of the organisation.

3.2 HISTORICAL BACKGROUND OF SEVEN-UP BOTTLING COMPANY PLC

Seven-up Bottling Company was founded in the year 1960 by a lebanese Mr. C.L. Khalil. That is why seven-up uses and still make use of only Nigerian flag to signify the celebration of its first year in existence and also

to celebrate Nigeria attainment of independence (1960).

Seven-up has its first plant in Apapa Lagos and later has another plant in Ijora also in Lagos. Subsequently, Ibadan and some parts of Western and Eastern Nigeria Seven-up establish plants, this is as result of increase in volume of sales and high dividend the company was achieving.

It was in 1985 that the Management of Seven-up bottling company decided to establish a plant in Northern Nigeria i.e Kano where production commence immediately. From 1985 only one brand was sold by the company.

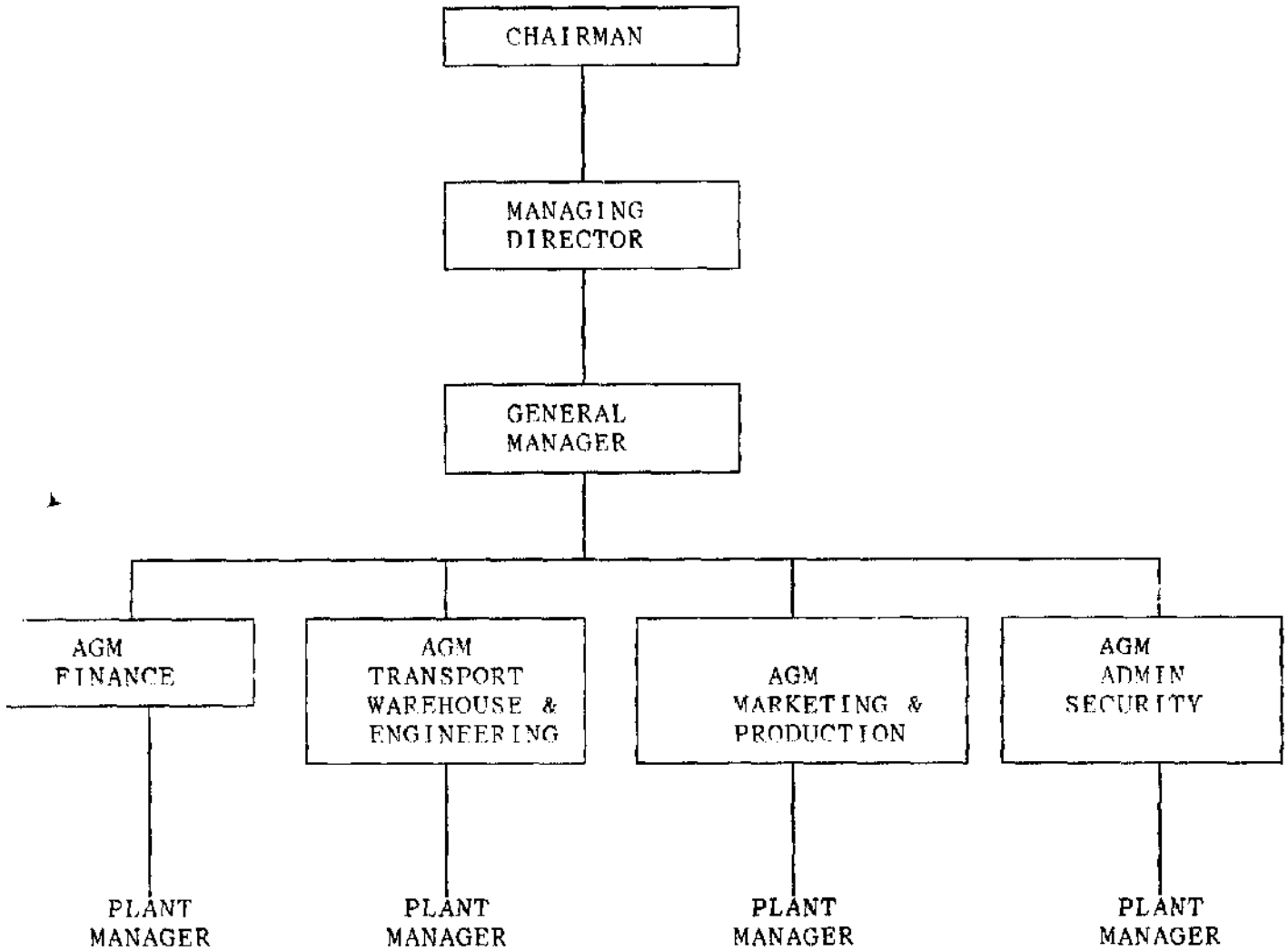
In 1988 Seven-up merged with Arewa Bottlers. Arewa Bottlers transferred everything to seven-up, from there on seven-up started producing variety of brands from sevenup drinks to pepsi, teem, mirinda orange, mirinda tonic and orange crush.

Despite some production problems and shortages of foreign exchange to secure raw materials for the company, there had been a lot of progress because many depots were now in existence in both North, West and Eastern Nigeria and the company can also burst of having a high turn over and has more than 50,000 workers.

The company has 8 major departments for the effective steering of the company's activities. Each department liaise with one another.

ig. 9

ORGANOGRAM OF THE COMPANY



CHAPTER FOUR

DATA ANALYSIS

- INTRODUCTION

- RATIO ANALYSIS AND INTERPRETATION

- INTERPRETATION OF THE RATIOS CALCULATED FOR THE SEVEN-UP BOTTLING COMPANY FOR THE YEAR 1989 - 1993.

- SUMMARY OF RATIO CALCULATED.

CHAPTER FOUR

4.1 INTRODUCTION

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by Management of the firm or by parties outside the firm, viz, owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst. For example, trade creditors are interested in the fact that the firm should be able to meet their claims over a very short period of time. Their analysis will, therefore, confine to the evaluation of the firm's liquidity position. The suppliers of long-term debt, on the other hand, are interested in the firm's long-term solvency and survival. They analyse the firm's profitability overtime, its ability to generate cash to be able to pay interest and return their claims and the relationship between various sources of funds (capital structure relationships).

Long-term creditors do not only analyse the historical financial statements, but require the firm to supply projected or pro-forma financial statements, to make analysis about the firm's future solvency and profitability. Similarly, investors, who have invested their money in the firm's shares, are most concerned about the firm's earnings. They restore more confidence in those firms that show steady growth in earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's financial position to the extent it influences the firm's earnings ability. Finally, Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively, and efficiently, and that the firm's financial condition is sound. Through financial analysis, they try to seek answers to the following questions:

1. Is the firm in a position to meet its current obligations?
2. What sources of long-term finance are employed by the firm and what is the relationship between them? Is there any danger to the solvency of the firm due

to the employment of excessive debt?

3. How efficiently does the firm use its assets?
4. Are the earnings of the firm adequate?
5. Do investors consider the firm profitable and safe for the purpose of investing their money in the shares of the firm?

Financial analysis may not provide exact answers to these questions, but it does indicate what can be expected in the future.

4.2 RATIO ANALYSIS AND INTERPRETATION OF THE COMPANY'S FINANCIAL STATEMENT (1989 - 1993)

Ratio analysis is powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions and as "the relationship between two or more things". In financial analysis, a ratio is used as an index or yard stick for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and the financial position of a firm. An accounting figure conveys meaning when it is related to

some other relevant information. For example, a =N=1,000,000 net profit may look impressive, but the firm's performance can be said to be good or bad only when the net profit figure is related to the firm's investment. The relationship between two accounting figure is related to the firm's investment. The relationship between two accounting figures, expressed mathematically, is known as a financial ratio (or simply as a ratio). A ratio helps the analyst to make qualitative judgement about the firm's financial position and performance. The calculation of the ratios for the 7Up Bottling Company using the company's financial statements for the years 1989 - 1993 is shown in table 4.1 below

TABLE 4.1

CALCULATION OF FINANCIAL RATIOS FOR SEVEN-UP BOTTLING COMPANY PLC USING THE ANNUAL REPORT AND ACCOUNTS 1989 - 93

S/N	RATIO	FORMULA	YEARS				
			1989	1990	1991	1992	1993
1.	(a) Liquidity Current Ratio	Current Assets Current Liabilities	122.844 101.750 Value= 1.2:1	182.059 150.862 Value = 1.2:1	338.386 217.166 Value = 1.6:1	563.130 430.393 Value = 1.3:1	762.535 617.196 Value = 1.2:1
2.	Quick or Acid test Ratio	Current assets-stocks Current Liabilites	122844-79.466 101.750 Value = 0.43:1	182.059-110.035 150.862 Value= 0.48:1	338.386-188.804 217.166 Value= 0.69:1	563.130-294.024 430.373 Value= 0.63:1	762.525-409.004 617.196 Value= 0.57:1
3.	(b) Gearing Ratio	Total debt Total assets	94.832 184.521 Value= 49%	148.547 292.133 Value= 50%	364.529 471.680 Value= 77%	560.224 687.733 Value= 81%	743.422 889.094 Value= 83%
4.	(c) Covering Ratio Times interest earned	Profit before taxes + Int. charges interest charges	11.787+5960 5960 Value= 2.98:1	22.759+11.380 11.380 Value= 3:1	27.079+32.501 32.501 Value= 1.8:1	35.459+60.065 60.065 Value 1.6:1	49.091+120.295 120.295 Value= 1.4:1
5.	(d) Activity Ratio Stock turn over	Sales Stock	213.863 79.446 Value= 2.7times	415.393 110.035 Value= 3.8times	570.462 188.804 Value= 3times	754.201 294.024 Value= 2.6times	1.419.117 409.004 Value= 3.5times

6.	Average collection period	Debtors x 360 Sales	20680 x 360 213.863 Value= 35days	43.494 x 360 415.393 Value= 38days	63.387 x 360 570.462 Value= 40days	430.393 x 360 754.201 Value= 205days	193.893 x 360 1.419.117 Value= 49days
7.	Fixed asset turnover	Sales Net fixed assets	213.863 71.677 Value= 3times	415.393 110.074 Value= 3.8times	570.462 133.294 Value= 4.3times	754.201 124.603 Value= 6times	1.419.117 135.569 Value= 10.5time
8.	Total assets turn over	Sales Total assets	213.863 194.521 Value= 1.1times	415.393 292.133 Value= 1.4times	570.462 471.680 Value= 1.2times	754.201 687.733 Value 1.1times	1.419.117 135.569 Value= 1.58time
9.	(e) Profitability Ratio	Net PAT Sales	7150 213.863 Value= 0.03:1	18.531 415.393 Value= 0.04:1	23.929 570.462 Value= 0.04:1	28.259 754.201 Value= 0.04:1	32.184 1.419.117 Value= 0.02:1
10.	Return on total assets %	Net PAT Total assets	7150 194.521 Value= 3.7%	18.531 292.133 Value= 6.3%	23.929 471.680 Value= 5%	28.259 687.733 Value= 4.1%	32.184 898.094 Value= 3.6%
11.	Return on Net Worth %	Net PAT Net worth	7150 39.922 Value= 18%	18.531 86.375 Value= 21.5%	23.929 99.144 Value= 24%	28.259 116.603 Value= 24%	32.184 148.787 Value= 22%

4.3 INTERPRETATION OF THE RATIOS CALCULATED FOR THE 7UP BOTTLING COMPANY FOR THE YEARS 1989 - 1993

In this section is presented the interpretation of the ratios calculated for the 7UP Bottling Company for the years 1989 - 1993.

(I) Liquidity:- It is extremely essential for a firm to be able to meet its obligations as they become due. Liquidity ratios measure the ability of the firm to meet its current obligations.

(a) Current ratio:- as indicated in the formula earlier

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Years -	1989	1990	1991	1992	1993
Value -	1.2:1	1.2:1	1.6:1	1.3:1	1.2:1

The values calculated shows that the company's performance is relatively good during the year 1991 which is an indication that the company was able to pay its bills during that year. Theoretically and practically, a high value of the current ratio is considered as an indication that the firm is liquid and has the ability to pay its bills. On the other hand, a relatively low value

of the current ratio is considered as an indication that the firm will find difficulty in paying its bills. Though the above values can be considered satisfactorily because the current assets is twice the current liabilities, therefore it may be interpreted to be sufficiently liquid. This rule is based on the logic that in a worst situation, even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents a margin of safety, i.e a "Cushion" of protection for creditors. The higher the current ratio, the greater the margin of safety; the larger the amount of current assets in relation to current liabilities, the more the firm's ability to meet its current obligation.

(b) Quick or Acid Test Ratio:- The formula is as follows:-

$$= \frac{\text{Current assets - stocks}}{\text{Current liabilities}}$$

From table 4

Years -	1989	1990	1991	1992	1993
Values -	0.43:1	0.48:1	0.69:1	0.63:1	0.57:1

The quick, or acid-test, ratio is a more refined measure of the firm's liquidity. The ratio establishes

a relationship between quick or liquid assets and current liabilities.

Practically, a good and sound acid test ratio is considered to be 1 to 1, though it may vary form industry to industry. With this company (7up) the years of comparison seems to be relatively good performance by the trend of the figures. A quick ratio of 1 to 1 or more does not necessarily imply sound liquidity position. Similarly, a low quick ratio does not necessarily imply bad liquidity position. It should be remembered that all the book debts may not be liquid, and cash may be immediately needed to pay operating expenses. It should also be noted that inventories are not absolutely non-liquid. To a measurable extent, inventories are available to meet current obligations.

(2) Gearing Ratio:- The formula is as follows:-

$$= \frac{\text{Total debt}}{\text{Total assets}}$$

From table 4

Years -	1989	1990	1991	1992	1993
Values -	49%	50%	77%	81%	83%

This ratio measures the portions of the firm's assets financed by creditors. A low ratio represents security to creditors in extending credit. A high ratio

represents a greater risk to creditors and also to shareholders under adverse business conditions. A very low ratio can worry shareholders as the company is not using debt to their best advantage. It is observed that the gearing ratio of this company has been growing steadily during the period under study. The company is considered too debt heavy between 1991 and 1993.

(3) Covering Ratio:- The formula is as follows:-

Times interest earned = Profit before taxes + interest charges / Interest charges

Form Tablet

Years -	1989	1990	1991	1992	1993
Values-	2.98:1	3:1	1.8:1	1.6:1	1.4:1

The times - interest-earned is one of the most conventional coverage ratios used to test the firm's debt-servicing capacity. The interest coverage ratio shows how many times the interest charges are covered by funds that are ordinarily available to pay the interest charges. This ratio indicates the extent to which the earnings may fall without causing any embarrassment to the firm regarding the payment of the interest charges. A higher ratio is desirable; but too high ratio indicates that the firm is very conservative in using debt, and

that it is not using credit to the best advantage of shareholders. A lower ratio indicates excessive use of debt, or inefficient operations.

(4) Activity Ratio:- **The formula is as follows**

(a) Stock turn over = Sales

(inventory) Stock

From Table 4

Years -	1989	1990	1991	1992	1993
Values -	2.7times	3.5times	3times	2.6times	3.5times

Stockturn over indicates the efficiency of the firms inventory management. The inventory turn over shows how rapidly the inventory is turning into receivable through sales. Generally, high inventory turnover is indicative of good inventory management and a lower inventory turnover suggests inefficient inventory management. A low inventory turnover implies excessive inventory levels than warranted by production and sales activities, or a slow-moving or obsolete inventory. A high level of sluggish inventory amounts to unnecessary tie-up of funds, impairment of profit and increase costs.

If the obsolete inventories have to be written off, this will adversely affect the working-capital position and the liquidity of the firm. Again, a relatively high

inventory turnover should be carefully analysed. The company is observed to have managed her inventory efficiently during the period under study.

(b) Average Collection Period:- The formula is as follows:-

$$= \frac{\text{Debtors x 360}}{\text{Sales}}$$

From Table 4

Years -	1989	1990	1991	1992	1993
Values-	35days	38days	40days	205days	49days

It brings out the nature of the firm's credit policy and the quality of the debtors more clearly. Sales in this case may be credit sales or total sales and debtors may be average debtors or ending debtors depending on the availability of information. The average collection period represents the average number of days for which the firm must wait after making a sale before collecting cash from the customers.

The average collection period ratio measure the quality of debtors since it indicates the rapidity or slowness of their collectibility. The shorter the average collection period, the better the quality of debtors, as a short collection period implies the prompt

payments by debtors. The values calculated indicates that the company maintained a good credit policy during the years under study, except 1992 which could be referred to as an abnormal.

(c) Fixed Asset Turnover:- The formula is as follows:-

$$= \frac{\text{Sales}}{\text{Net Fixed assets}}$$

From table 4

Years -	1989	1990	1991	1992	1993
Values-	3times	3.8times	4.3times	6times	10.5times

The fixed assets turnover ratio measures the efficiency with which the firm is utilising its investment in fixed assets, such as land, building, plant and machinery, furniture etc. It also indicates the adequacy of sales in relation to the investment in fixed assets. Generally, a high fixed assets turnover ratios indicates efficient utilisation of fixed assets in generating sales, while a low ratio indicates inefficient management and utilisation of fixed assets. There has been a steady growth in the company's fixed asset turnover over the period which shows improvements in the company's management of her fixed assets.

(d) **Total Assets Turnover:-** The formula is as follows:-

$$= \frac{\text{Sales}}{\text{Total Assets}}$$

From table 4

Years -	1989	1990	1991	1992	1993
Values-	1.1times	1.4tims	1.2times	1.2times	1.58times

The total assets turnover ratio is a significant ratio since it shows the firms ability of generating sales from all the financial resources committed to the firm. As the ratio increases, there is more revenue generated per Naira of total investment in assets. From the values calculated it can be seen that the company enjoys a good time of 1.58 in the year 1993. The ability of the firm to produce a large volume of sales on a small total assets base is an important part of the firm's overall performance in terms of profits.

(5) (a) **Profitability Ratio:-** The formula is as follows:

$$= \frac{\text{Net Profit after tax}}{\text{Sales}}$$

From table 4

Years -	1989	1990	1991	1992	1993
Values-	0.03:1	0.04:1	0.04:1	0.04:1	0.02:1

A company should earn profits to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximising profits, irrespective of social consequences. Looking at the company's financial statement it can be seen that the decline in net profit after tax was a result of the operating cost charges and the sharp taxation. This explains why the profitability ratio has been declining.

(b) Return on Total Assets:- The formula is as follows

$$= \frac{\text{Net profit after tax}}{\text{Total assets}}$$

From table 4

Years -	1989	1990	1991	1992	1993
Values-	3.7%	6.3%	5%	4.1%	3.6%

The return on assets is a useful measure of the profitability of all financial resources invested in the firm's assets. It evaluates the use of total funds without any regard to the sources of funds. The company's value can be seen fluctuating this may be due to the effects on both the net profit after tax which is affected by the operating cost charges and taxation, and the total assets which is also affected by stocks and debtors.

(c) Return On Net Worth:- The formula is as follows

$$= \frac{\text{Net profit after tax}}{\text{Net Worth}}$$

From table 4

Years-	1989	1990	1991	1992	1993
Values-	18%	21.5%	24%	24%	22%

The return on net worth indicates how well management has used the funds supplied by creditors and owners. The higher the ratio, the more efficient the firm is using funds entrusted to it. There is a fair trend in the ratios calculated, at least the company is keeping a good return to its shareholders. The short fall in the year 1993 may be attributed to the changes in operating cost and taxation.

4.4 SUMMARY OF THE RATIOS CALCULATED

The above ratios calculated gives a reasonably good idea of the company's main strength and weaknesses. First, the company's liquidity position is reasonably good, its current and quick ratios appear to be satisfactory over the years.

The gearing ratios suggest that the company is rather heavily indebted as revealed by the debt ratio rising from 49% in 1989 to 83% in 1993.

Turning to the activity ratios, the stock turnover and average collection period both indicate that the company's current assets are pretty well in balance.

The profit margin on sales is low, indicating that cost are too high or that price are too low or both. Returns on both total investment and net worth also appear to be low. These relatively poor results are directly attributable to the low profit margin on sales which lowers the numerators of the ratios and to the excessive investments which raises the denominators.

CHAPTER FIVE

SUMMARY

CONCLUSION

RECOMMENDATION

APPENDIX

BIBLIOGRAPHY

CHAPTER FIVE

5.0 SUMMARY

The project was a case study of Seven-up Bottling Company Plc and its working capital management. Working capital management is the efficient and effective administration of cash, marketable securities, account receivable and inventories (all components of working capital).

In general, working capital consists of the difference between current assets and liabilities. The first chapter of the project elucidated the objective of the project, the problem statement of why the project came into being at all, and the scope and limitations of the various measures of the tools used for evaluating performance of Seven-up Bottling company Plc.

The second chapter was devoted to a number of literature written with regards to the pros and cons, the modus operandi and the efficient means of managing working capital in seven-up Bottling Company Plc. organisation undertaking production.

The third chapter deal with the methodology in carrying out the project work.

The next chapter, dealt with the critical analysis of the data collected in the project. The ratios were calculated with the aim to spot areas of weaknesses or conformity with the ideals.

5.2 CONCLUSION

Working Capital management involves the management of components of working capital- cash, marketable securities, account receivables and inventories. A proper administration of these components would ensure adequate level of these components.

Adequate cash would ensure optimum transactionary, speculatory and precautionary motives for holding cash.

The same is true for other components, as the account receivables would be kept minimum and the inventories would ensure a good level that will satisfy the demands of the customers and reduce stockouts or obsolescence. The company is observed to have managed her inventory efficiently during the period under study (1989 - 93).

However, the result on the inventory ratios proved that the inventory is being turned over very rapidly. Although the stockout of inventory may be just alright afterall.

The gearing ratios suggest that the company is rather heavily indebted as revealed by the ratio rising from 49% in 1989 to 83% in 1993.

Turning to activity ratios, the stock turnover and average collection period both indicate that the company's current assets are pretty well in balance. Looking at the company's financial statement it can be seen that the decline in net profit after tax was a result of the operating cost charges and the sharp taxation. This explains why the profitability ratios has been declining.

5.3. RECOMMENDATIONS

It is recommended therefore that:-

1, The liquidity ratio of the company be maintained or be improved as shown in the calculation, the performance was relatively good during the year 1991.

2, A striker security should be placed on movement of staff to reduce pilferages.

3, The company should continue to maintain a good inventory as observed during the period under review.

4, The gearing rates of the company has been growing steadily during the period under study, especial 1991 and 1993 is consider too debt heavy, this can pose a concern to the shareholder. The company is advised to maintained a fair ratio which will be to their advantage.

5, The time-interest earned which is used to debt servicing capacity. The company maintain a good debt between 1989 - 90, this indicates using of credit to the advantage of shareholders. The low ratios of 1992 - 93 pose an excessive use of debt which is to the disadvantage of the shareholders. This the company should note and improve through its operations.

6, management of inventory indicates a good stock turnover as in the case of the ratios calculated during the period under review. Therefore the company should maintain that.

7, Salesmen should be encouraged to maintained the credit policy.

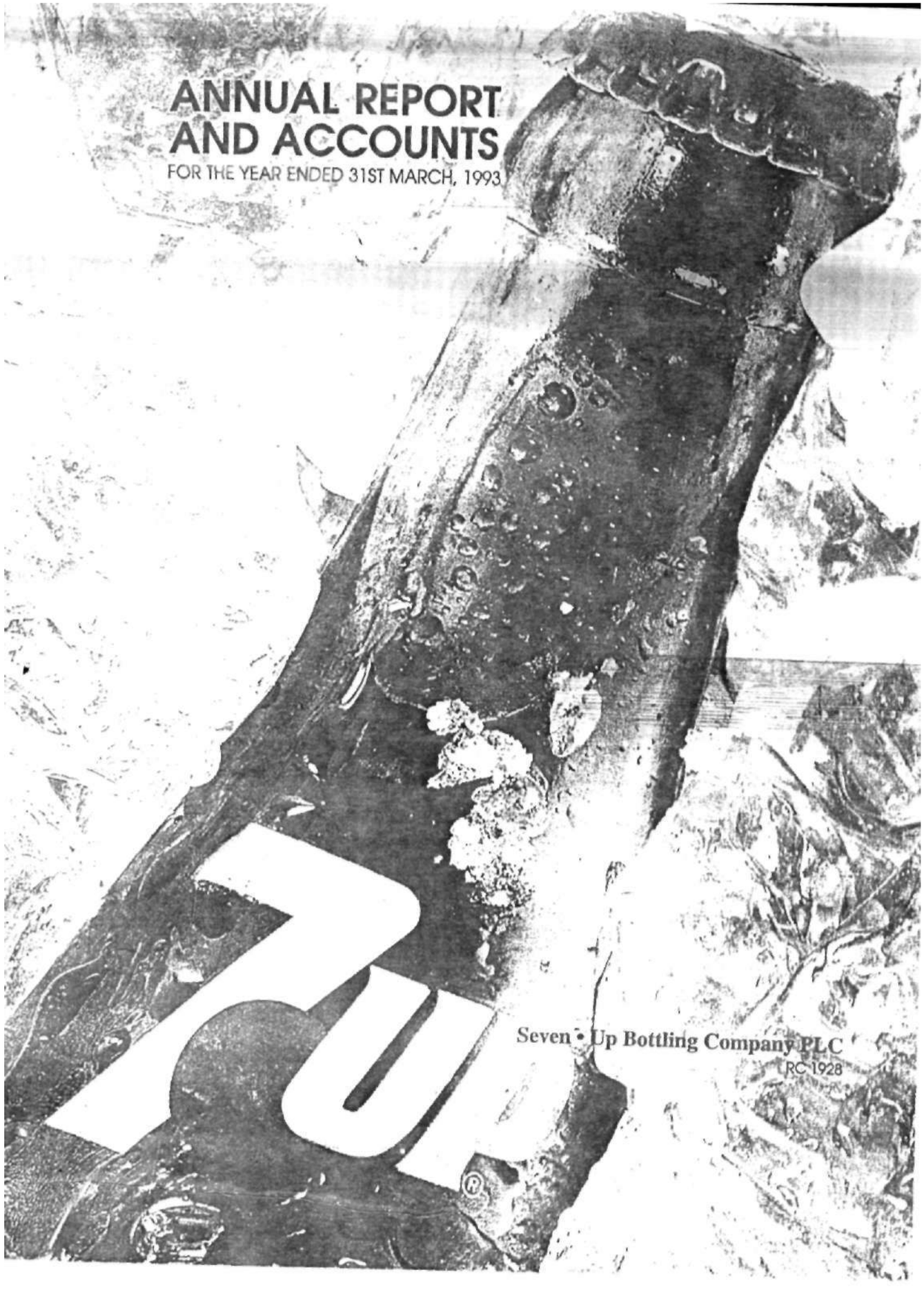
Finally, from the researcher's point of view, having in mind the essence of any business is to earn profits to survive and grow over a long period of time.

Profits are essential, but it would be wrong to assume

that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences.

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31ST MARCH, 1993



Seven-Up Bottling Company PLC

RC 1928

Profit and Loss Account

FOR THE YEAR ENDED 31ST MARCH, 1993

	Note	1993 N000's	1992 N000's
Turnover		1,419,117	754,201
Cost of Sales		(872,643)	(430,409)
Gross Profit		546,474	323,792
Selling & Distribution Expenses		(292,825)	185,128)
Administration Expenses		(87,537)	(49,606)
		166,112	89,058
Other Income		3,274	6,466
Operating Profit		169,386	95,524
Interest Expenses & Similar Charges	2	(120,295)	(60,065)
Profit on Ordinary Activities before Taxation	3	49,091	35,459
Tax on Profit on Ordinary Activities	4	16,907	(7,200)
Profit on Ordinary Activities after Taxation		32,184	28,259
Dividend Proposed	5	(13,500)	(10,800)
Retained Profit for the Financial Year		18,684	17,459
Earnings Per Share (Kobo)	6	59.60k	52.33k
Dividend Per Share (Kobo)		25.60k	20.00k

Note to the financial statements are on pages 18 to 25

Balance Sheet

AS AT 31ST MARCH, 1993

	Note	N000's	1993 N000's	1992 N000's
FIXED ASSETS	7		135,569	124,603
CURRENT ASSETS				
Stocks	8	409,004		294,024
Debtors	9	193,893		80,166
Amount awaiting remittance to Overseas Creditors		48,356		105,158
Cash at Bank & in Hand		111,272		83,782
		762,525		563,130
Creditors Amount falling due within one year	10.1	(617,196)		(430,393)
			145,329	132,737
Total Assets Less Current Liabilities			280,898	257,340
Creditors: Amounting Falling Due More Than One Year	10.2	(126,226)		(129,830)
Provision for Taxation	4	(19,385)		(10,907)
			(145,611)	(140,737)
NET ASSETS			135,287	116,603
CAPITAL AND RESERVE				
Called Up Shares Capital	11		27,000	27,000
Reserves	12		65,478	50,478
Profit and Loss Account	13		42,809	39,125
			135,287	116,603

FAYSAL EL-KHALIL
CHIEF FARID EL-KHALIL
Directors

Note to the financial statements are on pages 18 to 25

Statement of Source and Application of Funds

	1993 N000's	1992 N000's
SOURCE OF FUNDS		
Profit before Taxation	49,091	35,460
ADD: ITEMS NOT INVOLVING THE MOVEMENT OF FUNDS:		
Depreciation	19,791	15,085
Write back of profit on sale and leaseback	(8,774)	(7,533)
Loss on sale and lease back	2,640	—
Loss/(Profit) on sale of fixed assets	57	(1,784)
Funds Generated from Operations	62,805	41,228
FUNDS FROM OTHER SOURCES:		
Proceeds from Sales of Fixed Assets	160	115
Proceeds from Sale and Leaseback	36,520	33,935
	99,485	75,278
APPLICATION OF FUNDS:		
Assets Purchased for Sale & Lease Back	10,640	—
Dividend Paid	6,235	7,382
Purchase of Fixed Assets	44,325	38,660
Income Tax Paid	8,429	4,301
Loans Repaid	10,000	—
	79,629	50,343
MOVEMENT IN WORKING CAPITAL:		
Increase in Stocks	114,979	105,220
Increase in Debtors	113,728	16,779
(Increase) in Creditors & Short Term Loans	(81,743)	(187,746)
	146,964	(65,747)
	226,593	(15,404)
Net (Decrease)/Increase in liquid funds	(127,108)	90,682
REPRESENTED BY:		
(Increase) in Bank Overdraft	(97,796)	(12,063)
(Decrease)/Increase in Bank and Cash Balance	(29,312)	102,745
	(127,108)	90,682

Notes to Accounts

1.0 SIGNIFICANT ACCOUNTING POLICIES

1.1 Basic of Preparation of Accounts

The Company s accounts are prepared under the historical cost convention modified by the revaluation of fixed assets.

1.2 Depreciation

Depreciation of fixed assets has been calculated on a straight line basis at the following annual rates in order to write off the assets over their expected useful lives:

Land and Building	5%
Plant and Machinery	15%
Motor Vehicles	20%
Furniture, Fittings & Equipment	10%

1.3 Stocks

Stocks are valued at the lower of cost and net realisable value except for finished product which is valued at direct cost of materials and an appropriate portion of overheads.

1.4 Foreign Exchange Transactions

Transactions in foreign currencies during the year are converted at the exchange rates ruling at the transaction dates. Balance due to foreign creditors are translated at the rate of exchange ruling at the Balance Sheet date. Profit and Losses arising therefrom are dealt with in the profit and loss account.

1.5 Deferred Taxation

Deferred tax for all material timing differences is calculated by the liability method and disclosed in the notes to the financial statements.

1.6 Leasing Expenditure

Rentals due under operating leases are charged to the profit and loss account as they are incurred while the accrual concept is observed in respect of lease expenses which overlap into the succeeding accounting period.

1.7 Turnover

Turnover represents the net value of sale of goods and services to third parties.

		1993 N000's	1992 N000's
2.0	**INTEREST EXPENSE AND SIMILAR CHARGES**		
	Bank Charges	12,321	6,085
	Interest Payable:		
	On Bank loans repayable wholly within five years	79,073	30,280
	On other loans repayable wholly within five years	28,901	23,700
		120,295	60,065
3.0	**PROFIT BEFORE TAXATION**		
	Profit before taxation is arrived at:		
3.1	**After Charging:**		
	Operating lease rentals	45,599	34,751
	Depreciation of Fixed Assets	19,832	15,085
	Loss on Exchange	10,575	-
	Directors' Emoluments	292	251
	Pension costs	2,390	2,529
	Auditors' Fees & Expenses:	300	175
3.2	**After Crediting:**		
	Rental Income from Property	(391)	(507)
	Management Fee Received	(24)	(24)
3.3	**Directors' Emoluments:**		
(a)	The Aggregate emoluments of the Directors were:		
	Fees	62	74
	Other Emoluments	230	177
		292	251
(b)	The Chairman's Emolument totalled	10	12
(c)	The Emoluments of the highest paid Director amounted to	116	86
(d)	The table below shows the number of Directors of the Company (excluding the Chairman) whose remunerations excluding pension contributions fell within the ranges shown:		
	Up to N10,000	5	6
	30,001 to 40,000	1	–
	40,001 to 50,000	–	1
	80,001 to 90,000	–	2
	90,001 to 100,000	1	–
	110,001 to 120,000	1	–

		1993 N000's	1992 N000's
(e)	The table below shows the number of employees of the company who earned over N60,000 in the year and which fell within the ranges stated:		
	N60,001 to N70,000	20	8
	70,001 to 80,000	13	3
	80,001 to 90,000	2	—
	90,001 to 100,000	1	—

3.4 Staff Numbers and Costs

(a)	The average number of persons employed (excluding Directors) during the year was as follows:		
	Management	73	48
	Senior Staff	399	371
	Junior Staff	5,247	4,857
		5,719	5,276
(b)	The aggregate pay roll costs of the employees including pension schemes during the year amounted to:	92,521	60,934

4.0 TAXATION

Brought Forward Balance	10,907	8,008
Charged for the year	16,907	7,200
	27,814	15,208
Tax paid during the year	(8,429)	(4,301)
	19,385	10,907

5.0 DIVIDENDS

Brought Forward Balance	19,347	15,929
Proposed for the year	13,500	10,800
	32,847	26,729
Paid during the year	(6,235)	(7,382)
	26,612	19,347

The Dividends are payable to Shareholders subject to deduction of withholding tax at appropriate rates.

6.0 EARNINGS PER SHARE

Earnings per share are calculated on the basis of the Company's Profit after Taxation and on 54,000,000 Ordinary Shares in issue at the end of the year.

7.0 FIXED ASSETS

7.1 Movements

	Capital Work in Progress N000's	Land & Buildings N000's	Plant & Machinery N000's	Motor Vehicles N000's	Office Equipment Furniture & Fitting N000's	Total N000'
COST/VALUATION						
As at April 1992	11,512	63,967	29,253	46,202	37,098	188,032
Additions	19,659	1,132	1,985	10,854	11,296	44,926
Transfer from W.I.P	(431)	–	431	(601)	-	(601)
Disposals	–	–	–	(16,688)	(329)	(17,017)
As at 31st March, 1993	30,740	65,099	31,669	39,767	48,065	215,340
ACCUMULATED DEPRECIATION						
As at April, 1992	–	17,900	17,832	16,424	11,274	63,430
Charge for the year	–	3,225	3,001	7,273	6,332	19,831
Disposals	–	–	–	(3,338)	(112)	(3,450)
Adjustments	–	–	–	(40)	–	(40)
As at 31st March, 1993	–	21,125	20,833	20,319	17,494	79,771
NET BOOK VALUE						
As at 31st March, 1993	30,740	43,974	10,836	19,448	30,571	135,569
As at 31st March, 1992	11,512	46,068	11,421	29,778	25,824	124,603

7.2 Revaluation

The company's fixed assets were revalued by professional valuers on the basis of free market valued as at 31st March, 1980. Subsequent additions are stated at cost.

		1993 N'000s	1992 N000s
7.3	**Capital Commitments**		
	Committed	27,000	23,000
	Authorised but not Contracted	15,000	10,000
		42,000	33,000
8.0	**STOCKS**		
	Raw Materials	174,849	92,580
	Bottles, Cases and Pallets	71,672	104,758
	Finished Goods	7,934	6,387
	Spare Parts	78,546	79,250
	Other	37,326	8,327
	Goods in Transit	38,677	2,722
		409,004	294,024
9.0	**DEBTORS**		
	Trade Debtors	64,681	47,614
	Debtors - Sundry	52,697	9,333
	Staff Debtors	7,103	3,518
	Prepayments	69,412	19,701
		193,893	80,166
10.0	**CREDITORS**		
10.1	**Amount falling due within a year**		
	Current Portion N30 Million Redeemable Mortgage Debenture Stock	10,000	10,000
	Bank Overdraft	179,012	81,216
	Trade Creditors	219,022	126,620
	Sundry Creditors	10,994	8,775
	Dividend (See Note 5)	26,612	19,347
	Short Term Loan	127,500	143,751
	Accruals	44,056	40,684
		617,196	430,393
10.2	**Amount Falling Due More than One Year**		
	18% (Floating rate) Redeemable Mortgage Debenture Stock 1992/94 (See Note 10.2.1)	10,000	20,000
	N100m Debenture Stock 1995/97 (See Note 10.2.2)	100,000	100,000
	Deferred Income (See Note 10.2.3)	16,226	9,831
		126,226	129,831

10.2.1 **18% (Floating Rate) Redeemable Mortgage Debenture Stock 1992/94**

This is floating at 3% above the minimum rediscount rates of the Central Bank of Nigeria, but subject to a minimum coupon rate of 14% per annum during the currency of the stock. The stock is secured by a legal mortgage over all the fixed assets and a floating charge over the movable assets of the company subject to pari passu claims by existing stockbrokers. The stock is redeemable in six semi-annual payments of N5,000,000 each commencing 31st June, 1992 with the final payment in December, 1994.

10.2.2 **N100 Million Floating Rate Redeemable Mortgage Debenture Stock 1995/97**

This is secured by a fixed and floating charge over the Company's Assets ranking pari passu with the pre-existing charges and it is redeemable in six semi-annual payments of N16,666,666.66 each commencing 31st March, 1995 and ending 30th September, 1997. It carries a 2.5% floating rate of interest above the Central Bank of Nigeria minimum rediscounting rate subject to a ceiling of 25% and a floor of 15%.

10.2.3 **Deferred Income**

	1993 N000's	1992 N000's
Deferred Income on Assets Sold and Leased Back		
Balance Brought Forward	9,830	17,363
Profit realised in the Year	15,170	—
	25,000	17,363
Write-Back during the year	(8,774)	(7,533)
	16,226	9,830

The Company entered into sales and lease back transactions with syndicated merchant banks involving two bottling plants and motor vehicles in prior years. Excess of sales proceeds over the carrying amount has been deferred and is being amortised over the lease periods. Write back of N1,305,487 and N6,277,128 were set off against rental payments in respect of machine and vehicle leases respectively.

		1993 N000's	1992 N000's
11.0	**SHARE CAPITAL**		
	Authorised Issued and Fully Paid		
	54,000,000 Ordinary Shares of 50k each	27,000	27,000
12.0	**RESERVES**		
	Capital Reserve:	4,993	4,993
	This represents the surplus on revaluation of Properties		
	Share Premium Account:		
	Balance Brought Forward	20,485	20,485
	This represents Premium Less Costs on proceed of Rights Issue		
	Debenture Redemption Reserve		
	Balance brought Forward	25,000	20,000
	Transfer from Profit and Loss Account (See Note 13)	15,000	5,000
		40,000	25,000
	Total	65,478	50,478
13.0	**PROFIT AND LOSS ACCOUNT**		
	Retained Profit Brought Forward	39,125	26,666
	Retained Profit for the Year	18,684	17,439
		57,809	44,105
	Transfer to Redemption Reserve Account (See Note 12)	(15,000)	(5,000)
		42,809	39,125

14.0 COMMITMENTS UNDER EXISTING EQUIPMENT LEASES

The Company's commitment in the form of future rental under existing equipment leases for the next five financial years are as follows:

	N000's
1993/4	45,524
1994/5	45,426
1995/6	36,892
1996/7	8,038
1997/8	—

15.0 DEFERRED TAXATION

The Directors are of the opinion that, since the Company is not expected to reduce the scale of its operations significantly, it will continue to have a considerable amount of timing differences arising from the availability of capital allowances in tax computation which are in excess of the related depreciation charges in the financial statements. Therefore any reversing differences will themselves be offset. Consequently, deferred tax due is disclosed in the notes to the financial statements. The cumulative deferred tax due but not provided for at 31st March, 1993 amounted to N23,835,500 (1992 - N22,262,000) while provision in respect of the year not provided for amounted to N1,573,500 (1992 - N4,477,000).

16.0 CONTINGENT LIABILITIES

There are a few claims against the Company arising out of the ordinary course of business of the Company. In addition, the legal suits against the company and two others concerning that acquisition of its Ilorin plant are still pending.

However, the Company Solicitors have advised that the Company has a strong defence in these actions and the Directors believe that no material loss will arise therefrom. No provision has been made in the accounts for these contingent liabilities.

Financial Summary

FIVE YEAR STATISTICS

YEAR ENDED 31ST MARCH

	1993 N000's	1992 N000's	1991 N000's	1990 N000's	1989 N000's
Balance Sheet					
Fixed Assets	135,569	124,603	133,294	110,074	71,677
Net Current Assets	139,444	121,830	113,213	31,197	21,095
Total Assets	275,013	246,433	246,507	141,271	92,772
Represented By					
Share Capital	27,000	27,000	27,000	27,000	13,500
Share Premium	20,485	20,485	20,485	22,465	6,265
Capital Reserves	4,993	4,993	4,993	4,993	4,993
Revenue Reserves	71,309	39,125	26,666	21,917	7,164
Debenture Reserves	25,000	25,000	20,000	10,000	8,000
Shareholders Funds	148,787	116,603	99,144	86,375	39,922
Long Term Loans	110,000	120,000	130,000	30,000	40,000
Deferred Taxation Reserve	—	—	—	—	6,321
Deferred Lease Income	16,226	9,830	17,363	24,896	6,529
Total Capital Employed	275,013	246,433	246,507	141,271	92,772

Financial Summary

FIVE YEAR STATISTICS

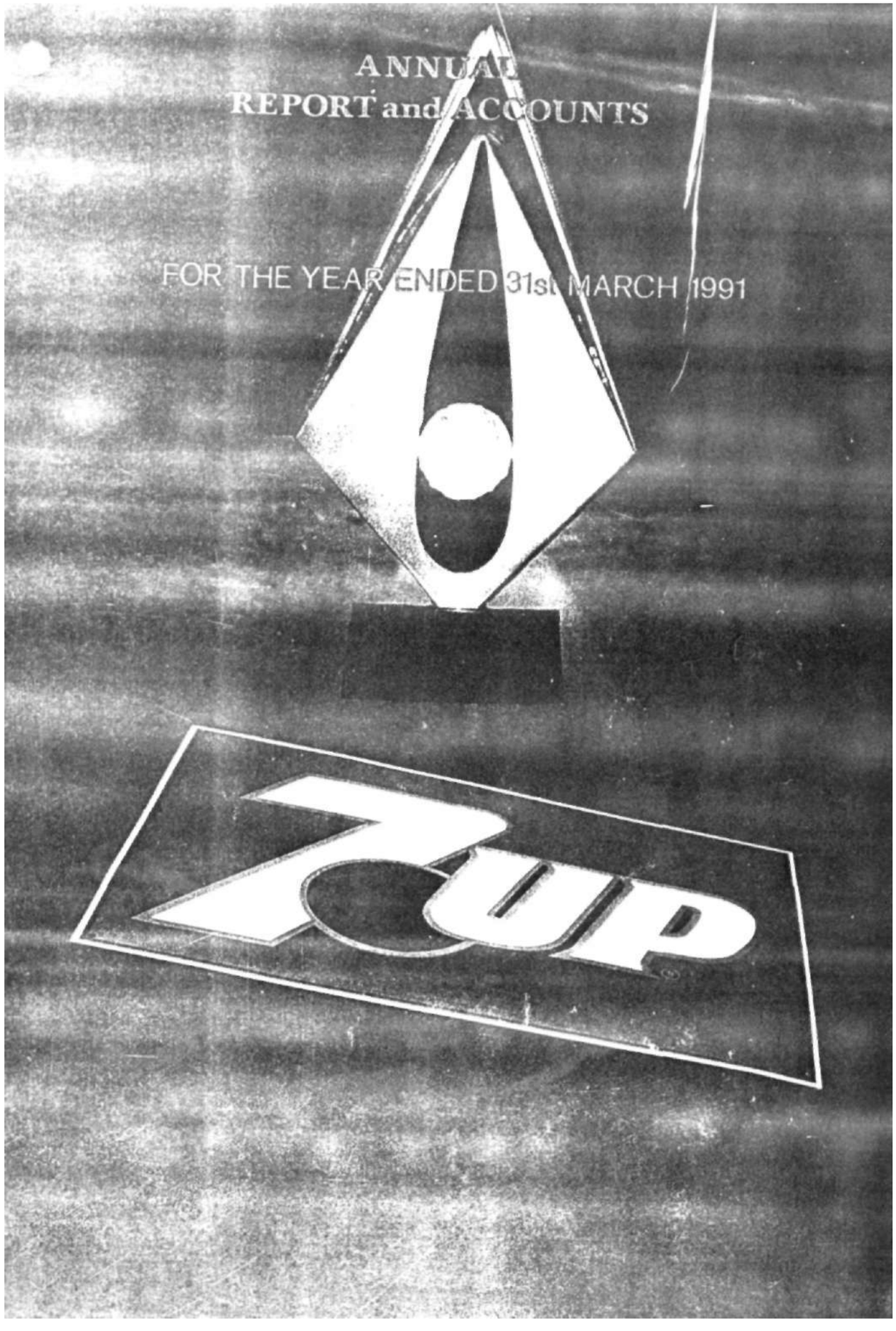
PROFIT AND LOSS ACCOUNT

	1993 N000's	1992 N000's	1991 N000's	1990 N000's	1989 N000's
Turnover	1,419,117	754,201	570,462	415,393	213,863
Profit before Taxation	49,091	35,459	27,079	22,759	11,788
Taxation	16,907	7,200	3,150	4,228	4,638
Profit after Taxation	32,184	28,259	23,929	18,531	7,150
Dividends	13,500	10,800	9,180	8,100	4,050
Retained Profit for the Year	18,684	17,459	14,749	10,431	3,100
* Earning per 50k Share	59.60k	52.33k	44.31k	34.32k	26.48k
* Dividend per 50k Share	25.00k	20.00k	17.00k	15.00k	15.00k
* Net Assets per 50k Share	251k	216k	184k	160k	148k

* Calculations have been based on issued and fully paid ordinary shares at the end of each year.

ANNUAL REPORT and ACCOUNTS

FOR THE YEAR ENDED 31st MARCH 1991



Profit and Loss Account

for the year ended 31st March, 1991

Note		1991 N'000	1990 N'000
	Turnover	570,462	415,393
	Cost of Sales	(359,570)	(272,020)
	Gross Profit	210,892	143,373
	Selling & Distribution Expenses	(116,991)	(80,101)
	Administration Expenses	(39,864)	(25,118)
		54,037	38,154
	Other Income	5,543	458
	Operating Profit	59,580	38,612
2.	Interest Expenses and Similar Charges	(32,501)	(15,853)
3.	Profit on Ordinary Activities before Taxation	27,079	22,759
4.	Tax on Profit on Ordinary Activities	(3,150)	(4,228)
	Profit on Ordinary Activities after Taxation	23,929	18,531
5.	Dividend Proposed	(9,180)	(8,100)
	Retained Profit for the Financial Year	14,749	10,431
6.	Earnings per share (Kobo)	44.31k	34.32k
	Dividend per share (Kobo)	17.00k	15.00k

The accompanying notes form an integral part of these Financial Statements

Balance Sheet As At March 31st 1991

Note			1991 N'000		1990 N'000
7.	Fixed Assets		133,294		110,074
	Current Assets				
8.	Stocks	188,804		110,035	
9.	Debtors	63,387		43,494	
	Cash at Bank & hand	86,195		28,530	
		338,386		182,059	
10.	Creditors: Amount falling due within one year	(217,166)		(144,078)	
			121,220		37,981
	Total assets less current liabilities		254,514		148,055
11.	Creditors: Amount falling due more than one year	147,363		54,896	
4.2	Provision for liability and charges: Taxation	8,008		6,784	
			(155,371)		(61,680)
	NET ASSETS		99,143		86,375
	CAPITAL AND RESERVE				
12.	Called up Share Capital		27,000		27,000
13.	Reserves		45,478		37,459
14.	Profit and Loss Account		26,665		21,916
	Shareholders' Funds		99,143		86,375

Signed on behalf of the Board of Directors on September 5, 1991

F. El Khalil]
E. Okorafor] Directors

The accompanying notes form an integral part of these Financial Statements.

Statement of Source and Application of Funds

For the year ended 31st March, 1991

Source of Funds	1991 N'000	1990 N'000
Profit before Taxation	27,079	22,759
Add: Items not involving the movement of funds:		
Depreciation	11,312	7,888
(Profit) on sale of Fixed Assets	-	(8)
Write Back of Profit on sale and lease back	(7,533)	(6,540)
Shares expenses written off	(1,981)	–
Depreciation written back	–	(189)
Funds Generated From Operations	28,877	23,910
Proceeds of Disposal of Fixed Assets	–	1,072
Proceeds from Issue of Shares/Debentures	100,000	29,700
Net Proceeds on Sales & lease back	–	28,706
	128,877	83,388
Application of Funds		
Dividend Paid	4,202	2,601
Purchase of Fixed Assets	34,532	50,815
Tax Paid	1,926	3,416
Loans Repaid	10,000	501
	50,660	57,333
Movement in Working Capital		
Increase in Stocks	78,769	30,569
Increase in Debtors	19,893	22,955
(Increase/Decrease in Creditors & Short term loans)	(31,273)	(27,403)
	67,389	26,121
	118,049	83,454
Net Increase in Liquid Funds	10,828	(66)
Represented by		
(Increase) in Bank Overdraft	(46,837)	(5,898)
Increase in Bank and Cash Balances	57,665	5,832
	10,828	(66)

The accompanying notes form an integral part of these Financial Statements.

Notes to Account

Significant Accounting Policies

1.1 Accounting Convention
The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in compliance with sections 331 to 369, schedule 2 and other requirements of the Companies and Allied Matters Decree 1990, resulting in the restatement of prior comparative figures where applicable.

1.2 Depreciation
Depreciation of fixed assets has been calculated on a straight line basis at the following annual rates in order to write off the assets over their estimated useful working lives:

Land and Buildings	5%
Plant and Machinery	15%
Motor Vehicles	20%
Furniture, Fittings & Equipment	10% - 25%

1.3 Employees' Retirement Benefits
Liabilities in respect of retirement benefits are provided for by payment to Pension Funds and by unfunded provisions. The amounts of the payments/charges are provided via employer and employee annual contributions so that over the long term the Funds and provisions will be adequate to meet the liabilities.

1.4 Stocks
Stocks are valued at the lower of cost and net realisable value except for finished goods which are valued at direct cost of materials and an appropriate portion of overheads.

1.5 Foreign Exchange Transactions
Transactions in foreign currencies during the year are converted at the exchange rates ruling at the transaction dates. Balances due to foreign creditors are translated at the rate of exchange ruling at the Balance Sheet date. Profits and losses arising therefrom are dealt with in the Profit and Loss Account.

1.6 Deferred Taxation
Deferred tax for all material timing differences is calculated by the liability method and disclosed in the notes to the Financial Statements.

1.7 Leasing Expenditure
Rentals due under operating leases are charged to the profit and loss account as they are incurred while the accrual concept is observed in respect of lease expenses which overlap into the succeeding accounting period.

1.8 Turnover
Turnover represents the net value of sales of goods to third parties.

Notes to Account

2 Interest Expenses and Similar Charges

	1991 N'000	1990 N'000
Bank Charges	3,126	2,355
On bank loans and overdrafts:		
repayable within one year	20,414	6,023
On other loans:		
repayable within five years	6,875	7,475
repayable after five years	2,086	—
	32,501	15,853

3 Profit on Ordinary Activities before Taxation

3.1 Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

	1991 N'000	1990 N'000
Operating Lease Rentals	23,995	18,062
Loss on disposal of Fixed Assets	—	8
Depreciation of Fixed Assets	11,312	7,888
Directors Emoluments	213	160
Auditors Fees - current year	125	60
- underprovision in prior year	19	—
Loss/(Overprovision) on Exchange	1,950	(962)
Pension Costs	1,655	1,219
Rental Income from Property	(449)	(264)
Management fees received	(24)	(24)

3.2 Emoluments of Directors and Employees

		1991 N'000	1990 N'000
(i)	The aggregate emoluments of the directors were:		
	Fees	74	74
	Remuneration	139	86
		213	160
(ii)	The Chairman's emoluments totalled	12	12
(ii)	The emoluments of the highest paid director amounted to	77	46

(iv) The Directors, excluding the Chairman, received emoluments in the following ranges:

	1991 (Number)	1990 (Number)
Up to N10,000	6	6
N30,001 - 40,000	—	2
40,001 - 50,000	2	1
70,001 - 80,000	1	—

(v) The table below shows the number of employees of the Company who earned over N60,000 in the year and which fall within the ranges stated:

	1991 (Number)	1990 (Number)
N60,001 - 70,000	5	2
70,001 - 80,000	4	—

3.3 Staff Costs & Numbers

	1991 N'000	1990 N'000
Employee costs during the year amounted to:	43,046	30,638

The average number of persons (excluding directors) employed by the Company during the year was:

	1991 (Number)	1990 (Number)
Management	51	31
Senior Staff	354	326
Junior Staff	4,127	3,943
	4,532	4,300

4 Taxation

		1991 N'000	1990 N'000
4.1	Charged to Profit and Loss Account	3,150	4,228
4.2	Balance in respect of prior years	6,784	5,972
	Income tax based on profit for the year	3,150	4,228
	Payments during the year	(1,926)	(3,416)
		8,008	6,784

Notes to Account (Cont'd.)

5 Dividends

		1991 N'000	1990 N'000
5.1	Charged to Profit and Loss Account	9,180	8,100
5.2	Balance in respect of prior years	10,952	5,452
	Proposed for the year	9,180	8,100
	Payments during the year	(4,203)	(2,600)
		15,929	10,952

The dividends are payable to Shareholders subject to deduction of 15% withholding tax.

6 Earnings and Dividend per Ordinary Share

Earnings and Divided per Ordinary Share of 50k each are calculated on the Company's profit after taxation and on the dividend for the year on the basis of the number of Ordinary Shares outstanding at the end of each year.

7 Fixed Assets

7.1 The movement to these accounts during the year was as follows:

Fixed Assets	Capital Work in Progress N'000	Land and Buildings N'000	Plant and Machinery N'000	Motor Vehicles N'000	Office Equipment, Furniture N'000	Total N'000
Cost/Valuation						
As at April 1990	34,977	56,713	23,549	14,941	16,930	147,110
Additions	10,400	2,085	1,981	6,763	13,303	34,532
Transfer from WIP	(40,128)	2,204	-	37,924	-	-
At 31st march 1991	5,249	61,002	25,530	59,628	30,233	181,642
Accumulated Deprecation						
As at April 1990	-	11,767	12,000	9,335	3,934	37,036
Charge for the year	-	3,007	2,882	2,643	2,780	11,312
At 31st march 1991	-	14,774	14,882	11,978	6,714	48,348
Net Book Value						
At April 1990	34,977	44,949	11,549	5,606	2,996	110,074
At 31st march 1991	5,249	46,228	10,648	47,650	23,519	133,294

7.2 The Company's fixed assets were revalued in 1972, 1976 and 1980 and the revaluation surpluses arising therefrom have been included in Capital reserve. Subsequent additions were stated at cost.

Notes to Account (Cont'd.)

7.3 Capital commitments as at 31st march 1991 amounted to:

	1991 N'000	1990 N'000
Authorised and contracted	23,136	11,073
Authorised but not contracted	15,970	26,430
	39,106	37,503

8 Stocks

	1991 N'000	1990 N'000
Raw Materials	59,442	27,248
Bottles, Cases and Pallets	47,853	33,408
Finished Goods	3,156	3,246
Spare Parts	44,858	25,473
Others	5,444	3,238
Goods in Transit	28,051	17,422
	188,804	110,035

9 Debtors and Prepayments

	1991 N'000	1990 N'000
Amounts falling due within one year		
Trade Debtors	26,777	29,001
Sundry Debtors	11,992	2,088
Staff Debtors	2,228	3,233
Prepaid Expense	22,390	9,172
	63,387	43,494

10 Creditors

Amount falling due within one year:

	1991 N'000	1990 N'000
Bank Overdraft	69,153	22,316
Trade Creditors	78,555	47,153
Sundry Creditors	5,242	9,368
Debenture - Current Portion		10,000
Dividends Due (Note 5)	15,929	10,952
Short Term Loan	33,000	
Accrued Expenses	15,287	44,289
	217,166	144,078

Notes to Account (Cont'd.)

11 Creditors

Amount falling due after more than one year:

	1991 N'000	1990 N'000
18% Debenture Stock 1992/1994	30,000	30,000
Redeemable Stock 1995/1997	100,000	
Deferred Income	17,363	24,896
	147,363	54,896

i. 18% Floating Rate Redeemable Mortgage Debenture Stock 1992 is floating at 3% above the minimum Rediscount Rate of the Central Bank of Nigeria, but subject to a minimum coupon rate of 14% per annum during the currency of the Stock. The Stock is secured by a legal mortgage over all the fixed assets and a floating charge over the movable assets of the Company subject to parri-passu claims by existing Stockholders. The Stock is redeemable in six semi-annual payments of N5,000,000 each commencing in June 1992 with the final in December 1994.

ii. N100 million Floating Rate Redeemable Mortgage Debenture Stock 1995/97 is secured by a fixed and floating charge over the Company's assets, ranking pari-passu with the pre-existing charges and it is redeemable in six semi-annual payments of N16,666,667 each commencing 31st March, 1995 and ending 30th September, 1997. It carries a 2.5% floating rate of interest above the minimum Rediscount Rate of the Central Bank of Nigeria subject to a ceiling of 25% and a floor of 15%.

iii. Deferred income relates to the net profit made on Sale and Leaseback transactions concluded during 1989 and 1990 with a syndicate of Merchant Banks for the assets acquired from John Holt and a number of vehicles. During this period write backs of N1,305,487 and N6,277,126 were made in respect of machine and vehicle leases respectively. Future write backs will be as follows:

Year ended 31st March		N'000
	1992	7,533
	1993	7,533
	1994	2,297
		17,363

12 Share Capital

Authorised issued and fully paid

	1991 N'000	1990 N'000
54,000,000 ordinary Shares of 50k each	27,000	27,000

13 Reserves

	1991 N'000	1990 N'000
Capital reserve	**4,994**	**4,994**
This represents the surplus on revaluation of properties		
Share Premium Account	22,465	22,465
Share Issue Expenses	(1,981)	
This represents premium, less costs, on proceeds of rights issue	20,484	22,465
Debenture Redemption Reserve		
Balance brought forward	10,000	8,000
Provisions in the year (Note 14)	10,000	2,000
	20,000	2,000
Total	45,478	37,459

14 Profit and Loss Account

	1991 N'000	1990 N'000
Retained Profit for the Year	14,749	10,431
Retained Profit Brought Forward	21,916	7,164
Deferred Tax Provision Written Back		6,321
	36,665	23,916
Transfer to Redemption Reserve	(10,000)	(2,000)
	26,665	21,916

15. Commitments under Existing Equipment Leases

The Company's commitments for future rentals under existing equipment leases for the next five years are as follows:

		N'000
Years ended 31st march	1992	27,096
	1993	22,252
	1994	14,193
	1995	2,362
	1996	590
		66,493

16 Deferred Taxation

	1991 N'000	1990 N'000
Balance Brought Forward	-	6,321
Provision Written Back	-	(6,321)
	======	======

The Directors are of the opinion that, since the Company is not expected to reduce the scale of its operations significantly, it will continue to have a considerable amount of timing differences arising from the availability of capital allowances in the computation which are in excess of the related depreciation charges in the financial statements. Therefore any reversing differences will themselves be offset. Consequently deferred tax due will be disclosed in the notes to the financial statements. The cumulative deferred tax due but not provided for at 31st March, 1991 amounted to N17,785,000 (1990 - N10,130,000) while provisions in respect of the year not provided for amounted to N7,655,000 (1990 - N3,809,000).

17. Unclaimed Dividends and Share Certificates

Records show that some Dividend Warrants as set out in the enclosed listings have not been presented to the Bank for payment while others have been returned to the Registrar's office unclaimed. Also, a number of share certificates have been returned because the adresses could not be traced.

18. Contingent Liabilities

There are a few claims against the Company principally arising from product complaints pending in court at balance sheet date. In addition, the legal suit against the Company and two others concerning its Ilorin Plant, is still pending.

However, the Company's Solicitors have advised that the Company has a strong defence in these actions and the Directors believe that no material loss will arise therefrom. No provision has been made in the accounts for these contingent liabilities.

19. Productivity, Prices and Income Board Guidelines

The Company adhered to the Guidelines of the Productivity, Prices and Income Board during the year.

20. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 5th September, 1991.

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31ST MARCH, 1990

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Balance Sheet

AT 31ST MARCH, 1990

	Note	1990 N 000	1989 N'000
ASSETS EMPLOYED			
Fixed Assets	2	110,074	71,677
CURRENTS ASSETS			
Stocks	3	110,035	79,466
Debtors and Prepayments	4	43,494	20,680
Bank Balances and Cash		28,530	22,698
		182,059	122,844
CURRENT LIABILITIES			
Creditors & Accrued Charges	5	110,811	53,408
Bank Overdraft (secured)		22,316	16,417
Taxation	6	6,784	5,972
Dividend Payable	7	10,951	5,452
Short-Term Loan		–	20,501
		150,862	101,750
Net Current Assets		31,197	21,094
		141,271	92 771
FINANCED BY			
SHARE CAPITAL	8	27,000	13,500
RESERVES	9	59,375	26,423
SHAREHOLDERS' FUNDS		86,375	39,923
DEFERRED TAXATION	10	–	6,321
DEBENTURE STOCKS	11	30,000	40,000
DEFERRED INCOME ON ASSETS SOLD AND LEASED BACK	12	24,896	6,527
		141,271	92,771

Otunba (Dr) Adekunle Ojora)
) Directors
Emmanuel Okorafor)

The notes on pages 12 to 16 form an integral part of these Financial Statements.

Profit and Loss Account

YEAR ENDED 31ST MARCH, 1990

	Notes	N'000	1990 N'000	1989 N'000
Turnover			415,393	213,863
Profit before Taxation			22,759	11,787
After Crediting:				
Profit on Sale of Fixed Assets		8		104
After Charging:				
Depreciation of Fixed Assets		7,888		4,361
Directors' Remuneration				
Fees		74		74
Other Emoluments		86		84
Auditors' Remuneration		60		50
Interests on Loans and Debentures		11,380		5,960
Less Taxation	6.1		(4,228)	(4,638)
Profit after Taxation			18,531	7,149
Less Proposed Dividend	7		(8,100)	(4,050)
			10,431	3,099
Retained Profit Brought Forward			7,164	6,065
Deferred Taxation Provision Written Back	10		6,321	–
Transfer to Debenture Redemption Reserve	9		(2,000)	(2,000)
Retained Profit Carried Forward	9		21,916	7,164

The notes on Pages 12 to 16 form an integral part of these Financial Statements.

Statement of Source and Application of Funds

FOR THE YEAR ENDED 31ST MARCH, 1990

	1990	1989
SOURCE OF FUNDS	**N'000**	**N'000**
Profit before Taxation	22,759	11,787
Add: Items not involving the movement of funds:		
Depreciation	7,888	4,361
(Profit) on sale of Fixed Assets	(8)	(104)
Write Back of Profit on sale and lease back	(6,540)	—
Depreciation written back	(189)	—
	1,151	4,257
FUNDS GENERATED FROM OPERATIONS	23,910	16,044
Proceeds of Disposal of Fixed Assets	1,072	1,231
Proceeds from Issue of Shares	29,700	4,086
Net Proceeds on Sales & lease back	28,706	6,527
	83,388	27,888
APPLICATION OF FUNDS		
Dividend Paid	2,601	2,377
Purchase of Fixed Assets	50,815	37,515
Tax Paid	3,416	3,182
Loans repaid	501	559
	57,333	43,633
Movement in Working Capital		
Increase in Stocks	30,569	36,524
Increase in Debtors	22,955	1,663
(Increase)/Decrease in Creditors & Short Term Loans	(27,403)	(58,168)
	26,121	(19,981)
	83,454	23,652
Net Increase in Liquid Funds	(66)	4,236
REPRESENTED BY		
(Increase) in Bank Overdraft	(5,898)	(5,147)
Increase in Bank and Cash Balances	5,832	9,383
	(66)	4,236

The notes on Pages 12 to 16 form an integral part of these Financial Statements.

Notes on the Accounts

YEAR ENDED 31ST MARCH .1990

1. SIGNIFICANT ACCOUNTING POLICIES

(a) These accounts have been prepared under the historical cost convention.

(b) Depreciation of fixed assets has been calculated on a straight line basis at the following annual rates in order to write off the assets over their estimated useful working lives:

Land and Buildings	5%
Plant and Machinery	15%
Motor Vehicles	20%
Furniture, Fittings & Equipment	10%

(c) Stocks are valued at the lower of cost or and net realisable value except for finished product which is valued at direct cost of materials and an appropriatie portion of overheads.

(d) Foreign Exchange Transactions
Transactions in foreign currencies during the year are converted at the exchange rates ruling at the transaction dates. Balances due to foreign creditors are translated at the rate of exchange ruling at the Balance Sheet date. Profits and Losses arising therefrom are dealt with in the Profit and Loss account.

(e) Deferred Taxation
Deferred tax for all material timing differences is calculated by the liability method and disclosed in the notes to the financial statements.

2. FIXED ASSETS

	Capital Work in Progress	Land & Buildings	Plant & Machinery	Motor Vehicles	Furniture, Fittings & Equipt.	Total
Cost or Valuation	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
At 1st April 1989	12,765	42,220	20,564	15,664	9,920	101,133
Additions	34,212	3,151	2,985	4,100	7,525	51,973
Disposals/Reclassifications	(12,000)	11,342	–	(4,823)	(515)	(5,996)
At March 31, 1990	34,977	56,713	23,549	14,941	16,930	147,110
Accumulated Depreciation At 1st April, 1989	–	9,345	9,362	8,110	2,638	29,455
Charged in Year	–	2,422	2,638	1,520	1,308	7,888
Disposals/Adjustments	–	–	–	(295)	(12)	(307)
At March 31, 1990	–	11,767	12,000	9,335	3,934	37,036
Net Book Value At March 31, 1990	34,977	44,946	11,549	5,606	12,996	110,074
At March 31, 1989	12,765	32,875	11,201	7,554	7,282	71,677

The company's fixed assets were revalued by professional valuers on the basis of free market value at 31st March, 1980. Subsequent additions were stated at cost.

YEAR ENDED 31ST MARCH 1990

		1990 N'000	1989 N'000
3.	**STOCKS**		
	RAW MATERIALS	27,248	25,530
	BOTTLES, CASES AND PALLETS	33,408	19,463
	FINISHED GOODS	3,246	1,815
	SPARE PARTS	25,473	17,727
	OTHERS	3,238	2,892
	GOODS IN TRANSIT	17,422	12,039
		110,035	79,466
4.	**DEBTORS AND PREPAYMENTS**		
	TRADE DEBTORS	29,001	10,736
	SUNDRY DEBTORS	2,088	2,378
	STAFF DEBTORS	3,233	1,455
	PREPAYMENTS	9,172	6,111
		43,494	20,680
5.	**CREDITORS AND ACCRUALS**		
	TRADE CREDITORS	47,153	41,709
	SUNDRY CREDITORS	9,369	2,123
	ACCRUALS	44,289	9,576
	DEBENTURE LOAN – CURRENT PORTION (See Note 11)	10,000	—
		110,811	53,408
6.	**TAXATION**		
	1. CHARGES FOR THE YEAR	4,228	2,623
	DEFERRED TAX ACCOUNT (NOTE 10)	—	2,015
		4,228	4,638
	2. BROUGHT FORWARD BALANCE	5,972	6,531
	CHARGED FOR THE YEAR	4,228	2,623
		10,200	9,154
	TAX PAID DURING THE YEAR	(3,416)	(3,182)
		6,784	5,972
7.	DIVIDENDS		
	Brought Forward Balance	5,452	3,780
	Proposed for the year	8,100	4,050
		13,552	7,830
	Paid during the year	(2,600)	(2,378)
		10,952	5,452

YEAR ENDED 31ST MARCH, 1990

		1990	1989
8.	SHARE CAPITAL		
	AUTHORISED	₦'000	₦'000
	Ordinary Shares of 50k each	27,000	13,500
	ISSUED AND FULLY PAID		
	27,000,000 Ordinary Shares of 50k each	–	13,500
	54,000,000 Ordinary Shares of 50k each	27,000	–
		27,000	13,500

During the year ended 31st March, 1990, the Company increased its Share Capital by offering for Subscription 27,000,000 Ordinary Shares of 50k each at 110k per share. The Shares were alloted and approved by the Securities and Exchange Commission on the 16th of February, 1990. At year end, a total sum of ₦3,249,285 was held by Central Bank of Nigeria being balance of proceeds from Foreign Shareholders' 40% participation made through the Debt Conversion Programme. The total proceeds had since been disbursed fully after compliance with DCP conditions. ₦3,249,285 was therefore adjusted for as receivable from CBN as at 31st March, 1990.

		1990	1989
9.	RESERVES		
	CAPITAL RESERVE	4,994	4,994
	This represents the surplus on revaluation of properties		
	SHARE PREMIUM ACCOUNT	22,465	6,265
	This represents premium less expenses on share issue.		
	DEBENTURE REDEMPTION RESERVE:		
	Balance Brought Forward	8,000	6,000
	Provision in the Year	2,000	2,000
		10,000	8,000
	The Company has obligations under the Trust Deed to transfer from its profits each year the sum of ₦2,000,000 towards the redemption at par of the ₦10,000,000 13% Debenture Stock 1990		
	PROFIT AND LOSS ACCOUNT balance	21,916	7,164
	TOTAL	59,375	26,423
10.	DEFERRED TAXATION:		
	BALANCE BROUGHT FORWARD	6,321	4,306
	PROVISION FOR THE YEAR (NOTE 6.1)	–	2,015
	PROVISION WRITTEN BACK	(6,321)	–
		–	6,321

The Directors are of the opinion that since the Company is not expected to reduce the scale of its operations significantly, it will continue to have considerable amount of timing differences arising from the availability of capital allowances in tax computation which are in excess of the related depreciation charges in the financial statements, therefore any reversing differences will themselves be offset. Consequently, the cummulative deferred tax provision of ₦6,321,000 to 31st March, 1989 has been written back to profit and loss account while deferred tax of ₦3,809,000 which should have been due for 1990 has not been provided for in the year. Henceforth, deferred tax due will be disclosed in the notes to the financial statements.

YEAR ENDED 31ST MARCH 1990

		1990	1989
		₦'000	₦'000
11	DEBENTURE STOCKS		
	13% Debenture Stock 1990 (see note 5)	–	10,000
	18% (Floating Rate) Redeemable Mortgage Debenture Stock 1992/94	30,000	30,000
		30,000	40,000

The 13% Debenture Stock 1990 is secured by a fixed and floating charge over the company's assets and it is redeemable at par in 1990. However the company reserves the right to redeem all or any portion of the stock outstanding on or at any time before 30th September, 1990, at a premium calculated at a rate of 0.4% for each year or part thereof by which the date of redemption preceeds the 30th day of September, 1990.

18% (Floating Rate) Redeemable Mortgage Debenture Stock 1992/94 is floating at 3% above the minimum rediscount rate of the Central Bank of Nigeria, but subject to a minimum coupon rate of 14% per annum during the currency of the stock. The stock is secured by a legal mortgage over all the fixed assets and a floating charge over the moveable assets of the company subject to pari passu claims by existing stockholders. The stock is redeemable in six semi-annual payments of ₦5,000,000 each commencing in June 1992, with the final payment in December, 1994.

		1990	1989
		₦'000	₦'000
12.	DEFERRED INCOME ON ASSETS SOLD AND LEASED BACK		
	Balance at 1st April	6,527	
	Movement during the year	24,909	6,527
	Write back during the Year	(6,540)	–
		24,896	6,527

The Company entered into additional syndicated sale and leaseback transaction during the year involving a number of its vehicles. Excess of sales proceeds over the carrying amount is being deferred and amortised over the lease period. A write back of ₦1,297,439 and ₦5,242,652 were set-off rental payments in respect of machine and vehicle leases respectively.

13.	CAPITAL COMMITMENTS:		
	Committed	11,073	730
	Authorised but not contracted	26,430	4,900
		37,503	5,630

14. CONTINGENT LIABILITIES NOT PROVIDED FOR

(a) There are a few claims against the Company arising from products complaints pending in Court at balance sheet date for which the Directors are of the opinion that the Company will not incur any significant loss.

(b) Since balance sheet date, a claim in the sum of N18,031,980 has been awarded against the Company and two others in respect of a legal suit concerning Ilorin Plant. However, adequate steps to set aside the award have been taken The Company's Solicitors have advised that the Company has strong defence in these actions and the Directors believe that no material loss will arise therefrom.

15. SUBSEQUENT EVENT

A new Companies Legislation (Companies and Allied Matters Decree No.1, 1990) has been promulgated with a commencement date of 2nd January, 1990. As these financial statements relate to a period substantial part of which ended prior to the commencement date of the Decree, it is not practicable to comply with some of its disclosure requirements. The financial statements comply with the provisions and disclosure requirements of the Companies Act, 1968, the law applicable prior to the promulgation of the Decree.

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