AN ASSESSMENT OF SOURCES OF SHORT-TERM FINANCING BUSINESS IN NIGERIA: THE CASE OF SOKOTO FURNITURE FACTORY (PLC)

BY

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CERTIFICATION

This project research titled: AN ASSESSMENT OF SOURCES OF SHORT-TERM FINANCING IN NIGERIAN BUSINESS: THE CASE OF SOKOTO FURNITURE FACTORY (PLC), meet the requirements governing the award of the degree of Master of Business Administration, Ahmadu Bello University, and has been approved for its contribution to knowledge and literature.

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DECLARATION

I hereby declare that this project has been composed by myself and that it is a record of my own academic research work. It has not been accepted in any previous application for a higher degree. The sources of information are formally acknowledged by means of references.

Umar A-Ga		14/12/82
NAME OF STUDENT	SIGN	DATE

The above declaration is confirmed

NAME OF SUPERVISOR	SIGN	DATE

DEDICATION

To late Abubakar Mahmud Gumi.

May his soul rest in paradise

Ameen.

ACKNOWLEDGEMENT

This academic articulation has been the product of conscious collective efforts, too numerous to be outlined individually.

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UMAR ABUBAKAR GADA

ABSTRACTS

"No nation can be economically developed through a gross neglect of its small and medium scale investment". (IBB 1992). Therefore the future of any economy can only be determined and predicted through its policy measures and provisions for the long unforeseen possibilities contained in the short and distant future.

These policy measure and provisions are invariably a functions of short, medium and long term investments, in a particular economic frame work.

This research work explored such policy measures and provisions in the context of short term sources of financing in the Nigerian business enterprises.

At the end of the research process the researcher, from the analysis of facts, was able to find out that the ways and manner through which western finance houses, finance their business is not relatively the same with our local business financing.

As a matter of fact Sokoto furniture factory (the case study) have not been utilizing short term funds through commercial paper and private loans. This is partly because there are no financial bodies that undertake such tax loans locally.

It was further established through the research that despite economic crises commercial banks are relatively able to provide short term loans to business organisation such as the case study.

In the recommendation, the researcher strongly recommended that government should carefully study the trends of investment and its difficulties and intervene appropriately to correct and improve the situation for the overall interest of the Nigeria economy.

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CHAPTER ONE

INTRODUCTION

1.1 THE GENERAL STATE OF THE NIGERIAN ECONOMY

"The mode and dimension of business financing and investment opportunities is naturally a product of the prevailing politico-economic realities in a given economy" (Mardia M.K. Investment appraisal California U.S.A. 269).

From the above assertion it is only logical to infer that for any financing and investment analysis; the contextual frame work should necessarily be the trends of financial and investment policies of that economy. Thus it is imperative at this point to make a referencial survey of the Nigerian economy before the relative evaluation of short term financing of the case in question namely Sokoto Furniture Factory, which forms the subject matter of this research project.

Much uncertainty surrounds the future of the Nigerian economy after the present military intervention. No doubt, many of the policies of this regime, were framed to bring about positive changes in the economy, but a very serious problem was the absence of conclusive evidence or data for the impact of the programmes. So that it can logically be argued out as whether or not the continuation of the policies after the military.

Mr President in person, tried to commend the corner stone of his economic policies to his successors for obvious reasons. But so far none within the policy making body has been able to encounter the most serious criticisms of the structural adjustment programme. Regardless of what the Federal Godernment may say to the contrary everybody knows that SAP has unleashed hyper inflation, unemployment and has led to the lowest level capacity utilization in industrial establishments arounds the nation.

SAP also had widened gap between the small, medium and large scale industries by making some small and medium scale industries out of operations, and had led to a rapid output as well as an unprecendented increase in both domestic and external indebtedness of the Nigerian economy.

Against these problems, the present military regime has made some decisive achievements such as; the rapid expansion of the financial sector of the economy through the growth of banks and other financial institutions, broadning and deepning of the securities market, both in term of number of quoated companies and the size of operations; reforms of the pbblic sector through commercialization and privatization of public parastatals and civil service reforms.

An extensive programme of physical infrastructural expansions such as high-ways, telecommunications, electricity and other utilities. A rapid democrá - tization of the political system through the reintroduction of partisan politics , democratic elections at different tiers of government and the creation of development and enabling political institutions.

An expansion of the services sector in response to high returns to investment in that sectors such activities as importing, trading and general merchandising are leading activities in the economy.

An increased emphasis on the rural development through the agencies such as the Directorate for Food Roads and Rural Infrastructures (DFFRI) and the better life programme. Also general deregulation of the economy through a greater reliance on market forces as against quantitative or administrative controls were witnessed.

However, the quantitative and qualitative extent to which these achievements can be measured do not seem to have been researched in any systematic way. The achievement will be more convincing measurably if figures can statistically be put on various variable in respect to.

In order to assess the achievement of the present regime visa-vie the prevailing economic policies and realities one must recall the problem that they were out to address at their inception. Among the problems that were frequently been mentioned includes: the over-valued Naira which encourage frivolous importation of foreign goods and wasted the income from crude petroleum, the high import dependence of manufacturing sector due to unrealistic value of the naira, our debt burden (at inception it was believed that the Nigerian indebtedness stood at 16 billion U.S. Dollars) and over-dependence of the economy on a single export, namely crude oil. It was crucial to diversity the productive base of the economy away from crude oil.

Other problems identified involves, the poor performance of government parastatals and their consequent dependence on Federal subvension and the intolarable production ineffeciencies in the economy as a result of quantitative and administrative controls which led to the un-necessary bureaucratic bottle-neck in the processes.

Consequently the Federal Government introduced the Structural Adjustment Programme (SAP) to restructure the economy and normalize these indentified problems. The key element of SAP include:-

i. A massive devaluation of the naira. Over the six years of SAP the naira has been devalued forty fold.

ii. Deregulation of the economy in terms of foreign exchange pricing, interest rate determination and the reduction of quantitative controls of the economy leading to greater reliance on market forces in the management of the economy.

iii. Privatization and commercialization of government owned enterprises.

iv. Rationalization of the tarriff regime

v. Reform of the public service to effect results orientation.

vi. Outright ban on the importation of certain commodities in order to foster local production or substitude , barly, malt, wheat, rice, are in the category.

vii. Liberalization of the financial system given rise to a phenomenal growth in the number of banks and other financial institutions.

For a long time the Federal Government insisted that there was no alternative to SAP. They embarked on. Also the government show unusual intolerance of any criticism of the policy.

This probably explains the near absence of objective statistics on the true impact of SAP. The situation is worsened by the critics who see nothing wrong with SAP but its implementation. In other words the prescription is right but the health delivery system is to blame for what ever failure.

The Federal Government promised that once the short and medium objectives of removing the most serious bottle-necks had been attained SAP will be shelved. The truth is however that SAP benefits are too tempting to the Federal Government for it to be discontinued either now or in the foreseable future.

For one to describe the state of Nigerian economy, should include questions such as; what are these benefits of SAP? Who is benefiting from SAP? How are these benefits distributed? Are there sacrifice being born for SAP? Who pay the price of SAP?

The truth is that at no time in our history did the Federal Government become more powerful than at present. SAP put unprecedented resources at the disposal of the Federal Government in the form of crude oil earnings which are quated in dollars and converted into naira. The lower the naira value the more financially bouyant the Federal Government become.

These enormous resources expanded the Federal Government budgets and even led to periodic extra-budgetary expenditures. Although the distributable pool expanded phenominally, the states and local government were effectively prevented from spending what was due to them for obvious reasons. If all tiers of government were allowed to spend their share of the SAP booty, the present double digit inflation could have been quadrupled.

The next most important beneficiaries of SAP were the financial institutions such as Merchant Banks, commercial banks, finance houses and the stock-brokerage institutions in that order. Although fortunes are not equal in the financial sector, that sector as a whole benefited next to the Federal Government in terms of profit turnover, asset base employment generation and personal renumerations.

According to Dr. T. Adeboyi (1992)

> "Only in Nigeria do one year old banks declare profits before tax of between 30 million naira to 50 million naira"

In the financial sector the development banks did not fare as well as the rest of the sector.

Since oil earnings are designated in foreign exchange, the crude oil sector maintained its position of pre-eminence in the productive sector. All published data indicate high profits, turnover and personal remunerations in the sector. Oil sector enjoys the best remuneration in the entire economy. The maintenance of special accounts by oil companies into which designated percentages of crude oil revenue are paid ensures the almost total insulation of the sector from the negative effects of SAP.

The services sector has been observed to benefit a lot from the fruits of SAP. Such services includes import export, sales, supplies and contract. The 10% per month that finance houses charge are made possible by the high returns from import and export activities.

In the manufacturing sector (which the research is more interested into) and going by published results, it is clear that SAP has been a blessing to the big conglomerates only. Such as UAC, Lever Brothers, John Holt, PZ Industries etc. Turnover and profits surged upwards with SAP, although indices of quantitative output showed actual decline in the period of SAP. The manufacturers Association of Nigeria (MAN) indicates in its studies that capacity utilization declined with SAP.

The large monetary benefits to government financial mining and services sectors have been obtained at the expenses of the other productive sectors of the economy. Small and medium scale manufacturing businesses have been virtually wiped out. Large scale manufacturing industries made returns to the extent that they were divesifying.

Hardly can any economy develop with neglect of its basic productive sectors, the sectors that benefit most from SAP are not the ones that can transform the economy. Manufacturing, agriculture and similar productive activities are what can restructure the tempared Nigerian economy.

The climate of investment does not favour indirectly productive sector regardless of the claims by the government to the contrary. "Rent collecting activities are the one highly favoured by SAP". For example 1 million naira investment can comfortably earn 33% of the amount if invested in a finance house whereas hardly can it be predicted of the same amount if invested in manufacturing businesses.

This to retain SAP it may mean to perpectually remain dependent on the finance or services sectors and ready to bear the consequences of unemployment high rate of inflation or a dismal value of the naira.

In theory of cheap naira means more non oil exports. While in practice we are moving backward to our colonial days of primary export. Without developing agriculture and manufacturing, a cheap naira is only a hardship for the masses and a great threat to our local small and medium scale industries such as the case study of this paper/write up.

1.2 SHORT TERM FINANCING

Having seen the general over view of the Nigerian economy in its present situation, we now want to see also a general outlook of short term financing which forms the framework of the research work.

A firm usually employs a combination of short term credit and long term debt and equity in financing its current and fixed assets. The central theme to be discussed in this paper is short term financing sources according to Adam Rigg (1981).

> "Short term financing includes all of the firms debt obligations that originally were scheduled for repayment within one year"

Short term financing may either be secured or unsecured. In the case of secured short term financing, borrowing firm promises certain specified assets such as accounts receivable inventory or fixed assets as collotoral. While in the case of unsecured short-term

financing, a borrowing firm secure debt or credit from the lender without having to pledge any specific assets as collatoral and the lender depends primarily on the cash generating ability of the firm to repay the debt.

In a situation where the firm is insolvent and declares bankruptcy, the unsecured lender normally stands a little chance of recovering all or even substantial portion of the amount owed.

The first step in this regards involves the executions of a security agreements, which is a contract between the lender and the firm specifying the collatoral held against the loan. The security agreement then is filled at the appropriate public office or the authority concerned within where the colatoral is situated. Thereafter the potential lenders can check with this office to determine which assets the firm has specified and pledged and which are still free to be used as collatoral.

Filling this security agreement establishes the lenders security interest in the collatoral. If it so happened that the borrower defaults on the loan or otherwise fails to honour the terms of the agreement, the lender can seize and sell the collatoral to recover the amount owed.

That the lender of a secured short term debt agreement has two potential sources of loan repayment; the firms ability to generate cash and the collatoral value of the pledged assets.

In general, firms prefer in many instances to borrow on an unsecured basis, since the administrative cost involved in pledging assets as security raise the cost of the loan, to the borrower. Further more it restrict a firms potential future borrowing.

Many firms are not able to obtain unsecured debt, however, for example a firm may be financially weak or too new to justify an unsecured loan or it may need more credit than the lender is willing to give on an unsecured bases. In any of these circumstances, the firm either must provide collateral or it will not receive the loan.

The short term credits have two major sources available to firms namely spontanious and negotiated sources. Spontenous sources of short term financing includes trade credit accrued expenses and deferred income. On the other hand negotiated sources of short term includes; bank credit, commercial paper, receivable loans and inventory loans, all of which are going to be discussed in the light of the literature available visa-vie the subject matter of the research work.

It is important to note that short term loan does not always correspond exactly to the current liabilities shown on the balance sheet of a firm.

As an alternative to pledging specific assets as collatoral a firm may get a third party to consign or guarantee the loan. Thus if the borrower defaults to pay, the party becomes responsible for repayment. Lender usually will accept only financially sound third parties, for example stock holder supplier or customer who has a vested interest in the firm's success.

It is important to note that this introduction is first a mere reflection of the literature to be reviewed in the subsequent chapter.

1.3 STATEMENT OF THE PROBLEM

If one takes an overall view of the Nigeria economy in respect to small and medium scale manufacturing enterprises such as Sokoto Furniture factory, the immediate conclusion is that, the investment appraisal of Nigerian enterprises is not worth any commendations. That has been the situation despite various attempts to reform the investment policies for example, the Structural Adjustment Policy.

A growing economy such of Nigerian depends largely on the flow of funds consistently in order to prosper.

Thus the fundamental issues to be discussed in this research work in their relative context includes question like what are the major sources of short term financing?

Does our business firms benefits from all the sources available for them? What are the major problems facing the business firms in relation to short-term sources of financing? What attempts have so far been made to improve the situation? Is there any hope for Nigerian business activities in respect to short term financing? These and indeed many other related questions form the problem this research work will address. This will be done through a case study of Sokoto Furniture Factory.

1.4 SCOPE AND SIGNIFICANCE OF THE STUDY

For the sake of precision and clarity of purpose there is the need to identify the context and coverage of the research. It is important to note that financing is an independent discipline in Business Studies, which cannot however, be covered in this paper. Financing method and procedures are of various

categories and have different characteristics.

The major categories of financing a business include: long-term financing, medium term financing, short term financing and retained earnings. These categories of financing are what in one word constitute methods of financing.

The scope of this paper is limited to sources of short term financing. Short term financing as a type of financing has its own features which clearly distinguishes it from all other categories of financing as indicated above.

Specific area of coverage include trade credits accrued expenses, bank credit, commercial paper, deferred income, account receivable inventory loan, finance companies and customer advances. These sub-components which constituted the major sources of short term financing, shall be examined theoritically from the literature available and apply the examined theories practically on the real life situation of the subject matter.

This research will assess the performance of the case study in relation to sources and uses of short term financing and see whether Sokoto furniture factory adequately utilizes sources of short term funds available to it.

The significance of the research is of particular importance to those who want to make a scientific comparison between the principles of financing and the practical operation of our local business firms.

The research will also help in providing avenues where possible for the application of these principles to Nigerian business environment.

This project will also contribute greatly in assessing the sources of loans from our financial institutions in respect of short-term financing and at the same time give constructive recommendations to both the lenders and the borrowers on how to derive the best out of complementary services.

1.5 DEFINITION OF TERMS

Account Receivable

A useful measure for evaluating the firm's credit and collection policies in respect of the credit terms extended by it.

Collateral trust bond: a bond secured with stock or bonds of other companies.

Commercial Finance Company

A financial institution without a bank charter that makes business loans secured with accounts receivable, inventory or mortgages.

Commercial Paper

Short term unsecured promissiory notes issued by corporations, with a slight credit standing.

Interest

Payment made on money borrowed or received on money lent. The amount of interest depends on the amount of the principal borrowed or lend.

Liquidity

The ability to pay bills as they come due. The liquidity of a firm is directly related to the level of cash and marketable securities it holds.

Problem

Any factor (physical or human) that militates against the efficient performance of the desired programme. In otherwords problems refer to the hinderances of short-term financing in this context.

Retained Earnings

The portion of after tax earning not paid out as dividends. The balance sheet entry for retained earnings represents the earnings retained through the firm operation.

Security

Used interchangeably with the term collateral to refer to the specific items used by a borrower to back up a loan.

Short-Term

A period of time less than a year, current assets are short term assets and current liabilities are short term liabilities.

Trade Credit

Credit obtained through an open account of purchases. Evidenced by an account payable by the reciepient and an account receivable by the grantor.

SFF - Sokoto Furniture Factory.

Sponteneous Sources of Short-Term Financing

The two major spontenious sources of short-term financing are "Trade credit/Account payable and accruals"[2]. Each of these sources came out of operations. Normally trade credit increases with an increase in the level of production because of the increase in the purchase of raw materials. On the other hand increase in production increases sales, as the wages and taxes increase as a result of greater labour requirements and the increased taxes on the increased earnings. The advantage of these sources is that they are interest free sources of short term financing whereever possible.

A Trade Credit/Account Payable

"Account payable are generally created by the purchase of raw materials" as ascertainedby Moyer in his book contemporary financial managements on "Open Account",

Open account purchases are the major source of unsecured short term financing for business firms. These include all transactions in which merchandise is purchased but no formal note is signed evidencing the purchasers' liability to the seller. The purchaser, by taking the delivery of the goods shipped to him in returns agrees to make the payment as and when due.

The major items with regards to account payable as a source of unsecured short-term financing are open account, trade acceptance, promisory notes and the consignment. Others includes cash discount, the cash discount period and so on.

a) Open Account

An open account is the prearranged extension of credit to the firm by its suppliers, allowing the firm to take possession of the goods for some traditionally determined short-term period of time in which to pay.[3] The cost of using this extended credit as a source of funds depends on the terms under which it is implemented. If the terms are net 30 days for example there is nothing to be gained by paying earlier than 30 days, unless if there is trade discount otherwise it add more cost to the firm.

If there is a discount for early payment we can determine the cost of funds incurred by foregoing the discount and using the funds instead for the entire number of days before the account is overdue. For example, if the term were 2/20, net 30 days the firm could deduct a percentage from its bills if paid within 10 days, but must pay the entire amount if it chooses to use the funds for the entire 30 days, the cost of using those funds for the entire 30 days is a percentage for an additional 20 days. If you are not going to take the early payment discount for some reason, then you should wait until the last day to issue the cheque

for once discount is forfeited we might as sell use the money if only in an interest bearing marketable security, for the few remaining days.

b) Trade Acceptances

These are essentially cheques payable for the supplier at the future date noted on the cheque. For example, an importer of french secent might draw a cheque to the order of the french scent exporter, which the exporter called cash in future days. The exporter is able to draw the cheque payable to himself or herself against an account which the importer has set up at a bank. This LETTER OF CREDIT states, that the importer has established credit with the bank, against which it has authorised the exporter to draw upon providing proof of shipment to the bank. We as the importer in our example, can either sign the draft formally acknowledging the debt or the bank can accept the responsibility for its payment in the event of the firm's default. Once accepted by the bank, the draft become negotiable instrument which the exporter can sell at a discount from its face amount to raise funds. At the date on the draft, the owner then presents it for collection at the guarantor bank.

e) Promisory Notes

A promisory note is a formal acknowledgement of the trade credit extended, unlike the open account where there is no formal document which accompanies the extension of the credit. Its use is traditional in some industries. Such as manufacturing industry, for example.

f) Consignment

Consignment: Under the consignment process, no credit is extended and ownership of the merchandise never passes from the supplier to the firm. Rather, the merchandise is shipped to the firm under the aggrement that it will sell the goods for the suppliers the net, keeping only a small commission for itself as profit. The firm has no financing costs since it puts up no money, although it still incurs all the selling expenses. Such suppliers are obligated to make it very plain to the firm that title has not passed by marking the merchandise as their property and insuring that the proceeds generated from the sale of the goods are segregated from the firm's other revenues and remitted to them.

The cost of trade Credit: Although no explicit cost is levied on the receipient of trade credit, the

firm extending the credit does incur a lots in the sense that its money is tied up for the interim. Extending credit to customers, requires the investment of money that could be used elsewhere, and this cost is indirectly passed on to the purchaser in the cost of the merchandise. In the same way that a supplier extends trade credit to his customer, so too, the supplier's supplier generally extends him trade/credit, thereby helping to absorb a portion of/the cost.

Accruals

The second sponteneous source of short term financing for a business firm is accruals. Accruals are liabilities for services received for which payment has yet to be made.[4] The accrued items that are most common by a firm are taxes and wages. Because taxes are payments to the government, their accruals cannot be manipulated by the firm. It can however, manipulate the accrual on wages to some extent.

Delaying payment of current liabilities is known as accruing current liabilities. The firm explicity recognises the fact that it owns these amounts but it postpones payment temporarily using the cash elsewhere. Of course when the firm can no longer postpone payment it must have the cash available.[5]

Although there is no explicit or implicit cost associated with accruals, a firm can save money by accruing as many naira of wages as possible. Therefore accruals are virtually free source of financing. Employees provide services for which they normally are not paid until a specified period of time.. a week, two weeks or even a month has elapsed. The pay period for hourly employees is often governed by union regulations for state government and some time from federal government[6]. However, in other cases the frequency of payment is at the descretion of the company's manager.

It should be noted that the use of accruals as an interest - free source of financing is consistent with the general philosophy of paying bills as late as possible in so far as the firm does not destroy its credit standing. In the case of accrued wages, the firm must be careful not to damage the morals of its employees by delaying the payment of wages for too long. Some times firms pay rent or lease expenses at the end of a lease period. The firm should use accruals as often as possible bearing in mind any subjective cost associated with the utilization of accruals.

2.3 Bank Sources or Unsecured Short Term Financing

Negotiated unsecured short term loans are generally obtained from banks[7]. Lawrence further said that "the major type of loan made by banks to business firms is the short term self-liquiditing loan". We should also realise that loans are said to be self liquidating when the banks motive for providing them is to make available for firms the financing to meet seasonal needs, for instance to cover seasonal increases in inventories or account receivable. Self liquidating loans are normally intended merely to carry the firm through seasonal peaks in financing demands, and it is presumed that as inventories and receivables are converted into cash the funds needed to retire the loan will automatically be generated. In other words, the use to which the borrowed money is put provided the mechanism through which the loan is paid.

Commercial banks are important sources of both unsecured and secured loans, as we shall see. In terms of the aggregate amount of short term financing they provide to business firms, they ran second behind trade credit. While trade credit is a primary source of sponteneous short-term financing, a bank loans reference the primary sources of negotiated short term funds.

What are the typical short term loan arrangements that a financial officer can negotiate with a bank? As financial managers we should be aware that there are many types of loan a firm can negotiate with a bank in addition to the specific terms such as interest rates and minimum balances. The more common unsecured bank credit consist of:-

Single loans (notes)

Line of Credit

Revolving credit

Each of these sources is explained seperately. It is also important to note that when a firm obtains short term bank loan it normally signs a promisory note specifying the amount of the interest rate being charged and the due date. The loan agreement also may contain various protective convenants (secured which we shall see).

a) Single Notes

A firm that often meet fund throughout the year for a particular purpose may find it useful to negotiate a loan with a bank for that particular undertaking. This type of loan is some time, referred to as note. The length of this type of loan can be arranged for 30 days to one year[8] with most being 30 to 90 days. Typically this type of credit is a "one short" deal arranged when a borrower need additional funds for a short period but does not believe that this will continue relatively.[9] As said earlier the instrument backing this type of unsecured loan is a NOTE, which must be signed, by the borrower. The note states the terms of the loan, which

include maturity of the loan interest rate charged. The interest charged on the note is generally stated on a fixed percentage, tied in some fashion to the prime interest.

On the other hand the interest rate a bank charges on an individual loan at a given point in time depends on a number of factors such as the credit worthiness of the borrower. Thus if the borrower is in weak financial position and has overall risk that is thought to be too high, the bank way refuse to make an unsecured loan, regardless of the interest rate. When making the loan decision, the loan officer also considers the size of the checking account balance the firm maintains at the bank, the amount of other business the firm does with the bank, the rate that competative banks are charging on similar loans. In general commercial banks do not make short term unsecured loans to business that are believed to have questionable risks. Is our case study getting such financial previlage? Does it enjoy it? Is what we shall see in the next chapter.

b) Line of Credit

Is an agreement between a commercial bank and a business firm that states the amount of unsecured short term borrowing the bank will make available to the borrower thus a firm that needs funds periodically

throughout the year for a variety of purposes may find it useful to negotiate a line of credit with its bank. A line of credit is an agreement that permits the firm to borrow funds up to predetermined limit at any time during the life of the agreement. Of the major advantage of this type of borrowing agreement, as compared with single loans is that the firm does not have to renegotiate with the bank every time funds are required, instead, it can obtain funds on short notice with little or no additional justification.

Another advantage to establishing a line of credit is that the firm can plan for its future short term financing requirements without having to anticipate exactly how much it will have to borrow each month.

A line of credit is usually negotiated for a one year period with renewals being subject to renegotiation each year[10]. In determining the size of a credit line, a bank will consider a firm's credit worthiness, along with its projected financing needs. As part of the application for a line of credit, the firm is normally required to provide the bank with a cash budget for the next year, along with current and projected income statements and balance sheets. The interest rate on a line of credit usually is determined by adding to the prime rate a premium based on the borrower's credit worthiness. Since the prime rate normally fluctuates over time the interest varies during the life of the agreement.

A line of credit agreement normally includes certain protective convenants. In addition to possibly including a compensating balance requirements, the loan agreement usually contains an annual "clean-up" provision requiring that the firm have no loans outstanding under the line of credit for a certain period of time each year, usually 30 to 90 days. This type of policy helps reassure the bank that the firm is using the line of credit to finance seasonal needs for funds and not to finance permanent capital requirement. Finally a line of credit agreement may also contain provisions (similar to those in term loan agreement) that require the firm to maintain a minimum working capital position limit to total debt and lease financing, and restrict dividend payment.

c) Revolving Credit

As a source of short term financing, "revolving credit is a legally binding commitment by the bank to loan a specific maximum amount over a specific period as required from time to time by the firms. The cost is usually in two parts. When the revolving credit is originally negotiated, the firm pays the bank a commitment fee for example this might be 0.5% of the unused commitment meaning that even if the firm never used the credit, it still must pay the bank 0.5% of the total commitment each year the agreement is in force. When

the firm takes down part of the commitment, it starts to pay interest at the agreed upon rate on that amount and continues to pay the commitment fee rate on the part of the loan it did not take down.

The maturity of the revolving credit agreement is usually such that the loan has to be renewed every few months during the commitment period. In a sense, the loan revolves or turns over periodically during the commitment period. The entire commitments period is often in excess of one year.

Revolving credit is commonly unsecured, and no inventory or accounts receivable are pledged. Frequently, the firm agrees to maintain a minimum level of working capital, insure the firm's mechandise or incure no further debts as terms of the credit. These and other similar terms are required by the bank in an effort to insure the liquidity of the borrower and repayment of the loan.

The repayment terms of revolving credit are negotiable like the other terms. Although the typical repayment is one lump sum at the end of the commitment period. Albeit financial managers may have negotiated the renewal of commitment before the original period so that the firm would not have to repay the loan at that time.

They might also have originally negotiated that the revolving credit could be converted into an intermediate term loan at the firm's option. This added flexibility gives the firm an opportunity to lengthen the maturity of its debt and a bargaining alternative in its negotiations with other suppliers of funds.

2.4 Non Bank Sources of Unsecured Short Term Loans

Commercial paper, customer advances, and private loans are the three most common non bank sources of negotiated short term unsecured loans[12], although not every business firm is capable of obtaining such loans. Thus the availability of these forms of financing depends largely on the nature, size and operating environment of the firm.

a) Commercial Paper

Commercial paper consists of short term unsecured promissory notes issued by large well-known corporations. It is often been said only firms with high quality credit ratings are able to borrow funds through the sale of commercial paper. Purchases of commercial paper include corporations with excess funds to invest, banks, insurance companies, pension funds and other types of financial institutions hence commercial paper represents an attractive financing source for large financially sound firms, since interest rates on commercial paper issues tend to be below the prime lending rate.

In other words, business firms are able to raise funds through the sale of commercial paper more cheaply than by borrowing from a commercial bank. This is because many suppliers of short term funds do not have the option of making business loans at the prime rate; they can invest only in marketable securities such as treasury bills and commercial paper. The fact that commercial paper is an extremely safe marketable security with a higher yield than treasury bills and most other marketable securities, it is a quite attractive investment. In essence the motive for purchasing the paper is the need to find an interest earning medium in which to place temporarily idle funds.

The interest paid by the issuer of commercial paper is determined by the size of the discount and the lenth of time to maturity. Commercial paper is sold at a discount from its face value, and the actual interest earned is determined by certain calculations.

"The sale of commercial paper: Commercial paper is sold either directly to the purchaser or through middlemen known as commercial paper house[13]". For conducting the marketing functions, the commercial paper house receives a fee. Most commercial papers are directly placed with other corporations, life insurance companies, or pension funds. Dealers in commercial paper purchase the paper from the insurer and place it with banks and other large investors. Direct placement of commercial paper is cheaper from

the issuers point of view.

Although the issuer repays the commercial paper at maturity in most cases, the issuer can revolve the paper by replacing the maturity issued with a new issue. However as financial managers we should beware that there is no guarantee that the firm will be able to revolve the issue when it want, to in his opinion Lawren G.J. said that although commercial paper act as a primary source of short term money, it should instead act as a secondary source for such funds. This strategy ensures that when money is tight, funds can be obtained promptly through the firm's commercial bank.

b) Customer Advances: another major source of short-term financing of an unsecured loan is customer advances. In other words customer may pay for all or a portion of what they intend to buy in advance of their receipt the goods.

In many circumstances where a large expensive item is being, customer manufactured the customer may be more than willing to make an advance against the merchandise to finance a portion of the cost of production. In other words a customer may be highly dependant on a supplier for a key component and may therefore find it to his advantage to assure the suppliers success by providing financing in the form of an advance from the customers.

c) Private Loans: Short term unsecured loans also can be obtained from stock holders who may be quite willing to lend money to the firm to get it through a period of crises. This type of arrangement makes sense from the viewpoint of the shareholder, who has a rested interest in survival of the firm. Another form of private loan can be obtained by temporarily foregoing commissions for salesmen. Therefore each of these types of loans involves the extension of unsecured credit to the firm by an interested or a concerned party.

Lastly the reader should note that right from the beginning up till this point we deal with the first part of the chapter namely short-term sources of on unsecured loans. Now we move to secured loans/ financing. And finally the summary of the whole chapter as the reader will see.

2.5 Sources of Secured Short-Term Financing

Normally the unsecured short term financing that is available to a firm is limited to certain extent. Such that beyond that limit some sort of security must be provided in order to obtain additional funds. That as the firms incures more and more amounts of unsecured short term financing a threshold level is reached above which suppliers of short term funds feel the firm is

too risky to be extended additional unsecured credit. At this point in time secured financing is thus the only alternative source of short term funds to such firms.

This division, in other words the second part of the chapter is composed of four main sub-headings, which include the nature, characteristics and suppliers of secured short term loans to business, followed by how accounts receivable may be used to obtain short term funds, then how inventories are used as collateral for short term loans.

Characteristics of Secured Short-Term Loans

A secured loan is a loan for which the lender requires collateral. The collateral most commonly takes the form of a physical asset such as accounts receivable or inventory. The lender obtain a security interest in the collateral through the execution of a contract (security agreement) between it and the borrower[14]. Normally the terms of the agreement against which the security is held are attached to or part of the security agreement.

They specify the conditions required for the security interest to be removed along with the interest rate on the loan, repayment dates, and other loan provisions. Because of the extra paper

work and higher degree of risk associated with secured loans, the terms of secured short term loans are normally not as favourable of those of unsecured short term borrowing. Depending on the actual security agreement, the borrower may or may not retain control of the loan collateral.

We shall now proceed to discuss the common types of institutions normally extending secured short term loans, security interest and the nature of acceptable collateral for secured short term loans. The three basic types of security interest are usually used in secured short term loans to business borrowers, are floating lien, the trust receipt, and the ware-house receipt loan.

Normally floating lieans represent a general claim on a group of assets. Inventory's floating liens provides the lender with collateral involving whatever items are in inventory at a given point in time. In this situation the cost of specifically identifying and keeping tract of each item of collateral would be prohibitive. Nevertheless, the lender has a legitimate legal claim on all items covered by a liean for, it is not a casual arrangement. Another type of security interest with regards to short term secured loans is trust receipt loan, which indicates a loan made against specific collateral that remains in the possession of the borrower[16]. This type of

arrangement can be made with respect to any asset, such as inventory or receivables the lender in this arrangement, takes a lien on the specific assets used as collateral. These assets are specifically identified in the security agreement either by serial numbers or by account names. The borrower normally retains title of to the possession of the collateral.

On the other hand warehouse receipt loan is also another type of security interest. Warehouse receipt loans is typically a loan secured with inventory. This type of loan allows the lender to maintain control over the collateral. The borrower cannot see any of the collateral without the lenders written permission. The warehouse receipt loan provides the lender with the best position with respect to collateral, since he has direct control over in disposition. Here a lender is more likely to lend a larger amount against inventory under a warehouse receipt arrangement than under the other terms of security agreements mentioned earlier, as we shall see the details in the discussion of inventory as collateral.

What then constitutes acceptable collateral? Many factors must be considered with regards to nature and desirability in collateral for secured short term loans. These factors included the life of the collateral, the liquidity of the collateral, the percentage advance and the interest rate and fees

charged. The life of collateral, at this point lenders of secured short term loans prefer the collateral that has a life closely related to the term of the loan. This requirement assures the lender that the security is sufficiently liquid to satisfy the loan in the event of a default. By closely aligning the maturity (ie. turn over) of the collateral with the loan maturity the lender is assured of protection throughout the life of the loan and is somewhat assured that his funds can be readily recovered through liquidation of the collateral in the event of defaults on the loan.

The liquidity of the collateral, is another important consideration for the lender in evaluating the position of the loans the short term lender of secured funds is more often than not to find only current assets acceptable as collateral. Generally, the less acceptable collateral a firm has in the form of current assets the less short term the firm is able to borrow on a secured basis.

With regard to "percentage advances", after a secured lender determining the acceptable collateral of a given firm, he must determine what amount he is willing to earned against the book value of this collateral. Normally percentage advances are low for floating liens, and higher for "trust receipt" and "warehouse loans"

They are low if the collateral is not very liquid and larger if the collateral is highly liquid. By selecting only acceptable assets and making loans equal to only certain percentages of the collateral value, the lander adjust the riskness of the loan to level that he regards acceptable.

In the case of interest rate and fees as to what constitutes collateral, the interest rate charged on secured short term is normally higher than the interest rate on an unsecured short term loans. According to frangis J.B. in his book, Managerial Finance, he said although it may be amazing to say their interest rate in secured short term loans is higher than in an unsecured short term loans.

This stems from the fact that the primary suppliers of an unsecured short term loans are commercial banks who make loans only to the better business borrowers. That if a customer is not a reliable credit risk to warrant an unsecured loan, commercial banks in many cases prefere to make an unsecured loan to other acceptable borrowers than to make a secured loan. The higher cost of secured as opposed to unsecured borrowing can therefore be attributed to the greater risks of default and the increased loan administration costs.

Under this sub-heading the last item to be discussed is what are the institutions extending secured short term loans? Of course the primary sources of short term secured loans are commercial banks and commercial finance companies. Normally such institutions deal in short term secured loans by accounts receivable, inventory and marketable securities.

Although commercial banks are the primary suppliers of short term secured loans, many commercial banks also grant short term secured loans to business[10].

Normally only the large commercial banks extend these secured loans, due to their ability to achieve certain economics in the administration of these loans. Usually it is through these types of loans, that the larger banks are able to justify the employment of specialists for analyzing administring and policing them. Also small banks are more constrained with respect to the maximum size loan they can extend to a single borrower. For commercial banks are legally prohibited from lending an amount greater than 10% of the unimpired capital to a single borrower. This is because the government wants protect the interest of the depositors by making the bank to spread its risk to many borrowers.

On the other hand commercial finance companies are the financial institutions without banks charter that makes loans secured with accounts receivable, inventories or chattel mortgages on fixed asset.[20]

These finance companies specialize in providing loans to firms that banks, for one reason or another will not lend. These companies typically deal with the more marginal firms and design loans especially for the particular situation in an effort to foster the financing the firm's need and capabilities and to ensure repayment. In return for their services and the loan, the business finance companies charge a high rate of interest than the bank and may also receive fees for advisory and other services. The financial manager will generally go finance companies only when the firm's borrowing cost at its bank become too high.

The Use of Account Receivable as Collateral

Accounts receivable are one of the most commonly used forms of collateral for secured short term borrowing. From the lenders point of view, accounts receivable represent a desirable form of collateral. Since they are relatively liquid and their value is relatively easy to recover if the borrower became insolvent. In addition, accounts receivable consist of document representing customer obligations rather than cumbersome physical assets. Off setting these advantages, however are potential difficulties. One problem is that the borrower may attempt to fraud the lender by pledging nonexistent accounts

Also, the recovery process in the event of insolvency may be hampered if the customer who owns the receivables returns the merchandise or files a claim alleging that the merchandise defective. Lastly, the administrative costs of processing the receivables can be high, particularly when there is a large number of invoices involving small naira amounts.

Nevertheless, many firms use account receivable as collateral for short term financing, by either pledging their receivables or factoring them.

Pledging Accounts Receivable:- The process of pledging begins with a loan agreement specifying the procedures and terms under which the lender will advance funds to the firm - when accounts receivable are pledged, the firm retains title to the receivables and continues to carry them on its balance sheet. However, the pledged status of the firms receivables should be disclosed in a footnote to the balance sheets.[21]

A firm that has pledged receivables as collateral is required to repay the loans, even if it is unable to collect the pledged receivables. In other words the firm assumes the risk. Both commercial banks and finance companies make loans secured by accounts receivable.

A firm that has pledged receivables as collateral is required to repay the loan, even if it is unable to collect the pledged receivables. In other words the firm assumes the risk. Both commercial banks and finance companies make loans secured by accounts receivable.

Normally receivables loans are made on either non-notification basis or on notification basis. Most receivables loans are made on a non-notification basis[22], which means the customer is not notified that the receivable has been pledged by the firm. The customer continues to make payments directly to the firm. To protect itself against possible fraud, the lender usually requires the firm to forward all customer payments in the form in which they are received in addition, the borrower is normally subject to a periodic audit to insure the integrity of its receivables and payments. Usually receivables that remain unpaid for two days or so must be replaced by the borrower.

On the other hand when loan are made on a notification basis, the customer is instructed to make payments directly to the lender[23]. Whereas firms obviously prefer to borrow on non-notification basis, this latter arrangement provides the lender with more protection against possible fraud.

The customer payments received by the lender are used to reduce the firm's loan balances and eventually repay the loan. Receivables loans can be a continuous source of financing for the firm, however, provided that new receivables are pledged to the lender as existing accounts are collected. By periodically sending the lender new receivables. The company can maintain its collateral base and obtain a relatively constant amount of financing.

Receivables loans can be an attractive source of financing for a company that does not have access to unsecured credit. As the company grows and its level of receivable increases, it can normally obtain larger receivables loans fairly easily. Because of the processing costs of administring accounts receivables this type of financing can be quite expensive for the firm.

a) (ii) Factoring Accounts Receivable

Factoring receivables involves the outright sale of the firm's receivables, to a financial body known as a factor[24]. The title of ownership of the factored receivable is transfered to the factor, and the receivables no longer appear on the firm's balance sheet.

Processes of factoring begins with an agreement that specifies the procedures for factoring the receivables and the terms under which the factor will advance funds to the firm. Under the normal factoring arrangement, the firm sends the customer order to the factor for

credit checking and approval 'before' filling it. Once the factor decides that the customer is an acceptable risk and agrees to purchase the receivable the firm ships the order to the customer. The customer usually is notified that its account has been sold and is instructed to make payments directly to the factor.

According to Lawrence J.G. most factoring of receivables is done on a non-recourse basis, in other words the factor assumes the risk of default. Although on every case factoring of receivables is done on recourses basis, in which case the firm is liable for cases on any receivables that ware sold to the factor but have not (the factor) collected the payment. If the factor refuse to buy a given receivables the firm still the order to the customer and assume the default risk itself, but this receivable does not provide any collateral for additional credit.

In the typical factoring agreement, the firm receives payment from the factor after the normal collection or due date of the factored accounts. If the firm want to receive the funds prior to this date, it usually can obtain an advance from the factor.

Therefore in addition to credit checking, collecting receivables and bearing default risk, the factor also performs a lending function and assess charges for each service period. The maximum advance the firm can obtain

from the factor is limited to the amount of factored receivables 'less' the factoring commission, interest expense, and reserve that the factor witholds to cover any returns or allowances by customer.[25]

A firm that factors all its receivables does not need a credit department and does not have to incure the administrative and clerical costs of credit investigation and collection or the losses on uncollected accounts. In addition, the factor may be better able to control losses than a credit department in a small or medium sized firm due to its greater experience in credit evaluation. Thus although factoring receivables may be a more costly form of credit than unsecured borrowing the net cost usually will be below the stated factoring commission and interest rates because of credit department and bad-debt loss savings.

Inventory As Collateral

Inventories are another commonly used form of collateral for secured short term loans, like receivables, many types of inventories are fairly liquid. Thus lender consider them to be a desirable form of collateral. When judging whether a firm's inventory would be suitable collateral for a loan, the primary considerations of the lender are the type, physical characteristics, identifiability liquidity and marketability of the inventory.[26]

Usually firms maintain three types of inventory namely: Raw Materials, Work in Progress and finished goods.[27] And normally, only raw materials and finished goods are considered acceptable as security for a loan. The physical characteristics with which lenders are most concerned is the item's perishability. Inventory that is subject to significant physical deterioration over time is usually not suitable as collateral. In the event that the borrower defaults the lender want to be able to take possession, sell the collateral, and recover the full amount owed with minimal cost and difficulty.

In making a loan secured with inventories, the lender can either allow the borrower to hold the collateral or require that it be held by a third party. If the borrower holds the collateral, the loan may be made under floating lien on trust receipt arrangement, but if on the other hand a third party is involved to hold the collateral, either a terminal warehouse or a field warehouse financing arrangement can be used. Now we shall take these methods one after another according to the writers diagnosis.

Floating Liencing

This is an arrangement under which the lender receives a security interest or a general claim on all of the firm's inventory this may include both present and future inventory. This type of arrangement often is applied when the average value of the inventory items

is small, said Mr. Bolten Steven. In this method specific (items are not identified). Thus, a floating lien does not offer the lender much protection against losses from fraud or bankruptcy. As a result, most lenders are not likely to advance a high percentage of funds against the book value of the borrower's inventory.

Trust Receipts as it Relates to Inventory

Under this type of agreement, a trust receipt is a security where the firm holds the inventory and proceeds from the sale in a trust for the lender. Wherever required to immediately forward the proceeds to the lender these then are used to reduce the loan balance. Some firms engage, in inventory financing on continuing basis, in such cases a new security agreement is drawn up periodically, and the lender advances the firm additional funds using recently purchased inventories as collateral.

All inventory items under a trust receipt arrangement must be readily identified by serial number or inventory code number.[30] The lender makes periodic, unannounced inspections of the inventory to make sure that the firm has the collateral and has not with-held payment for the inventory that has been sold.

Warehouse Receipt Loans

This method as seen earlier is of two types namely terminal warehouse and field warehouse. Under a terminal warehouse financing arrangement, the inventory being used as loan collateral is stored in a bonded warehouse operated by a public warehousing company[31]. When the inventory is delivered to the warehouse, the warehouse company gives a warehouse receipt lining the specific items received by serial or lot number. The warehouse receipt is forwarded to the lender, who then advance funds to the firm.

Bearing the warehouse receipt provides the lender a security interest in the inventory. The fact that the warehouse company will release the stored inventory to the firm only when authorized to do so by the lender holder of the warehouse receipt, the lender is able to exercise control over the collateral. As the firm repays the loan, the lender authorizes the warehouse company to release appropriate amounts of the inventory to the firm.

Field Warehouse Financing Arrangement

Under a field warehouse financing arrangement, the inventory that serves as security for a loan is segregated from the firms other inventory and stored on its premises under the control of a field warehouse company. The field warehouse company issues a warehouse

receipt, and the lender advances funds to the firm. The field warehouse releases inventory to the firm only when authorized to do so by the lender.

Although terminal warehouse and field warehouse financing arrangements provide the lender with more control over the collateral than it has when the borrower holds the inventory fraud and/or negligence on the part of the warehouse company can result in losses for the lender. It is also expensive because of the higher charges, than the floating and trust receipt methods.

2.6 Other Types of Secured Loan

Other types of security for a short term loans as proposed by Lawrence, consist of stock and bonds, co-maker loans, cash surrender value of life insurance, non-corporate assets and government guaranteed loans. Of which he said the most common of these types of security are stocks and bonds and co-maker loans.[32]

Stock and bond Collateral

Under this category the bonds that are issued in bearer bond can be regarded as collateral. The bearer bond according to Lawrence are bond that can be transferred from one party to another in the name of the initial owner. The lender is interested in accepting the only collateral that has a relatively stable market value and price. The lender retains the collateral and receives a power of attorney that enables him to liquidate it if the borrower defaults on the terms of the lending agreement.

Co-Maker Loans

This arises when another party, who may have an inspired interest in the firm's financial future, for the loan. Although no tangible collateral is pledged against the loan. The borrowing power of a more economically sound party is used to back up the loans example wealthy stockholder, supplier etc.

2.7 Summary of the Chapter

As the reader has gone through the contents the following summary is important in order to reflect the general message of the chapter.

Short term credit may either be unsecured or secured. In the case of unsecured no assets is specifically pledged as collateral, while in the case of secured the borrower pledges certain assets. Such as inventory receivables or fixed assets. Firms prefer in general to borrow on an unsecured basis, since pledging assets as security generally raises, the overall cost of the loan and also can reduce the firm's flexibility of restricting future borrowing.

Trade credit, accrued expenses and deferred income are the primary sources of sponteneous short term credit. Bank loans, commercial paper, receivables loans and inventory loans represent the major sources of negotiated short term credit.

Short term bank credit can be extended to the firm lender a single loan, a line of credit or a revolving credit agreement. A line of credit permits the firm to borrow funds up to a predetermined limit at any time during the life of the agreement. A revolving credit legally commits the bank to provide the funds when the firm request them.

Commercial paper consists of short term unsecured promisory notes is used by large, well-known corporations with exellent credit ratings.

Account receivable loans can be obtained by either pledging or factoring receivables. Firms also have several types of inventory loans that are potentially available on their demands, which includes floating lien or trust receipt arrangement, terminal warehouse and field warehouse.

It should be clearly noticed that no one source or combination of sources of short term financing is necessarily the best for all firms. Many other factors, in addition to effective annual cost, need to be considered when choosing the optimal source of sources of short term financing. Some of these factors include the availability of funds during periods of financial crises or light money, restrictive covenants imposed on the firm, and the nature of the firm's operations and funds requirements.

Therefore as introduced earlier, this is just a mere literature review theoritically. Based on these concepts and theoritical principles, we shall examine the short term financing structure of our case study (Sokoto Furniture Factory), assess the situations identify the problems and using these conceptual propositions provide, solutions. These analysis will come up in the next chapter namely chapter three.

CHAPTER THREE

DATA PRESENTATION AND ANALYSIS

Sokoto Furniture factory was established in 1974 when it was officially opened by General Yakubu Gowon, the then Head of State of the Federal Military Government, on 4th of April of the same year. Sokoto Furniture Factory started operation with a paid up initial capital of eight hundred thousands naira (₦800,000). The factory is located at Canteen Daji Area off Abdullahi Fodio Road in the State Capital Sokoto.

It is observed that the factory has been growing right from its inception and is now one of the leading and biggest furniture manufacturers in Nigeria. The factory was among the 61 firms nominated for the award of trompy by international furniture Europe award in Spain in September, 1985.

Sokoto Furniture factory was owned by Sokoto State Government and Lebanese Foreign Partners. The Sokoto State Government controls 60% of the share capital and 40% for the Lebanese respectively.

Sokoto Furniture Factory has a staff strength of 600 employees. Amongst the workers are highly professionals in the field, skilled as well as unskilled workers.

The major customers of the factory include Ministries of both Federal and State Governments, companies and individual customers. The firm has many selling agents within and outside the state. They operate on both manual and modern technology.

The firm, as realized during the research is planning to increase its share capital, as noted earlier the company started operation as early as 1974, when it was officially opened. Currently the firm operates only in Sokoto, though its products is found at, every corner of the Federation. The firm as noticed during the interview, is planning to extend its operation to other parts of the country in order to cut down the cost of transportation both finished goods and raw materials.

The places of extension includes Kaduna, Kano and Abuja (Federal Capital Territory). According to the General Manager all the preparations to effect the expantion are now on progress. This expansion will also make the potential customers closer to the firm's product.

The management of the firm is expecting to complete the work by the end of 1994. The project needs a lot of funds, because of the present inflationary trends. Nevertheless the firm have already negotiated with their creditors to provide the funds for the successful completion of the project.

With regards to the methodsof analysis, two statistical instruments of data analysis are applied. Firstly all the field data collected and extracted from the books of account of the case study were tabulated. Each of the statistical table was explained and analysed separately.

It is however important to note that, the presentation and analysis of the data followed, the trends of the reviewed literature. In other words data which concerned the unsecured sources of short-term financing proceeded that of secured short term financing.

The second statistical instrument applied in the analysis is the financial computation by the use of financial ratios. These financial ratios were extensively used to analyse the tabulated informations.

As will be seen at the end of the analysis there will be findings. It is also important to note that these findings forms the basis of the recommendation in the next and last chapter, namely chapter four.

3.1 Unsecured Sources of Short Term Financing

To refresh our memory unsecond sources of short term financing involves funds obtained by the firm without specifically pledging assets as collateral. These sources includes spontenious, bank and non bank sources of short-term financing. Spontenious sources of funds are the funds that came as a result of the company's usual

operations. Basically spontenious involves trade credit (account payable) and accruals. Trade credit refers to a situation where a firm will purchase raw materials and other related items without concorent payment of the price. And that no any legal document indicating the liability of the buyer to the seller. Trade credit could take two forms; on one hand form the seller's view point and on the other from the buyer's view point. The former establishes account receivables while the letter creates accounts payable.

SFF's credit policy is tight as opposed relaxed policy. Therefore the company does not purchase its raw materials in forms of trade credit. Rather it prefers to borfow money from other sources and purchases its raw materials. Other elements of trade credit such as trade acceptance, promissory note and consignment as reviewed in the literature does not operationally exist in Sokoto Furniture Factory.

The second spontenious sources of short-term financing is accruals. Accruals are liabilities for service received or tax not paid. The most common items of accruable expenses are tax and wages. With regards to the case study accruals have been an important source of short-term funds for the current

operation of the case. Accruals normally refers to a situation where the firm explicity recognises the fact that it owes amounts but it postpones payment temporarily thereby using the cash elsewhere.

Table I, as extracted from the company's balance sheets from 1984 - 1991 shows the level of accrued expenditure enjoyed by the firm in the case. Of course when the firm can no longer postpone payment it must have the cash available.

TABLE 1: THE ANNUAL LEVEL OF ACCRUALS IN RELATION TO THE FIRM'S CURRENT LIABILITIES

YEAR	TOTAL CURRENT LIABILITIES	ANNUAL ACCRUED EXPENSES	% OF ACCRUALS
1984	2800,000	1100,000	39.29
1985	3200,000	1400,000	43.75
1986	3900,000	1800,000	46.15
1987	5000,000	1900,000	38.00
1986	4800,000	1500,000	31.25
1989	5100,000	2,000,000	39.22
1990	6400,000	2000,000	31.25
1991	5300,000	2000,000	37.74

SOURCE : Extracted from the Company's balance sheet

Table one clearly shows the preferences of the company in the case to accruables expenditure in its current liabilities as against trade credit. The implications of such preferedness is that it is likely to be at the detrement of the workers which will consequently affect their commitment to job. Moreover the percentage of the accrued expenses is relatively and consistently higher, averaging from 35 to 36 percent of the total current liabilities.

3.2 Commercial Banks

Commercial banks constitutes another basic sources of short-term financing which could be secured or unsecured pending on the terms of the agreement. Unsecured loans from commercial banks have various forms; such as single notes line of credit and revolving credit (the details of which is contained in the chapter two). Of the two forms, Sokoto Furniture Factory operates line of credit.

Banks of the North which is the company's banker provides the 'firm' under study its need of short term funds, through the line of credit agreement. In this respect the firm in case could obtain an amount up to the extent of 1,000,000. Table two below shows the patterns of the company's annual collection of the line of credit over a period of eight years (from 1984-1991).

TABLE 2 THE ANNUAL AMOUNT OF LINE OF CREDIT

YEAR	TOTAL C LIABILITY	ANNUAL LINE OF CREDIT	% OF LINE OF CREDIT
1984	2,800,000	700,000	25.00
1985	3,200,000	800,000	25.00
1986	3,900,000	800,000	20.51
1987	5,000,000	1,000,000	20.00
1988	4,800,000	900,000	18.75
1989	5,100,000	1,000,000	19.61
1990	6,400,000	1,000,000	15.63
1991	5,300,000	1,000,000	18.87

Source: Extracted from the books of SFF.

If the firm wants any amount more than the negotiated ₦1000,000, it must pledge its assets as collateral. It could also be noted that the proportion of accruals in the company's total current liabilities is higher than that of line of credit each year, simply because in the case of accruals the firm could postpone any payment while in the case of line of credit the agreed time is stipulated.

As line of credit agreement normally includes certain protective convenants the agreement contains a "clear up provision" requiring the company that between November and December each year there should be no outstanding balance, so as to enable the bank to know whether the loans is used to financed the firm current asset or not.

3.3 Non Bank Sources

The non bank sources of short term funds includes commercial paper customer advances and private loans. Information collected through documented records, shows that SFF have no element of financing through commercial paper, neither does it deals with private loans to finance its current assets.

However, the company considers customers advances as a source of financing. Even though the company gives no much emphasis on customer advances as source of financing. According to the management the company collects customer advances simply to make the customer stable in his "where to buy decision".

Table three shows the relative amount received from customers as advances over the years.

TABLE 3 CUSTOMER ADVANCES FROM 1984 - 1991

YEAR	TOTAL C LIABILITIES	TOTAL CUSTOMER ADVANCES	% OF C ADVANCES
1984	2,800,000	200,000	7.00
1985	3,200,000	450,000	14.00
1986	3,900,000	500,000	12.82
1987	5,000,000	350,000	7.00
1988	4300,000	600,000	13.00
1989	5,100,00	390,000	8.00
1990	6,400,000	480,000	8.00
1991	5,3000,000	600,000	11.000

Source: From the books of SFF

Table three shows the level of customer's advances in the company's current liabilities. Infact the proportion of customer advances in the total current liabilities is very low. A manufacturing company like SFF whose production patterns is mainly based on customer particular order, could have use more of customer advances than what obtains in table 3 above.

According to the data collected SFF avoids pledging its accounts receivables because of the higher discount rate it involves. Secondly the firm under study also does not factor its account receivables. This is because there is no soundly established financial institutions that under take such risky business locally.

In many cases it is not advisable for a firm to either pledge or factor its account receivables unless if there is no alternative.

This is because the lending firm who may agree to take accounts receivables, will only do so if the borrowing firm not only agreed to discount the accounts but also pay up any defaulting debtor.

SFF pledges its stock of inventory in order to acquire short term funds. This is indicated in the Table four, which shows the level of pledged inventory in proportion to the company's current assets in order to obtain funds.

Table 4 THE PLEDGED INVENTORY IN PROPORTION TO CURRENT ASSETS, FROM 1984 - 1991

YEAR	T.C. ASSETS	PLEDGED INV.	% OF PLEDGED INV
1984	6,000,000	-	-
1985	6,100,000	-	0
1986	6,100,000	2,000,000	33.00
1987	7,000,000	2,100,000	30.00
1988	6,500,000	2,300,000	35.00
1989	6,500,000	2,500,000	38.00
1990	6,000,000	2,000,000	33.00
1991	5,800,000	1,200,000	20.68

Source: Extracted from the books of SFF.

The fact that the company could only borrow (through line of credit) as much as ₦1,000,000 means that to obtain any amount more than that it must pledge part of its current assets as security. The implication of pledging inventory is that the borrowing firm may loose its original legal control of its stock. That is the borrowing firm could be legally denied some of its claims of complete ownership over the pledged assets. Secured loan is also more costly because of the legal and clerical process that must be undergoned.

From the early 1970s (immediately after the civil war) commercial and industrial sector started to experience growth and development. The rapid growth was on one hand, due to the Federal government policy of industrialization and on the other hand because of the oil boom which boost up both private and public sectors of the economy. During this time the production of both private and public sector was reasonably increasing. Up till 1982 when Nigeria started experiencing economic depression bitterly. This economic depression that started from 1982 persisted up to present day, despite various government efforts to reform the situation such as SAP as a measure. What is however important is how this economic depression militates against the availability of the funds supplied by commercial banks to business firms. If it does to what extent? If it doesn't why?

Table five will prove to us whether over the eight years under review the firm in the case study has been enjoying this loans from its bankers.

TABLE 5 TOTAL LOANS AND ADVANCES FROM BANK OF THE NORTH TO SFF FROM 1984 - 1991

YEAR	TOTAL DEBT	TOTAL LIABILITY	TOTAL C. LIABILITY FROM BANK OF THE NORTH
1984	10,700,000	9,200,000	1,500,000
1985	11,000,000	9,800,000	1,200,000
1986	13,000,000	7,300,000	1,900,000
1987	16,000,000	11,000,000	2,000,000
1988	16,000,000	13,200,000	2,800,000
1989	17,000,000	11,900,000	2,100,000
1990	20,000,000	17,600,000	2,400,000
1991	21,000,000	17,800,000	2,300,000

Source: Extracted from the books of SFF.

Thus the present economic crisis have not militated against the commercial bank's supply of funds to business firms. Because throughout the period under review shows that the supply of funds has been relatively stable.

The mixture of elements of financing: such as long term debt, common stock equity, preferred stock equity, retained earning and short term loans. These components are what constitute the financing mix of a firm. Each of these components may be preferred to another because of many reasons such as interest rate, availability, legal restrictions and efficiency. Financing mix varies from one firm to another.

Table six below contains the financing mix of the firm under study from 1984 - 1991. Therefore looking at the table we shall use certain ratios to measure the preformance of the firm, and finally advise the firm accordingly in respect to short term funds sources.

When enquired as to why the company is not dealing with commercial paper as a source of short term funds, it was realized that, the situation was because there are no finance companies that could provide such funds to business firms locally. Hence the concept of commercial paper is only a book phenomenon.

3. 4 SECURED SOURCES OF SHORT TERM FUNDS

Unlike unesecured loans that are based with no collateral security, secured loans, are loans that are normally backed with a collateral security. On default the lender could easily liquidate the pledge asset and recover his money. The major items to be examined in respect of secured loans includes accounts receivable, inventory and co-maker loans. (As discussed conceptually in chapter two).

Accounts receivable are the debt obligation to be collected by the selling firm from its debtors at a future date.

TABLE 6 CAPITALIZATION STRUCTURE OF SFF FROM 1984-1991 (IN ₦'0000)

YEAR	COMMON STOCK	PREFERRED STOCK	RET EAR	LONG TERM DEBT	CURRENT LIAB	TOTAL CAPITAL	INV ON DEBT	RETURN IN INV
1984	2100	800	700	720	280	4600	12%	20.12%
1985	2150	500	600	780	320	4600	12.25%	21.00%
1986	2200	800	700	910	370	5000	12.75%	21.50%
1987	2200	800	700	1100	500	5350	12.50%	20.00%
1988	2300	800	680	1120	480	5380	13.45%	22.00%
1989	2310	800	810	1190	510	5620	14.25%	23.00
1990.	2400	800	600	1360	640	5800	15.00%	25.00%
1991	2500	800	630	1580	530	6040	15.00%	25.00%

Source: From the books of SFF

As said earlier, Table six shows the summary of the liability side of the company's balance sheet from 1984-1991 as presented along side with interest rates and return on investment (ROI). This summary would be used for the analysis of some key financial ratios. This will enable us to arrive at a judicious conclusions as regard to whether the company in the case is performing effeciently or not. And this could only be realistic through comparison with other similar or related industry averages.

The ratios to be analysed include liquidity and activity ratios, debt ratios, and profitability ratios. As a rule, the necessary inputs to a good financial analysis include at minimum, the income statement and balance sheet. The reader will find greatest emphasis placed on measures of liquidity and profitability, since these areas provides information most critical to the short term operations of the firm. If the firm cannot survive in the short run, one need not concerned himself with the long term financial aspects of the firm.

a) Liquidity and activity ratios of SFF 1984-1991

i) Current Ratio: Is the ratio that shows how liquid the firm is, itis the most commonly used ratio. It is expressed as:-

Current Assets
Current Liability

The current ratio of manufacturing firm is acceptable when the ratio is 1:2. Is Sokoto Furniture Factory generally 1:2 current ratio? See table seven.

Table 7 CURRENT RATIO OF SFF AND THE INDUSTRY AVERAGES

YEAR	CURRENT ASSETS	CURRENT LIABILITY	CURRENT RATIO	INDUSTRY AVERAGE
1984	6,000,000	2,800,000	2.14	1.85
1985	6,100,000	3,200,000	1.91	1.90
1986	6,100,000	3,900,000	1.56	1.87
1987	7,000,000	5,000,000	1.40	1.89
1988	5,500,000	4,800,000	1.35	1.70
1989	6,000,000	5,100,000	1.18	1.75
1990	6,000,000	6,400,000	0.94	1.70
1991	5,800,000	5,300,000	1.09	1.50

Source: Extracted from the books of SFF

Table seven , shows that the proportion of current liabilities to current assets is not attractive to potentials short term creditors, particularly in 1990 when their current ratio fall from 1:18 in 1989 to 0.94 in 1990.

a) The debt ratio

This ratio measures the proportion of total assets provided by the firm's creditors the higher the

amount the greater the peoples money in the business firm. It is calculated as:

$$\text{Debt ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100$$

Table 8 shows the situation of Debt ratio of SFF.

Table 8 - DEBT RATIO OF SFF (IN ₦'0000)

YEAR	TOTAL LIABILITIES	TOTAL ASSETS	DEBT RATIO	IND AVERAGE
1984	1070	2500	39%	50%
1985	1100	2600	42%	50%
1986	1300	2700	42%	52%
1987	1600	3100	48%	56%
1988	1700	3100	51%	53%
1989	1700	3400	51%	52%
1990	2000	4500	44%	54%
1991	2100	4500	46%	57%

Source: From the book of SFF.

The above table (8) indicates that from 1984-1991 SFF had obtained debt into its capital structure up to 51% while the industry averages raised up to 57%. If one compares table 8 with table 7, will find out that SFF had been losing the economic benefit of debt into capital. This is because the return on investment is far greater than the company's fixed charges. Thus the higher the return on investment over the rate of fixed charges the more profitable it is to introduce more

debt into the capital.

c) Debt to Equity Ratio

This ratio indicates the relationship between the long term funds provided by the owners and those provided by the creditors. It is commonly use to measure the financial average of the firm. It is defined as:

$$\text{Debt to equity:} \quad \frac{\text{Long term debt}}{\text{Stock holder equity}}$$

Table 9 DEBT TO EQUITY RATIO OF SFF FROM 1984-1991 (IN ₦'0000)

YEAR	T.L.T.D.	STOCK HOLDER	DEBT TO EQUITY RATIO	INDUSTRY AVERAGES
1984	720	2100	34	37
1985	780	2150	36	32
1986	910	2200	41	37
1987	1000	2200	48	50
1988	1120	2300	48	52
1989	1190	2310	51	54
1990	1360	2400	56	60
1991	1580	2500	63	67

Source: Extracted from the books of SFF.

The debt to equity ratio of SFF is lower than the similar industry averages. Therefore, for the company to operate up to the level of its compititors it should increase the proportion of its long term debt to share holders equity. As the firm started to realize this problem in 1989, it increase its long term debt

at a reasonable proportion from 1989 - 1991. This enable it to operate almost to the level of the industry averages. Thus one can conclude that taking into account the debt ratio and debt to equity ratio of SFF clearly shows that the firm has a weak financial leverage. For as long as the firm can cover its fixed charges conveniently, it is always profitable to increase the level of its financial leverage.

d) Total Asset Turnover Ratio

Total asset turn over ratio indicates the efficiency by which the firm is able to use its assets to generate more sales naira. The higher the firm turn over ratio the more efficiently its assets have been used. Asset turnover ratio is expressed as:

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

TABLE 10 TOTAL ASSET TURNOVER RATIO OF SFF 1984 - 1991 'IN ₦'0000)

YEAR	ANNUAL SALES	TOTAL ASSETS	TAT RATIO	IND AVERAGE
1984	2000	2500	80%	78%
1985	2000	2600	76%	74%
1986	1900	2700	70%	79%
1987	2000	3100	64%	80%
1988	2000	3100	64%	80%
1989	2200	3400	65%	80%
1990	2500	4500	55%	80%
1991	3000	4500	67%	82%

Source: Extracted from the books of SFF.

Table ten shows that SFF to certain extent have been using its asset relatively efficiently but still below average. This problem had been as a result of their credit policy. Because if the credit policy is tight potential debtors tend to run away which consequently affect sale volume. Another problem as regard to assets turnover ratio of SFF is that their pricing is seemingly rigid. Therefore there is the need to adjust price in order to obtain the maximum sale volume.

e) Return on Investment Ratio (ROI)

This ratio measure the overall effectiveness of the management in generating profits with its available assets. The higher it is the better, and is expressed as:

ROI = NET Profit after taxes
Total Assets

Table 11 ROI OF SFF (1984-1991) (IN ₦'0000)

YEAR	NET II	TOTAL ASSET	RIO RATIO	IND. AVERAGE
1984	800	2500	32%	20
1985	810	2600	25%	20
1986	800	2700	25%	21
1987	700	3100	22%	21
1988	700	3100	22%	22
1989	700	3400	17%	21
1990	700	4500	17%	21
1991	780	4500	17%	21

Source: Extracted from the book of SFF.

Table eleven shows the efficiency of the firm under study in making profit as worthwhile. It is important to notice that one ratio cannot justify the efficiency of a given firm. This is why we employed as many ratios as possible.

3.5 FINDINGS

1. SFF have not been fully utilizing the sources of short term financing sources in its operation.
2. Although commercial banks provides many types of short-term loans, the firm in the case benefits from the line of credit agreement only. Where the agreement allows the firm to collect up to ₦1,000000 without collateral security.

3. As a matter of fact the company have not been utilizing short term funds through commercial paper and private loans. This is because there are no financial institutions that undertake such business locally.
4. Although SFF has been acquiring funds through secured short term loan, it does not believe in pledging its account receivable, but rather prefers to pledge its stock of inventory.
5. As it is in theory that firms could acquire their short term funds through co-maker loans, it is not in practice as per our findings.
6. It has been realized that most of these concepts are yet to be maturedly available in the local business environment, partly because there is no such financial institutions to undertake such business engagement locally.
7. Despite the economic crisis commercial banks are relatively able to provide short term loan facilities reasonably to business organisations.
8. That over the years particularly the period under review the level of short term and long term debt from the commercial banks to business firms has increased.

9. From the analysis of some key financial ratios, we are able to understand that the firm's inability to use effective financing mix is one major genesis of some of its financial and operational difficulties.
10. From table 6 we could see that return on investment is greater than interest rates. Therefore this is an opportunity which the firm in the case could have utilized to acquire more funds through loans and enhance its volume of profit.
11. The liquidity ratio of the firm is not all that attractive to potential creditors.

CHAPTER FOUR

4.1 SUMMARY

The whole research work has been divided into four chapters. Chapter one contains the general introduction of the work. Chapter two was devoted to literature review. Chapter three deals with data analysis and chapter four is the summary of the work.

Normally apart from general introduction, chapter one contains the statement of the problem, which is tracing the basic problems facing our business firms with regard to short term loans from whatever the source may be. Are these problems spontenious or created by the firm's management themselves? And thinking the way to remedy the situation and improve the efficiency. Thus in so doing the research was restricted in terms of scope and coverage to short term sources of financing only. Because in a typical business organisation there are so many components of financing such as long term debt, equity and retained earnings. Although we made some references to other components of financing this was done simply to knowthe casual relationship between short term financing and other means of financing how each determines the other.

Chapter two was devoted to literature review. The main items used in the review were text-books,

journals, articles, magazines, dailies and any other item that was found relevant to the issue in question. Nigeria being a capitalist society made the researcher to run after American writers and review their literature. For America is seemingly the mother of modern management. *Spontenious sources of short term unsecured financing* result from the firm's normal business operations account payable, which are created by open account purchases, are the primary sources of short term funds for the business firm. Accounts payable are typically wages or taxes which represent spontenious sources of short term funds.

The major sources of negotiated short term unsecured loans to business is commercial bank. The unsecured self liquidating bank loan may take the form of a note, a line of credit or a revolving credit agreement. Each of these arrangements has its own nature. The line of credit and revolving credit normally requires compensating balances. A line of credit normally requires an annual clean up feature while revolving credit requires a commitment fee to be paid on unused funds. Each of these arrangements must be negotiated between the bank and the borrower.

Non bank sources of unsecured short term funds include the sale of commercial paper, customer advances and private loans. Commercial paper may be issued only by large financially strong firms. The other alternative may be available to any firm regardless of its size. A lender can obtain a legal claim to certain collateral by filling a lien on the collateral which can only be

removed when the terms of the loan agreement have been met. Short term collateral is usually a current asset, such as account receivable, inventory, or stock and bonds, whose maturity in effects liquidates the loan. Account receivable are the most common type of collateral for short term secured loans. A pledge of accounts receivable is a type of trust arrangement where by the lender advances a certain percentage of the book value of the accounts he has found to be acceptable.

Inventory can be used as collateral for a floating lien, a trust arrangement or a warehouse receipt loan. In the case of warehouse receipt loan the collateral is placed where the lender chosen and be guarded on his behalf.

Other types of collateral include stocks and bonds, co-maker loans, cash surrender, value of life insurance, non-corporate assets and government guarantees.

With regard to SFF biography, Sokoto furniture factory was established in 1974, with share capital of ₦800,000. The owners of the company are two main bodies, Sokoto State Government and foreign partners (Lebanese). The former with 60% share capital and 40% for the later respectively. The company has General Manager on the top who is responsible to the company's board of directors. The company has been composed of Finance and Account Department, Production Department, Administration Department and Marketing Department .

All these department each has a manager and all the managers are responsible to the General Manager. The company has many selling and buying agents in different part of the country, amongsts such agents, some are responsible for supplying whatever the company requires for its operations. While others are the buying agents of the company. The company hopes to expand its production to other parts of the federation in few years to come places of such extension include Abuja Federal Capital Territory, Kaduna and Kano states respectively. According to the company some necessary steps to undertake the assignment are on progress.

The analysis in chapter three was followed by findings where the total outcome of the research work was assessed. After the analysis we come to realize components of short term sources of financing that are non existent in our business firms in general and SFF in particular. The SFF does not operate on pure trade credit concepts. It also does not operate on single note and revolving credit from its customer banker relationship which is bank of the North Limited, Sokoto. SFF also does not operate on account receivable as reviewed in the literature. And finally chapter four was closed with a summary of all that it contained

With regards to the supply of funds from commercial banks to business firms the analysis clearly shows that despite the present economic crisis, commercial banks have been maintaining a reasonable standard of supply of funds to business firms.

4.3 Recommendation

1. Although SFF does not operate on trade credit if the firm could employ the concepts it will certainly enhance the effectiveness of its spontenious sources of short term financing. This is because spontenious source are not only interest free but also free of legal restrictive convenants.
2. The firm is not patronising commercial banks potentially so much that of all the types of unsecured short term bank loans it benefits only from the agreement of line of credit. Therefore if the firm patronise other avenue such as revolving credit and single not agreements it will have more available funds at any given point in time, thereby improving its production efficiency.
3. Customer advances is another effective source of short term funds, to business firms. Particularly firms that operates on the bases of customer order, ie. the case study. Thus if the eompany could introduce a system or a scheme where customers can

purchases their product by making a series of installmental payment over a certain period, it will certainly find the scheme as a convenient and effective source of short term funds at the same time boosting its marketing coverage and potentials, especially from thepart of those who cannot afford to purchase what they may require and pay the price concorently.

4. Private loans from share holders will also help the company if applied, this is because normally a shareholder is always ready to do whatever will help the firm concerned to meet its foundamental objective which is the maximazation of share-holders wealth.

5. Another avenue through which the firm could help itself in maintaining financial efficiency is through optimum mixture of the various financing components. That is to say whenever the ratio of ROI is higher than the prevailing market interest rate the company should employ more debt financing. This is because the difference between the fixed charges and the ROI is an additional profit, which could not be realized without the loan.

6. The financial policies of the firm are too rigid to some extent, which paves no way for any meaningful innovation and adjustment. Thus the firm should

adopt a flexible policies in order to enable its operations to go by contingencies. In other words let the prevailing circumstances determine the mode of the firm's operation. This isbecause what is good for todays operations may extremely be deserstrous for tomorrow's.

7. The management should invest reasonably if only they want to known the ever-changing marketing and financial phenomenon, so that they could avoid the risk of unrealiable speculations. And this could only be done effectively through the establishment of research and devèlopments department with a combination of professional financial experts. More financial institution such as finance companies should be established in order to reduce the monopoly of the commercial banks through effective financial competitive markets. So that the firm could derive the benefits of competitive advantage.

8. The stablilty of any economy depends on its ability to mobilize the available resources and produce at optimum level in order to rise the general standard of living of that society. Thus government should do all that it possible to divert the surplus resources from the other sectors to industrial sector for further investments of which short term investment is one of.

9. Government should not only provide funds from surplus to deficit sector, but also should control the level of interest rate so that higher interest charges does not hinder the investment opportunities, for such hinderance has along term detrimental impact on the whole sphare of the economy.

10. Serious emphasis should be given in training professional managers so that the problems of lack of strategic planning is minimised. For lack of strategic planning leads to implementation failure.

Finally if the above underlisted recommendations are transformed into reality certainly the prevailing financing problem in general and short term financing in particular facing business organisations in Nigeria at large and specifically the firm under study will have reduced to the barest minimum.

4.4 SUGGESTION FOR FURTHER RESEARCHE.

Areas of further research in relation to business financing includes, medium term financing long term financing, equity financing and retained earning.

A successful and objective researches in the above underlined areas will reveals a scientific guides to financing and investment decision management.

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