

ST.MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

EVALUATION OF CASH MANAGEMENT PRACTICE IN THE
CASE OF COMMERCIAL BANK OF ETHIOPIA

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JULY, 2014
SMU
ADDIS ABABA

**EVALUATION OF CASH MANAGEMENT PRACTICE IN THE CASE OF
COMMERCIAL BANK OF ETHIOPIA**

**BUSINESS FACULTY
ST. MARY'S UNIVERSITY
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DEPARTMENT OF ACCOUNTING**

**JULY, 2014
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DECLARATION

We, The Undersigned, Declare that this senior essay/project is our original work, prepared under the guidance of ATO FISUM HABTE. All source of materials used for the manuscript have been dully acknowledged.

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SUBMISSION APPROVAL SHEET

This paper has been submitted for examination with my approval as an advisor.

NAME: _____

SIGNATURE: _____

DATE: _____

CHAPTER ONE

1. INTRODUCTION

1.1 Background of study

Cash is the important current asset for the operations of the business. It is the basic input needed to keep the business running on continuous basis. It is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. (Payday2010).

Cash is the money which firm can disburse immediately without any restriction. The term cash include coins, currency and cheques held by the firm, and balance in the bank account. Sometimes near cash items, such as marketable securities or bank term deposits, are also included in cash. The basic characteristic of near cash asset is that they can readily be converted into cash(Payday 2010).

The management of cash has major importance in any business enterprise because cash is a means of acquiring goods and services in addition carefully scrutiny of cash transaction is required because cash may be readily misappropriated.

Cash management assumes more important than other current assets because cash is the most significant and also it is used to pay the firms obligations however cash is unproductive like fixed asset of inventories it does not produce goods for sale. Therefore, the aims of cash management should be to maintain adequate cash position to keep the firms sufficiently liquids a use excess cash in some profitable way.

The management of cash generally is centered on forecasting and internal control. The responsibilities of management with respect to cash are:

- To assure that there is sufficient cash to carry on the operation
- To invest any idle cash
- To Prevent loss of cash due to theft or misappropriation

Cash forecasting necessary for proper planning of future operations on to assure that cash is available when needed but that cash on hand is not excessive.

Internal controls are necessary to assure that the cash is used for proper business purposes and not wasted misused or stolen. Management is responsible for controlling and protecting all assets of business enterprise (Mosich, 1980: 451).

1.2 Background of the organization

Modern banking in Ethiopia began in 1905, when the bank of Abyssinia established in Addis Ababa under a fifty years French agreement with the British owned national of Egypt. Bank of Abyssinia consign limited banking service which as keeping government accounts, some export financing and undertaking various task for the government.

It dates back to the 1942 to the where state bank of Ethiopia holding both commercial and central banking. Activities were combined in 1963, privately owned bank was started, and it became a necessary to separate the function of commercial from central bank. Therefore, in 1963 the central bank of Ethiopia was divided into two. The commercial bank and national bank were established.

The commercial bank of Ethiopia has been playing a conspicuous role in economic development of country for seventy years age. Today, more than ever before commercial bank of Ethiopia has aggressively expanded its presence in all direction of the country.

Despite flourishing of private commercial bank, the commercial bank of Ethiopia has remained in the leading the term assets, deposits, capital, customers base and branch network. Currently, it has more than 700 branches, spanning the entire breadth and width of the country. As on June 30th, 2012, the total deposit stood at birr 200 billion, while total asset and capital of the bank reached birr 220 billion and 15 billion respectively.

Vision of the Bank

To become world class commercial bank

Mission of the Bank

The bank are committed to maximize shareholders value through enhance financial intermediation an unparalleled customers satisfaction. They develop highly motivated skill and disciplined employees capable of providing banking produce and that meet international best practices and standards. They strongly believe that reliability and public confidence are the basis of their success. The following basic elements are included in the company mission:

- Customers
- Employee
- Public

Value of the Bank

- They standard for quality
- They are learning organizations
- They committed to maximizing shareholders value
- They committed to unparalleled customers satisfaction
- They are an equal opportunities to employees
- They are corporate citizens
- They uphold transparency, accountability and professionalism

1.3 Statement of the Problem

Cash is the most liquid asset; as a result it could be taken or embezzled by the employers or managers. Financial intermediates, especially banks are playing great role to provide effective and efficient to evaluate and control cash management. So banking is the most important mechanism for managing cash.

Cash is both fundamental resource and the means by which the entity acquires other resource. To manage cash is to manage entity's ability to purchase assets, service debt pay employees and control operations. Thus, effective cash management directly correlates with entity's ability to realize its mission, goal and objective. Cash is also clearly the single most important element of banking operation; specially an environment like Ethiopia where banking technology and culture of credit are not yet developed. Despite the fact that, most of Ethiopian organization face these problem, hence, the reason to undertake this study in order to identify there problem happened in commercial bank with the view to analyze the possible cause and consequences and draw recommendation that will remedy and permit to enjoy the benefit that a good cash management system offers.

Based on the preliminary study the student researchers have been identified the following gaps; on the applicability of policy & procedures in cash management, manage its cash effectively, investing of idle cash, properly manage cash payment and receipt and on the applying of structured cash management techniques.

1.4. Basic Research Question

1. What are the problems on the bank on cash management practice?
2. How does the bank manage cash payment and receipt?
3. How does investing idle cash perform?
4. How does the policy and procedures of cash management perform?

1.5.Objective of the Study

1.5.1 General Objective

The general objective of this study to evaluate cash management practices in commercial bank of Ethiopia, Head quarter.

1.5.2 Specific Objectives

- To identify the problem of the bank on cash management
- To know how the bank manage cash payment and receipt
- To evaluate the idle cash investment performance of the bank
- To describe the policy and procedures of cash management and long duration of the policy period in forecasting cash flows
- To access the concept of cash management practice in the bank and compare this practice with theoretical aspect
- Finally to forward appropriate recommendation based on the finding

1.6. Significance of the Study

The research team believe that the outcome of this study have had multi-dimensional significance; some of them are;

- . To come up with clear suggestions/recommendation on the strength of cash management system of an organization
- . To indicate that the issue is yet potentially a research area and also use as a reference for further studies
- . It uses as a capacity building in the area of research for the research team.

1.7. Scope of the Study

The study that research team conducted covers only the cash management practices of the Commercial Bank of Ethiopia, headquarter and the time under consideration was limited to period between 2010 and 2013.

1.8. Research Design and Methodology

1.8.1. Research Design

The research team used descriptive research method in order to describe the cash management practice of commercial bank of Ethiopia. As the name implies, the major objective of the descriptive research is to describe the functions and managerial system of current asset.

1.8.2. Population and Sampling Size

The target populations of the study were 1500 employees of the bank. The research team used non probability sampling approach and purposive sample technique. The research team used 30 employees of the head quarter; their position is directly or indirectly related with cash management.

1.8.3. Types of Data to be collected

The research team used both primary and secondary data. The primary data was collected from employees of the bank and manager of the departments. Secondary data was collected from annual report of the bank, internet, and previous researches.

1.8.4. Methods of Data collection

The research team used both open and close ended questionnaires and interview to collect primary data. Questionnaires were distributed to employees while they are working. Interview was taken personally with the head of the CBE's finance department. The secondary data was gathered through referring different text books, internet, and published and unpublished data of the bank; related with the subject matter.

1.8.5. Methods of Data Analysis

The student researcher used both qualitative and quantitative data analysis techniques. The responses that were collected from close ended questionnaires were analyzing quantitatively approach by using tabulation and percentage. Responses that obtained through interview and open ended questionnaires were narrated qualitatively.

1.9 Limitation of the Study

In this study the student researcher faced so many obstacles, among these the major ones were financial constraints, lack of reference book and insufficient time. For the above limitation the student researchers have tried to solve by finding few co-operative friends and relations to solve the financial problem. Secondly, the student researchers used other University's library to solve the lack of reference, finally, the student researcher taken an agreement with our parents to give time form study.

1.10. Organization of the Paper

Our paper includes four chapters. The first chapter includes introduction part in this background of the study, statement of the problem, objective of the study, methods that used for collecting data, and significance of the study.

The second chapter includes the available literatures that are written by different literature related to the study.

The third chapter includes presentation and interpretation of the available data's with regard to the cash management system of the bank. Finally, the fourth chapter covers summary with regard to the study as well as the recommendation and the suggestion to the bank which must be applicable in the future so as to achieve a proper cash management system.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Definition of Cash and cash management

2.1.1 Definition of Cash

Cash is any medium of exchange that the bank will accept, face value and liquidity, high quality fixed income instruments, with duration of less than one year. Cash include currency and coins on hand, bank deposit, personal check, bank draft, money order, credit card and etc. (Mosich A.N 1989)

Cash is defined as demand deposit plus currency. Cash is often called “non-earning asset”. It needed to pay for labor and raw material, and buy fixed asset, to pay taxes, to service debt, to pay dividend and so on. However cash itself can’t produce good and service means it is used to buy or sell good and service (FM, Eugene.F.Brigham 8th edition page 796)

2.1.2. Definition of cash management

The management of cash has major importance in any business enterprise because cash is a means of acquiring goods and services in addition carefully scrutiny of case transaction is required because cash may be readily misappropriated.

Cash management assumes more important than other current assets because cash is the most significant and also it is used to pay the firms obligations however cash is unproductive like fixed asset of inventories it does not produce goods for sale. Therefore, the aims of cash management should be to maintain adequate cash position to keep the firms sufficiently liquids a use excess cash in some profitable way.

The management of cash generally is centered on forecasting and internal control. The responsibilities of management with respect to cash are:

- To assure that there is sufficient cash to carry on the operation
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Cash forecasting necessary for proper planning of future operations on to assure that cash is available when needed but that cash on hand is not excessive.

Internal controls are necessary to assure that the cash is used for proper business purposes and not wasted misused or stolen. Management is responsible for controlling and protecting all assets of business enterprise (mosich, 1980: 451).

2.1.2.1 Control over Cash

Because of the ease with which money can be transferred, cash is the asset most likely to be diverted and used improperly by employees In addition; many transactions either directly or indirectly affect the receipt or payment of cash. It there for the necessary that cash be effectively safeguard by special controls. One of the major devices for maintaining control over cash is the bank account. To get the most benefit from a bank account all cash received must be made by checks drawn on the bank or from special cash funds. When such a system is strictly followed, there is double record of cash, one maintained by the business and the other by the bank.In some cases, a bank may require a business to maintain in a bank account a minimum Cash balance, called a compensating balance this requirement is generally imposed by the bank s a part of a loan agreement of line of credit (an amount the bank is willing to lend) (fees warren, 1998: 452).

2.1.2.2 Controlling Cash Receipt and Payment

The objective sought in the control of cash receipt is to assure that all cash that is receivable by the business enterprise is collected and recorded without loss. The system of controlling cash payment should be designed to ensure that no unauthorized payment is made. Cash is safeguarded by keeping it in safe, Depositing in bank and through the use of special cash funds (Moisch, 1980: 333).

2.1.2.3. Motives for holding cash and marketable securities

Cash and short term, interest bearing investment (marketable securities) are the firms' least productive assets. They are not required in producing goods or services, unlike the firms fixed assets. They are not part of the process of selling as an inventory and account receivable. When firms hold cash in currency or non-interest bearing accounts, they obtain no direct return on their investment. Even if the cash is temporarily invested in marketable securities, its return is much less than the return on other assets held by the firm. So why hold cash or marketable securities at all? Couldn't the firm's resource be better deployed elsewhere? Despite the seemingly low returns, there are several good reasons why firms hold cash and marketable securities. It is useful to think of the firms portfolio of cash and marketable securities as comprised of three parts with each part addressing particular reason for holding these assets (Moisch, 1980: 345).

2.1.2.4. Cash for Transactions

One very important reason for holding cash in the form of non interest bearing currency and deposit is transaction demand. Since debts are settled via the exchange of cash, the firm must hold some cash in the bank to pay suppliers and some currency to make change if it makes sales from cash (Moisch, 1980: 350).

2.1.2.5. Cash and Near Cash Assets as Hedges

The firms future cash needs for transaction purpose are often quite uncertain emergencies may arise for which the firm needs immediate cash. The firm must hedge against the possibility of these unexpected needs. Several types of hedges are possible. For example, the firm can arrange to be able to borrow from its bank on short notices should funds suddenly be needed. By “near-cash assets” we mean interest-earning marketable assets that have very short marketable, and thus can be liquidated to provide funds on short notice with very little risk of loss (Moisch, 1980: 366).

2.1.2.6. Temporary investments

Many firms experience some seasonality in sales-often; there will be times during the year when such firms have excess cash that will be needed later in the year. Firms in this situation have several choices. One alternative is to pay out the excess cash to its security holders when this cash is available and then issue new securities usually make this a disadvantageous strategy more commonly firms will temporarily invest the in interests-earning marketable securities from the time the cash is available until the time it is needed proper planning and investment selection for this strategy can yield a reasonable return on such temporary investment

Before define cash management, the concept of management is responsibility of controlling and protecting on asset of business enterprise (Mosich. A.N page 294). From this concept cash management is controlling and protecting the most liquid asset which is called cash.

Cash management can also defined as “having the right money in the right place at the right time to meet government’s obligations in the most cost effective way” through achieved by ensuring; more accurate and timely forecasting of cash flows and balance, greater efficiency and responsiveness in cash management processing and service provision, management of consolidated risk positions and integrations of cash and debt management (MJ-W.net/pdfs/Williams-technote-pdf).

Cash management is in general major importance in the business enterprise because cash is means of acquiring good and service.

Cash management is the process of maximizing the liquid asset through the accelerations of receivable and the disciplined of disbursement (Htl.www-asl.for).

General cash management is centre of forecasting and internal controls the responsibilities of management with respect of cash are:

- To assure that there is sufficient cash to carry on operation
- To invest idle cash
- To prevent loss of cash due to theft or misappropriation

2.2 Objective of cash management

There are two primary objectives of cash management system

- i. To meet the cash disbursement need (meet payment schedule)
- ii. To minimize committed fund on cash (minimization of idle cash)

2.2.1 To meet the cash disbursement need

A basic objective of cash management is to meet the cash disbursement need. That is to have sufficient cash to meet the cash disbursement need of the firm. The main advantage of sufficient cash to meet cash disbursement need can hardly be over emphasized the advantages of adequate cash are:

- To help to create good relationship with creditors
- To prevent from insolvency/bankruptcy
- To lead the strong and credit rating

2.2.2 Minimization of idle cash

There are two conflicting aspect have to be reconciled, minimization of cash balance. First aspect a high level of cash ensures prompt payments together will all the advantages. But it also implies that large fund will remain idle, as cash is non-earning asset and the firm will have forgone profit. Second aspect a low level of cash balance may be failure to meet the payment schedule (M.Y.Khan.P.K.jain 2000.P7.3-7.4).

2.3. Requirement of cash balance (motive of holding cash)

Cash balance is required for four primary reasons. These are:

- Transactional requirement
- Precautionary motive
- Speculative motive
- Compensation balance motive

2.3.1 Transaction requirement

The related amount each needed to satisfy transaction requirements is affected by a number of factors, such as industry in each the firm operates. It is well known utilities can forecast cash receipts quite accurately, because of stable demand for their services. To some happy transaction motives is the cash necessary (required) to handle day to day and frequent transaction of the company.

2.3.2 Precautionary motive

Cash inflow and out flows are unpredictable, with the degree of predictability varying among firm's industries. Therefore, the firms need to hold some cash in reserve for random, unforeseen fluctuations inflow and outflow. Generally precautionary motive is cash important to handle unexpected events or transaction.

2.3.3 Speculative motive

Cash is held for speculative purpose in order to take advantage of potential profit making situations. It means cash is maintained to take advantage of opportunity:

- Price increase or decrease
- Discount advantage
- A chance to speculate on interest rate movement by buying securities when interest are expected to decline

2.3.4 Compensating motive

Bank provides of services to business firms, such as clearance of cheque. Supply of credit information is to transfer fund and loan. It is hold cash to compensate bank balance and use for

- Striking employees settlement
- Settlement for filed employees
- Compensation for accident or damage
- Settlement of government fines

2.4 The cost of holding cash

When a firm holds cash in excess of some necessary minimum, it incurs cost of capital (opportunity cost). The opportunity cost of excess cash (need currency or bank deposit_ is the interest income that could be earn in the next best use, such as investment in remarkable securities.

Given the opportunity cost of holding cash, why would a firm hold cash in excess of it is compensating balance requirements? The answer is that cash balance must maintain to provide liquidity necessary for transactions need paying bills. If the firm maintains too small cash balance, it may run out of cash. If this happens, the firm may have to raise

cash on short term basis. This could involve for example selling marketable security or borrowing. An activity such as selling marketable security and borrowing involves various costs. As noted above holding cash has opportunity cost. To determine the appropriate cash balance, the firm must weigh the benefit of holding cash against this cost. To be optimal bank must use different method managing cash, like preparation of cash budget, investing idle cash different financial instruments opportunities.

2.5 Cash planning

Cash planning is techniques to plan and control the use of cash it protects the financial condition on the firm by developing a project cash settlement from a forecast of expected cash inflow and outflow for given period. Cash planning may be done on daily, weekly or monthly bases. The period and cash frequency of cash planning generally depends up on the size of the firm and philosophy of management. Large firms prepare daily and weekly forecast. Medium size may usually prepare weekly and monthly forecast. Small size firms may not prepare formal forecast because of non availability of information and small scale type of operation. (pandey1999)

2.5.1 Cash forecasting and budgeting

Cash forecasting: cash forecasting are needed to prepare cash budget. It is may be done on short or long term basis. Generally forecast covers periods of one year or less considered as short term, those extending beyond one year considered as long term forecasting provide a basis on which to measure the difference between actual events and plans, so that nature and intent of corrective action can more clear defined.

Cash budgeting: cash budgeting is the most significant device to plan and control receipts and payment. A cash budget is a summary settlement of the firms expected cash inflow and outflow over the project period. There are two types of cash forecasting: these are the above mentioned:

- Short term cash forecast
- Long term cash forecast

2.5.1.1 Short term cash forecast

It is comparatively easy to make short term forecasts. The important functions of short term forecasts are:

- To determine operating cash requirement
- To develop credit policy
- To plan purchase of material
- To anticipate short term financing
- To scheduling payment in connection with capital expenditure
- To manage investment of surplus cash

The short term forecasts help in determining the requirement for a predetermined period to run business. If the cash requirements were not determined, it would not be possible for the management to know how much cash balance to be kept in hand, to what extent bank financing depends upon and whether surplus funds would be available to investing in marketable securities. One of the significant roles of short term forecasting is to point when the money will be needed, when it can be raised. With such forecasts in hand, it will not be difficult for the financial manager to negotiate short term financing arrangements with banks.

The other function of short term forecasting is to help in managing the investment of surplus cash in marketable securities, carefully and skillfully designed cash forecast helps a firm to:

- Select securities with appropriate maturities and reasonable risk
- Avoid under investing and
- Maximizing profit by investing idle money

A short term forecasting method the two most common method of forecasting:

- I. To receipt and disbursement method and
- II. To adjust net income method

I. To receipt and disbursement method

The primary aim receipt and disbursement forecast is to summaries the cash flows and in the out during predetermined period. In case of those companies were cash items of income and expenditure (expense) involves flow of cash. This method is favored to keep a close control over cash. Three broad sources of cash inflows can be identified.

1. Operating
2. Non-operating
3. Financially

Cash sells and collection from customers the most important part of operating cash inflow. Non-operating cash inflow includes sells of old asset and dividend in terms income. The magnitudes of these items are generally small when internally generated cash flows are not sufficient, the firm report to external financial resource. This constitutes the financial cash inflow (Ibid)

II. Adjusted net income method

This method of cash forecasting involves the tracing of working capital flows. It is sometimes called the source and approaches. Two objective of cash adjusted net income approaches are:

- 1) To project the company need for cash at future date and
- 2) To show weather the company can generate the required funds internally, and if not, how much will have to be borrowed or raised in capital market

It is in fact a project cash flow statements based on project from financial statements. It generally has three section:- source of cash, use of cans and adjusted cash balance.

This procedure helps in adjusting estimated earning on actual basis to cash basis. It also helps in anticipating the working capital investment.

The benefits of adjusting net income method are:-

- If the highlight the movement in working capital items, and this, helps to keep a control on firm's working capital
- It helps in an anticipating a firm's financial requirements.

The major limitation of this method is it fails to trace cash flows, and therefore it is utility in controlling daily cash operations is limited (Ibid)

2.5.1.2 Long term forecasting

Long term cash forecasts are prepared to give an idea of company's financial requirements in the distance future. Long term cash forecast may make for two three of five or more years in the futures. Once a company has developed a long term forecast, it can be used to evaluate the impact of, say, new product development or plant acquisitions on the firm's financial, for a give year.

The major use long term forecasts are:-

- Indicates the company's future financial needs, especially it is working capital requirement
- It helps to evaluate proposed capital project. It points the cash required to fiancé this project as well as the cash to be generated by the company to support them
- It helps to improve corporate planning long term cash forecast compute each division plan for future and to formulate project carefully

The short term forecasting method, that is, the receipts and disbursement method and the adjusted net income method can also be used in long term forecasting. Long term forecasting reflects the impact of growth, expansions or acquisition; it also indicates financing problems rising from this development (Ibid)

2.6 Investing idle cash

Idle cash is a situation in which production has shutdown is simply not working or one in which cash is active (not invested). More generally, these terms can apply to any asset that is not being put to productive use. Being idle is usually an undesirable situation, since this is an opportunity cost of not earning returns on the idle asset.

Investing idle cash has two primary functions. The first function is a major contributor to earnings. The second function of investing idle cash is to provide the bank with liquidity to meet expected or unexpected cash need. Because the minimum investment required purchasing money market instruments is generally very large, the market is dominated by commercial bank, it states and local government, financial and non bank institutions and more recently mutual fund. This large investor purchase money market instruments convert, temporary cash surplus into highly interest bearing investment.

Commercial bank is investing idle cash through short term and long term principles of market instruments. Short term principles of market instruments are money market instruments such as:-

- Treasury bill
- Certificate deposit
- Commercial paper
- Banker's acceptance and etc.

2.6.1 Treasury bill

This are the most frequently issued marketable securities. They are sold weekly or monthly on the auction basis and have maximum maturity of one year. It is short term obligations or promissory note issued by the government, sold at discount from its face value and redeemed at its face value upon maturity. The difference between issue price and redemption price, adjusted for the time value of money, is return on treasury bills. They can be bought and sold any time; thus, they have liquidity. Also, they do not have default.

2.6.2 Commercial paper

Commercial papers are short term, unsecured securities issued by highly credit worth large companies. They are issued with maturities three months to one year. Commercial papers are marketable securities and therefore liquidity is not a problem.

2.6.3 Certificate of deposit

Certificates of deposit are paper issued by banks acknowledging fixed deposits for a fixed period of time. Certificate deposits are negotiable instruments that make them marketable securities. The banks agree to pay the amount deposited plus interest to bears of the receipts on the date specified on the certificate.

2.6.4 Bank deposit

A firm can deposit its temporary cash in bank for a fixed period of time. The interest rate depends on maturity period.

2.6.5 Mutual funds

Mutual funds focus on short term marketable securities such as Treasury bill, certificate of deposit, corporate deposit or call money. They have a minimum lock in period 30 days, and after these periods, an investor can withdraw his or her money any time at short notice or even across the counter in the some cases. They often attractive yield (pandy, 2010, FM, page 732).

2.7 Function of cash management

2.7.1 Collection, custody and disbursement function

The function having to do with the collection, custody, and disbursement of cash are so familiar that I shall do well only on aspects that realized to the cash flows cycle and to problem of cash management and centralized and decentralized systems of control.

Where cash collections are decentralized it is necessary to provide for depositor in more than one city and to establish some system for prompt collection and report or receipts. Under decentralized systems of cash receipts, controlling is sometimes difficult, because transfer of funds must be ordinary been made to disbursing bank. This requires prompt transfer methods and good communication between local officers to avoid lost time and consequent loss of the use of funds. Where collections are made at one or only a few locations, on the other hand, control is facilitated, especially if disbursements are made at the same points. Centralization of receipts may not, however, always be the most economical systems, since availability and use of the cash may be delayed in the course of mailing and depositing.

In either event the prompt deposit of cash one it is received of paramount importance. Most companies provide for continues processing of cash receipts items and makes several deposits daily. Insure maximum availability and utilization of fund. Companies with a number of subsidiaries, especially foreign-will, of course, have greater difficulties controlling their cash because of the complex nature of intercompany transfers and interoperate advances in dividend and the like.

Control of disbursement is best achieved by centralizing payments in relatively few depositors. Most companies follow this practice except those which desire to decentralize the organizations of responsibilities and operations. This, of course, doesn't include petty cash or impress fund, which are often necessary locally for minor expenditures. The organizations of disbarment may of necessity be decentralized, but it is a good practice to with withdraw only for certain banks to facilitate controlling balance (John G.lamb).

2.7.2 Maintenance of an adequate supply of cash

The financial manager is interested in the future as well as in the present because, he must insure an adequate supply of cash at all times, and the must properly invest excess fund in short term security. So as to generate additional income, short term projections of change in cash are essential to its day to day management and control. In some companies, however, it is difficult to forecast accurately the follow of cash daily or even weekly. Pinpoint accuracy is not essential; rather, what is required is responsible estimate of cash demands in the immediate future to permit intelligent planning.

Often moreover, the other requirements which detect minimum cash, cash equivalent, and working capital levels above a balance detected purely by cash flow. This includes the following.

- Cash and working capital restrictions imposed by bank loans or other loan agreements.
- Lockup of cash in domestic in foreign subsidiaries.
- Maintenance of high cash and working capital balance for an adequate rating of company securities by financial services.
- Need for protection against unforeseen contingencies and the desire to maintain the stability of the business during period of depressed economic activities.
- Maintenance of adequate bank balance to pay for services

2.7.3 Maintains of sound bank relation

The average daily deposit in collected fund kept with banks should be sufficient to compensate them for services rendered. Although this sounds very simply, it is not so simply in practice to measure some of this bank services, especially the intangible once. The usual tangible services performed by the bank are, of course, generally well known and include:

- Depositing customers' remittances, including the service preferment in accelerating collection
- Disbursing checks, draft, bills of exchange, and the like
- Transforming funds through wire service of correspondent banks
- Reconciling account such as pay roll and dividends
- Acting as register, paying agent, or transfer agent, although these are generally compensated directly
- Purchasing and selling securities and safe keeping facilities (the eater may also be compensated directly)
- Miscellaneous services including cash things as checking credit and bundling foreign exchange, letter of credit and foreign credit reports

Those service which we would classify as intangible, and which are more difficult to measure, including the following.

- Banking facilities to the employs and employers for easy in making deposits, cashing pay checks, and so forth
- Extending credit to the company, it is affiliates, or its officer
- Loans to the company, it affiliates, or it employs and general assistance in loan negotiations
- Assistance in promoting companies health and services through contacts with other bank clients
- Bank good will and influence in the various geographic areas of company operations and it important financial centers and general financial advice and assistance (Ibid)

2.7.4 Investment of reserve funds

One important cash management with has received increasing reorganization is in the investment reserve fund not needed currently in cash and working capital.

Before launching any program of short term investment, it is best to develop a company philosophy of its objectives and to determine the type of investment permitted. One company, for example defines the philosophy of short term investment as follows.

The basic objective any corporate cash equivalent portfolio program must be the attainment of the highest possible return, commensurate with safety of the principal. Beyond this, however, the factor marketability and liquidity must be considered on the individual bases for Particular Corporation and, further, for that corporation over specific period of time. A portfolio program, therefore, should present a method employing corporate at maximum rate within the boundaries imposed by security of principal, liquidity and marketability requirements, and maturity limitations.

The classifications of the nature investment in the portfolio according the future needs of the companies, thus maximizing return on investment or yield. For example portfolio might include a base fund of high liquidity short term securities, to provide for unforeseen contingencies and much large revolving fund of short durations perhaps up to six months to care for near term cash deficits rising from the payment of the dividend, payroll, taxes, and large construction expenditure.

Depending up on it is size, the portfolio might also contain longer term and less security based up on future requirements of the business. Progressive companies broaden the portfolio to include verity of investment designed to increase the yield within the limits noted in the quotation above. For these companies that have a large, unforeseen, sudden cash drains, or whose receipts and disbursements are difficult to periodic on short term basis, it is not or course, necessary to maintain large portion of portfolio in more liquidity securities such as treasure bills.

In other companies it is possible to predict within a reasonable tolerance short term cash fluctuations and thus minimize the need for a base of highly liquidity securities (Ibid).

CHAPTER THREE

DATA ANALYSIS INTERPRETATION AND PRESENTATION

This chapter of the study deals with the analysis, presentation, and interpretation of data gathered from the questionnaire distributed and interview made.

Out of 30 questionnaires distributed to employees of CBE, 26(87%) of the respondents were able to cooperate in filling the questionnaire while 4(13%) was unable to do so because of unknown reasons. And interview was held with the manager of finance department.

3.1. Analysis of the findings

Table 3.1.1. Background information of respondents.

No	Item	Alternative	Number of respondents	Percentage %
1	Gender	Male	18	69
		Female	8	31
		Total	26	100
2	Age	18-30	7	27
		31-40	15	58
		41-50	4	15
		Above 50	0	0
		Total	26	100
3	Educational level	Certificate	0	0
		Diploma	0	0
		BA degree	21	81
		Masters	5	19
		Total	26	100

Source primary data

Item 1 of table 3.1.1. Shows sex distribution of the respondents. The data indicates that 18 of them are male and 8 are females. Therefore, this implies that most of the employees are male.

Item 2 of the above table implies age group of the respondents. As per the data, it is indicated that 15 of the respondents were in the age group between 31-40, 7 were between 18-30, 4 were between 41-50 and none are above the age of 50, i.e. 0%, from the above information it can be said that most of the employees of CBE are adults.

Item 3 of the table shown above indicates the educational level of the sample respondents that 21 are degree holders, 5 are master holders and none are certificate and diploma level. Based on the above data, the majority of the employees of CBE are B.A. degree holders.

3.2. Directly related with the study

Table 3.2.1. Bank technique to manage its cash

No.	Item	Response	No of respondents	Percentage (%)
1	The bank employed techniques in order to control its cash appropriately?	Strongly agree	4	15
		Agree	7	27
		Neutral	15	58
		Disagree	0	0
		Strongly disagree	0	0
	Total		26	100

Source primary data

Table 3.2.2. Shows cash management technique effectiveness, as per the data 15(58%) of the respondents are neutral, 7(27%) agreed, 4(15%) strongly agreed about the effectiveness of cash management technique and none of the respondents disagreed or strongly disagreed, i.e. 0%. Based on the data majority of the respondents neutrally evaluate the techniques that the bank used in order to control its cash appropriately. Therefore, the implication would result that the technique of CBE in managing its cash is ineffective.

Table 3.2.2. Counting and balancing of cash

No.	Item	Response	No of respondents	Percentage (%)
1	How do you rate the extent of counting and balancing cash on hand regularly?	Very high	11	42
		High	8	31
		Medium	7	27
		Low	0	0
		Very low	0	0
	Total		26	100

Source primary data

Table 3.2.2. Shows the regular counting and balancing of cash on hand, the data indicates that 11(42%) of the respondents rated it very high, 8(31%) rated high, 7(27%) rated medium and none of the respondents rated low or very low. Based on the data majority of the respondents highly evaluate the regular counting and balancing of cash on hand practice of the bank. This implies that the bank control the cash by regularly counting and balancing of cash on hand.

Table 3.2.3. Management control the existence of cash

No.	Item	Response	No of respondents	Percentage (%)
1	How do you rate the management control on ascertaining the existence of cash?	Very good	4	15
		Good	15	58
		Moderate	7	27
		Bad	0	0
		Very bad	0	0
	Total		26	100

Source primary data

As indicated in the above table, 4(15%) of the respondents rated the management control on ascertaining the existence of cash as very good, 15(58%) rated as good, the rest

7(27%) of the respondents rated it as moderate, none of the respondents chose bad or very bad. This shows the bank's management control on ascertaining cash existence is acceptable in the mind of the employees.

Table 3.2.4. Management control over inflow and outflow of cash

No.	Item	Response	No of respondents	Percentage(%)
1	How do you rate the managements control over the inflow and outflow of cash?	Very high	6	23
		High	12	46
		Medium	8	31
		Low	0	0
		Very low	0	0
	Total		26	100

Source primary data

As the above table shows how employees have rated the managements control over the inflows and outflows of cash. Out of 26 employees, 6(23%) rated it very high, 12(46%) rated high, 8(%) rated medium. This implies that the management control over the inflows and outflows of cash is at a good position.

Table 3.2.5. Checking timely collection of loans and advance

No.	Item	Response	No of respondents	Percentage (%)
1	What is the extent of the management effort in checking timely collection of loans?	Very highly	6	23
		Highly	13	50
		Medium	7	27
		Lowly	0	0
		Very lowly	0	0
	Total		26	100

Source primary data

Table 3.2.5. Shows employees response on the extent of the management effort in checking timely collection of loans, credit and advances, 6(23%) of the respondents chose very high,7(27) chose medium, the majority of the respondents, i.e. 13(50%) chose high. This indicates the management strongly works to ensure the timely collection of loans, credit and advances.

Table 3.2.6. Safeguarding of cash.

No.	Item	Response	No of respondents	Percentage (%)
1	How do you rate the banks performance with regards to safeguarding of cash?	Very good	23	88
		Good	3	12
		Moderate	0	0
		Bad	0	0
		Very bad	0	0
	Total		26	100

Source primary data

The above table shows how the employees rated the performance of the bank in safeguarding cash, 3(12%) of the respondents rated it good, the rest of the respondents,23(88%) of them rated very good. Indicating the bank strives to assure the safety of cash and has a strong security system.

Table 3.2.7. Investments

No.	Item	Response	No of respondents	Percentage (%)
1	The bank invests its idle cash in different profitable securities?	Strongly agree	22	85
		Agree	4	15
		Neutral	0	0
		Disagree	0	0
		Strongly disagree	0	0
	Total		26	100

Source primary data

As it is shown in the above table, 4(15%) of the respondents agrees, 22(85%) of the respondents strongly agree to the statement that the bank invests its idle cash in different profitable securities and none of the respondents chose to be neutral or disagreed. This indicates that the bank assessed different securities before investing to assure their profitability which is a good cash management technique.

Table 3.2.8. Authorization

No.	Item	Response	No of respondents	Percentage (%)
1	The bank make every payment after a proper authorization?	Strongly agree	5	19
		Agree	18	69
		Neutral	3	12
		Disagree	0	0
		Strongly disagree	0	0
	Total		26	100

Source primary data

Table 3.2.8. shows employees level of agreement to the statement of the bank making every payment after proper authorization, from the total respondents only 3(12%) respondents chose to be neutral, the rest 18(69%) and 5(19%) agrees and strongly agrees to the statement respectively. This shows the bank follows a strict procedure in making every payment.

Table 3.2.9. Accessibility of documents.

No.	Item	Response	No of respondents	Percentage (%)
1	Confidential documents and cash of the bank are accessible for authorized personnel only?	Strongly agree	8	31
		Agree	15	58
		Neutral	3	11
		Disagree	0	0
		Strongly disagree	0	0
	Total		26	100

Source primary data

As it is shown in the above table, 8 of the respondents agreed strongly, 15(58%) of the respondents agreed and 3(11%) chose to be neutral to the statement confidential documents and assets of the bank are accessible for authorized personnel only. The majority of the respondents, i.e. 15(58%) agreed to the statement. This indicates that the bank strongly protects its documents and assets from getting in to the wrong hand.

Table 3.2.10. Segregation of duty.

No.	Item	Response	No of respondents	Percentage (%)
1	What is the extent of the bank effort in segregating the duties and responsibilities of employees over the payment collection and recording of cash?	Very high	12	46
		High	9	35
		Medium	5	19
		Low	0	0
		Very low	0	0
	Total		26	100

Source primary data

The above table shows how the respondents have rated the banks effort in segregating the duties and responsibilities of employees over the payment, collection and recording of cash. Accordingly, 12(46%) rate it very high, 9(35%) rated high and the rest 5(19%) rated the effort medium. None of the respondents chose low or very low which indicates

the banks implementation of a good controlling system over segregation of duties among employees that work on payment, collection and recording.

Table 3.2.11. Storage of recorded documents

No.	Item	Response	No of respondents	Percentage (%)
1	How do you rate the banks effort in storing recorded documents in a safe and easily accessible storage?	Very high	3	12
		High	4	15
		Medium	19	73
		Low	0	0
		Very low	0	0
	Total		26	100

Source primary data

As it is indicated in the above table, 3(12%) of the respondents rated the banks effort in storing a recorded document in a safe and easily accessible storage to be very high, 4(15%) rated it high, the majority (19 in number, 73 in percent) rated it medium. This indicates the bank's effort in keeping recorded documents safely and storing them in an easily accessible place is medium and needs some improvement. This implies that there is immaterial amount of problem which makes the respondents dissatisfied to some extent.

Table 3.2.12 evaluating effectiveness of internal control.

No.	Item	Response	Number of respondents	Percentage %
1.	How do you rate the performance of evaluating the effectiveness of internal control in a timely basis?	Very good	5	19
		Good	9	35
		Moderate	12	46
		Bad	0	0
		Very bad	0	0
	Total		26	100

Source primary data

The above table shows how employees rated the banks performance of evaluating the effectiveness of internal control in a timely basis. Out of the total respondents 5(19%) rated it as very good 9 (35%) rated it as good& the majority (12 in number and 46 in percent) rated the performance of the bank on internal control at a timely basis as moderate. This implies the banks performance in evaluating the internal control in timely basis is not as expected by employees.

Table 3.2.13. Recording transaction.

No.	Item	Response	Number of respondents	Percentage %
1.	The bank records every transaction related with payments, receipt, and cash properly?	Strongly Agree	24	92
		Agree	2	8
		Neutral	0	0
		Disagree	0	0
		Strongly disagree	0	0
	Total		26	100

Source primary data

As it is shown in the above table, 24(92%) of respondents agreed strongly and 2(8%) of respondents agreed to the statement “The bank records every transactions related with payments, receipt and cash properly”. The majority of the respondents, that is 24(92%) strongly agreed to the statements. This indicates the bank properly keeps a record of payments, receipts, and cash.

Table 3.2.14 forecasting possibility of unexpected outflows

No.	Item	Response	Number of respondents	Percentage %
1.	How do you evaluate the bank’s ability to forecast and prevent the possibility of unexpected outflows?	Very good	0	0
		Good	6	23
		Medium	14	54
		bad	6	23
		Very bad	0	0
	Total		26	100

Source primary data

As it is indicated in the above table, the bank’s ability in forecasting and preventing the possibility of unexpected outflow is rated by 6(23%) of respondents as good, 14(54%) as medium, and 6(23%) as low. The majority of the respondents rated it medium and below. This indicates the bank is not as ready as it should be for the probability of unexpected outflows.

Table 3.2.15. Capacity of the bank to meet its current obligation

No.	Item	Response	Number of respondents	Percentage %
1.	How do you measure the capacity of the bank to meet its current obligation?	Very good	21	81
		Good	5	19
		Moderate	0	0
		Bad	0	0
		Very bad	0	0
	Total		26	100

Source primary data

As it is indicated in the above table 21(81%) of the respondents rated the banks capacity in meeting its current obligation as very good, the rest 5(19%) of respondents rated it as good. The majority of the respondents rated as very good. This indicates the bank has a variety of short term finances that allows it to easily fulfill its current obligation.

Table 3.2.16. Prediction of future trends

No.	Item	Response	Number of respondents	Percentage %
1.	How often does the bank use financial ratio analysis to predict future trends in a business?	Often	3	12
		Usually	16	61
		Moderate	7	27
		Sometimes	0	0
		Rarely	0	0
	Total		26	100

Source primary data

As it is indicated in the above table, 3(12%) of respondents believe that the bank often uses financial ratio analysis to predict the future trends in a business, 16(61%) of respondents indicated the bank usually uses financial ratio analysis to predict future trends in a business, whereas the rest 7(27%) of respondents indicated that the bank usage of financial ratio analysis is moderate. The majority of respondents chose usually indicating the bank makes use of financial ratio to the desired level.

Table 3.2.17 performance of the bank

No.	Item	Response	Number of respondents	Percentage %
1.	How do you rate the performance of the bank in comparison with the average performance of the industry?	Very high	5	19
		High	9	35
		Medium	12	46
		Low	0	0
		Very low	0	0
	Total		26	100

Source primary data

The above table shows how employees rated the bank's performance in comparison with the average performance of the industry. Accordingly 5(19%) of respondents rated it as very high, 9(35%) of respondents rated it as high, 12(46%) of respondents rated it as moderate. The majority of respondents chose medium. This indicates the bank's performance in comparison with the average performance of the industry is not up to the expected level by employees.

3.3 Qualitative analysis

1. How does the bank meet its cash needs?

The bank's major cash need is met by providing different saving services for customers like

- Checking account
- Saving account
- Fixed time period deposit account

The above deposit accounts provide the bank to have a large amount of money that the bank needs to meet its cash need and also invest their money in different profit earning investments.

2. What type of securities does the bank prefer as an investment?

Our bank invests in different types of bonds like government bond, coupon bond, corporate bonds for long-term investment and treasury bill for short term investment.

3. Was there any problem regarding liquidity of its current asset?

Liquidity risk arises in the general funding of the group's activity and is the management of positions it included both the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame and the risk management group continuously assesses liquidity risk by identifying and monitoring change in funding required to meet business goals and targets set in terms of the overall bank strategy. In addition, the group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

4. What are the bank's short term financing sources?

Funds are raised mainly from deposits and state capital, which enhances funding flexibility, limits dependency on any source of funds and generally lowers the cost of funds. Our bank uses different short term financing sources that bear interest and investment that earn interest like:

- Checking account: these are designed for immediate withdrawal, the bank does pay interest but it is a liability for the bank.

- Saving accounts: this deposit account provide higher interest rate than checking account, they help to manage basic personal finances.
- Certificate of deposit: after higher return is exchange for tiding up invested money for the duration of the certificates maturity, if the money is removed before maturity it is subjected to penalty.
- Treasury bills: this is security that can offer modest returns and high liquidity for short term shortage.

5. What strategy does the bank use to collect its short term loans from customers?

Our bank provide every loans and advances after a proper and in depth investigation of the organization or individual who wants to borrow from our bank and collects the money monthly, quarterly or semiannually.

6. How does the bank evaluate the effectiveness of the internal control over cash?

There is an internal auditor to check the effectiveness of the internal control. It is evaluated by:

- Reconciling cash on hand with recorded amount.
- Pre audit before cash is disbursed to customers or before providing.
- Check the timely collection of loans that are provided to customers
- Post audit that helps as to find out if cash is disbursed to proper customer.
- Check the existence and completeness of current asset.
- Check whether if payments are made after proper authorization or not.
- Check whether every payment and collections are properly recorded or not.

7. How does the bank meet its reserve requirement?

Cash reserve is non interest earning and is based on the value of deposits as adjusted for national bank of Ethiopia requirements. At June 30 2010 the cash reserve requirement was 15% of the eligible deposits. These funds are not available to finance the bank's day to day operations and we are able to meet the reserve requirements in excess of the required ratio by N.B.E. for the past years.

3.4. Data gathered from secondary source

3.4.1. Outstanding loans and advances by sector (in millions Br)

Particulars	2009/10	2010/11	2011/12	2012/13
Loans to customers	9,533	17,162	18,948	22,599
Agriculture	1,842	2,738	3,174	4,354
Manufacturing	1,497	2,053	2,339	3,599
Domestic trade	2,813	3,802	3,528	3,440
Foreign trade	2,769	7,378	7,891	7,770
Building and construction	550	1,094	1,897	3,245
Personnel	62	97	120	190
Loans to banks	231	180	434	262
Total outstanding loans	9,764	17,342	19,328	22,861

Source annual bulletin of the bank

The outstanding loans and advances of the bank as at end of the reviewing fiscal year total of Birr 22.9 billion, showing an increase of about 18% over the preceding year balance of birr 19.4 Billion. The distribution of loans and advances by major sectors end use shows the aggregate amount to 98% of the total out stand loans balance for the year showing an increase trend with the exception of domestic trade sector. The outstanding loans advance balance domestic trade sector has declined by 2.3% as compared with the preceding year.

3.4.2. Trends in loan disbursement, by sector (in millions Br)

Particulars	2009/10	2010/11	2011/12	2012/13
Agriculture	1,609	3,534	2,516	3,737
Manufacturing	546	918	711	1,586
Domestic trade	1,406	2,643	1,746	1,348
Export	788	976	368	791
Import	556	4,440	3,403	436
Building and construction	260	960	1,497	1,221
Personnel	67	105	74	66
Disbursements to banks	-	-	104	-
Mortgage loans	-	-	676	1,268
Total loans disbursements	5,231	13,575	11,092	10,353

Source annual bulletin of the bank

The amount of fresh loans disbursed to the various economic sectors during the reviewing year was Br 10.4 billion this shows a decline by 7% as compared with Birr 11.1 billion of the preceding year.

3.4.3. Trends in loans collection by sector (in million birr)

Particulars	2009/10	2010/11	2011/12	2012/13
Collection from customers	5,694	7,076	9,203	8,641
Agriculture		2,553	2,201	2,984
Manufacturing	429	428	554	540
Domestic trade	1,832	1,555	1,981	1,749
Export	627	753	568	627
Import	875	1,426	2,410	1,521
Building and construction	228	290	1,420	1,166
Personnel	53	71	69	54
Other projects	111	-	-	-
Collection from banks	61	59	81	145
Mortgage loans	-	-	53	193
Total	5,755	7,135	9,336	8,979

Source annual bulletin of the bank

Total loan collection stood at birr 9.3 billion a year ago. Loan collection from domestic trade services, building and construction, import, and other personnel loans were major contributors to the decline of loan collection, on the other hand loans collection from the agriculture, export, collection from bank, and mortgage loans increased by 35.6%, 10.5%, 80.1%, and 26.4% respectively as compared to the corresponding balance of the preceding year.

CHAPTER FOUR

SUMMARY, CONCLUSION, AND RECOMMENDATION

This chapter of the study incorporates summary of the major findings stated in the previous chapter, conclusion and possible recommendations suggested based on the findings obtained from the research.

4.1. Summary

4.1.1. Summary of the Major Findings

The major point raised and discussed are summarized and presented. The purpose and focus of this study is to analyze and evaluate cash management of commercial bank of Ethiopia finfine branch with the aim of identifying the cash related problems and their causes.

Following is the summary of the major points and findings obtained from analysis of data gathered through questionnaire and interview.

- In terms of characteristics majority of the respondents were male covering 69% and in terms of age the majority 58% were in the age range of 31-40. As for educational back ground 81% of them are BA degree holders.
- The bank's effort in employing effective techniques in order to manage its cash appropriately, counting and balancing cash on hand regularly, ascertaining the existence of cash and control over the inflow and outflow of cash is rated neutral, very good, good, and high respectively.
- The bank performance with regard to safeguarding its cash, making every payments after proper authorization, segregating duties and responsibilities of its employees, and accessibility of assets for authorized persons only is rated very good (88%), agree (69%), very high (46%), and agree (58%) of respondents respectively. The rating shows the bank employs an effective internal control system, and 46% of respondents rated the bank's performance in evaluating the internal control at a timely basis as a moderate level.

- The bank's performance regarding forecasting and preventing the possibility of unexpected outflows is rated medium (54%).
- The use of financial ratio analysis by the bank is answered usually by the majority of the respondents 61%.
- The performance of the bank in comparison with the average performance of the industry is rated medium by 46% of respondents.

4.1.2. Summary of major points obtained from interview

- The bank meets most of its cash needs from different types of deposit accounts like checking account, saving account and fixed time period deposit account.
- Commercial bank of Ethiopia uses different short term financing sources but the major ones are selling account, checking account, and treasury bills.
- The bank strategy for collecting short term loans provided to customers is dividing the collection time by period like monthly, quarterly, and semi annually.
- The bank manage problems regarding liquidity by assigning risk management group to assess liquidity, risk continuously by identifying and monitoring change in funding and by holding portfolio of liquid asset.
- The bank evaluates the internal control system by assigning internal auditors who checks every aspects of the internal control system in a timely basis.
- Commercial bank of Ethiopia meets its reserve requirement in excess of the required ratio set by national bank of Ethiopia.

4.1.3. Summary of major points obtained from secondary data

- The outstanding loans and advance balance of the bank as at the end of 2013 totaled birr 22.9 billion showing an increase of about 18% over the preceding years balance of birr 19.4 billion and a decline in 25% of domestic trade sector.
- The amount of fresh loan disbursed to the various economic sectors during 2013 declined by 7% when compared with the loan disbursement of 2012.
- The loan collection from customers shows a decline of 4% in 2013 when compared with the collection of 2012.

4.2. Conclusion

- On the basis of the findings of this research it can be concluded that the cash management of commercial bank of Ethiopia makes a good effort to manage its cash appropriately.
- Generally insight of the majority of respondents it can be concluded that the management of commercial bank of Ethiopia uses different techniques of internal control system and also evaluating the effectiveness of the internal control is moderate except for storing recorded documents in an easily accessible storage.
- The management performance to forecast and prevent possibility of unexpected outflows as well as its capacity in handling a significant outflow is at a middle level but the bank ability to redeem deposit for currency on demand is very good.
- From the ratings of the majority of respondents it can be concluded that the bank usually use financial ratio analysis to predict future trends in the business.
- The ratio of loans collection to loans disbursement slightly increased from 84.2% in 2011/12 to 86.7% testifying the fact that the bank had put the required effort towards the timely collection of loans.
- The decline of loan collection from 2012 to 2013 by 4% shows the management effort in a timely collection of loans provided to customers is not enough.
- The decline of loan and advances from 2012-2013 by 7% shows the bank chose to invest the cash on hand in other investment area.
- The decline of both ROA (Return on asset) and ROE (Return on equity) happens because of the increase in state capital and reserve from birr 5 billion to birr 5.5 billion.
- Despite cash reserve is non interest earning CBE decided to increase the amount of cash reserve in NBE in excess of the required rate.

4.3. Recommendation

- ❖ The cash management of the bank should control of cash receipt to assure that all cash that receivable collected & recorded without loss. The system of controlling cash payment should be designed to ensure that no unauthorized payment is made.
- ❖ The management of commercial bank of Ethiopia should use techniques, like uses of organized store, electronic machines in order to improve way of storing recorded documents safely and easily accessible way.
- ❖ The bank should implement performance appraisal as to increase in regard to forecasting and preventing the possibility of unexpected significant outflow.
- ❖ The management of the bank in regard to timely loan collection should improve its ability to collect outstanding loans on time without depriving the interest of its customers.
- ❖ The bank should appropriately handle its cash so that it can raise loan and advance and investment in different profitable areas concurrently.
- ❖ They should be optimal on the cost of holding cash by using different methods of managing cash, like preparation of cash budget, investing idle cash & use different financial instruments opportunities.
- ❖ The cash management of the bank should be performed in order to meet the cash disbursement need (meet payment schedule) and to minimize committed fund on cash (minimization of idle cash).

APPENDIX

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ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

Questionnaire to be filled by Employees

This questionnaire prepared by the student researchers in the field of accounting in St. Mary's University for the partial fulfillment of BA of degree. The senior essay is on the title of an evaluation of cash management practice in the case of Commercial Bank of Ethiopia.

Please fill the questionnaire with honestly because the accuracy of the data to be collected and findings of this research paper important for the student researchers as well as for the bank in adjusting its performance of managing its current assets. Your response will be kept strictly confidential.

Remarks

Writing your name is not necessary.

Give your response by ticking in the box provided besides each choice.

1. Background of respondents

- 1) Gender A. Male B. Female
- 2) Age A. 18-30 B. 31-40 C. 41-50 D. Above 50
- 3) Educational level
- A. Certificate B. Diploma
- C. BA degree D. Masters and above
- 4) For how long have you been working in the bank?
- A. < 4 years B. 6-9 years C. 10-13 years
- D. Above 13

2. Questions directly related with the study

5. The bank employs effective techniques in order to manage its cash appropriately?

- A. strongly agree B. agree C. neutral
D. disagree E. strongly disagree

6. How do you rate the extent of the bank's effort in counting and balancing cash on hand regularly?

- A. very high B. high C. medium
D. low E. very low

7. How do you rate the management's control on ascertaining the existence of cash?

- A. very good B. good C. moderate
D. bad E. very bad

8. How do you rate the management's control over the inflow and outflow of cash?

- A. very high B. high C. medium
D. low E. very low

9. What is the extent of the management effort in checking timely collection of loans, credit and advance?

- A. very high B. high C. medium
D. low E. very low

10. How do you rate the bank's performance with regard to safeguarding of cash?

- A. very good B. good C. moderate
D. bad E. very bad

11. The bank invests its idle cash in different profitable securities.

- A. strongly agree B. agree C. neutral
D. disagree E. strongly disagree

12. The bank makes every payment after proper authorization.

- A. strongly agree B. agree C. neutral
D. disagree E. strongly disagree

13. Confidential documents and assets of the bank are accessible for authorized persons only.

- A. strongly agree B. agree C. neutral
D. disagree E. strongly disagree

14. What is the extent of the bank effort in segregating the duties and responsibilities of employees over the payment collection and recording of cash?

- A. very high B. high C. medium
D. low E. very low

15. How do you rate the bank's effort in storing recorded documents in a safe and easily accessible storage?

- A. very high B. high C. medium
D. low E. very low

16. How do you rate the performance of evaluating the effectiveness of internal control in a timely basis?

- A. very good B. good C. moderate
D. bad E. very bad

17. The bank records every transaction related with payments receipt and cash properly.

- A. strongly agree B. agree C. neutral
D. disagree E. strongly disagree

18. How do evaluate the bank's ability to forecast and prevent the possibility of unexpected outflows?

- A. very good B. good C. moderate
D. bad E. very bad

19. How do you measure the capacity of the bank to meet its current obligation?

- A. very good B. good C. moderate
D. bad E. very bad

20. How often does the bank use financial ratio analysis to predict future trends in a business?

- A. often B. usually C. moderate
D. sometimes E. rarely

21. How do you rate the performance of the bank in comparison with the average performance of the industry?

- A. very high B. high C. medium
D. low E. very low

22. If you have additional comment and suggestion on the overall cash management practice of the bank please specify

ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

Interview Check List for Employee

Interview to be conducted to CBE employees this interview is prepared by a student researcher. Prospectively graduate of years 2006 in the field of accounting for the partial fulfillment of a senior essay and the main objectives this interview is to make an evaluation of CASH MANAGEMENT.

There for you are kindly requested to respond honestly and with due care because or corrective of the answer will have paramount important for outcome of the researcher.

Thank you in advance for your sincerely cooperation

1. How does the bank meet its cash needs?
2. What type of securities does the bank prefer as an investment?
3. Was there any problem regarding liquidity of cash?
4. What are the bank's short term financing sources?
5. What strategy does the bank use to collect its short term loans from customers?
6. How does the bank evaluate the effectiveness of the internal control over its current asset?
7. How does the bank meet its reserve requirement?