

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

**EVALUATION OF INTERNAL CONTROL SYSTEM
OVER FIXED ASSETS IN THE CASE OF
CADILA PHARMACEUTICALS P.L.C
ETHIOPIA BRANCH.**

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JULY 2014

ADDIS ABABA

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**A SENIOR ESSAY SUBMITTED
TO THE DEPARTMENT OF ACCOUNTING
BUSINESS FACULTY
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**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF BACHELOR OF ARTS IN
ACCOUNTING**

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CHAPTER ONE

1. INTRODUCTION

1.1 Back ground of the study

value occurs in fertility of agricultural land because of poor crop rotation, drought, or soil erosion. They possess physical substance. Property, plant, and equipment are characterized by physical existence or substance and thus are differentiated from intangible assets such as patents or good will. Unlike raw material property, plant, and equipment, do not physically become part of a product held for resale.

(Kieso & Weygandt, Intermediate Accounting, 9th edition)

The terms plant asset; plant and Equipment; property, plant and Equipment; or fixed assets often are used to describe the tangible assets used by , such as a loss Almost every business enterprise of any size or activity uses assets of a durable nature .such assets ,commonly referred to as property, plant, and equipment ;plant assets; or fixed assets, include land ,building structures (offices ,factories, warehouses),and equipment (machinery furniture, tools).These terms are used interchangeably. The major characteristics of property, plant, and equipment are: They are acquired for use in operations and not for sale. Only assets used in normal business operations should be classified as property, plant, and equipment. An idle building is more appropriately

classified separately as an investment; land held by land developers or sub dividers is classified as inventory. They are long term in nature and usually subject to depreciation. Property, plant and equipment yield services over a number of years .the investment in these assets is assigned to future periods through periodic depreciation charges. The exception is land, which is not depreciated unless material decrease in a business enterprise in its operations. Use in operations distinguishes these assets from other tangible assets that are

reported in the balance sheet as investments. Plant assets include in this category are properties acquired for use in operations. Examples are Land, Buildings and structures of all types, Machinery, Equipment, Furniture Tools, returnable Containers and leasehold improvements. Plant assets generally are acquired for use rather than for sale. In yielding services over many accounting periods a plant asset does not change in physical characteristics, that is does not become physically incorporated in the finished goods of a business enterprise. (Mosich, Intermediate Accounting, 6th edition)

Fixed assets are long term or relatively permanent assets such as equipment, machinery, buildings, and land. Other descriptive titles for fixed assets are plant assets or Property, plant and equipment. Fixed assets have the following characteristics:

- They exist physically and, thus, are tangible assets.
- They are owned and used by the company in its normal operations.
- They are not offered for sale as part of normal operations.

An accounting system must provide the information needed by management in reporting to owners, creditors, and other interested parties. In addition, the system should aid management in directing operations. The detailed policies and procedures used to direct operations and provide reasonable assurance that the entity's objectives are achieved are called internal controls. (Warren, Reeve, and Duchac, Financial Accounting)

An enterprise's internal control structure consists of the policies and procedures established to provide reasonable assurance that the enterprise's goals and objectives will be achieved. This internal control structure can be divided into three elements (1) the control environment, (2) the control procedures, and (3) the accounting system. The policies and procedures of an internal control structure will vary according to the size and type of business enterprise. In a small business where it is possible for the owner-manager to supervise the em-

ployees personally and direct the affairs of the business, few control policies and procedures are necessary. As the number of employees and the complexities of an enterprise increase, it becomes more difficult for management to maintain control over all phases of operations. As a firm grows, management needs to delegate authority and to place more reliance on the control structure in order to achieve adherence to enterprise goals and objectives.

(Warren, Reeve, and Duchac, Financial Accounting)

1.2 Back ground of the company

Cadila Pharmaceuticals (Ethiopia) Plc which is a multinational and one of the largest pharmaceuticals manufacturing company in the country established in 2007 with a joint venture between Cadila Pharmaceuticals LTD, India and Al-metalmpex Plc, Ethiopia for Manufacturing of pharmaceuticals products of Tablets, Capsules and Liquids for local as well as foreign market. The company manufacturing unit is one of its kinds in Ethiopia and complies with the World Health Organization (WHO) regulatory requirements of Good Manufacturing Practices (GMP)

1.3 Statement of the problem

The importance of the internal control system over fixed asset has motivated us to pursue this study. Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable. These assets represent tangible asset that are used in the operations of a company and have a useful life of more than one accounting period. These assets are major investments for most companies. They make up a large part of assets on the balance sheet and the yield a depreciation that could be the largest ex-

penses on the income statement. They also affect the cash flow statement when cash is spent to acquire them or cash is received from their sale. They represent a capital expenditure. Capital expenditures are important news because they impact both short-term and long-term successes of company. Fixed assets are set apart from other assets by two important features. First, they are used in operations. This makes them different from assets such as inventory that is help for sales and not used in operations. Second, fixed assets have useful lives extending over more than one accounting period. This makes them different from current assets such as supplies that are usually consumed in a short period after they are placed in use. However, the company's practical application on compliance on the company's internal control system had some defects. The Company's fixed asset register didn't provide full information. This paper endeavored to find the answer for the effect of internal control system over Fixed Asset of Cadila Pharmaceuticals (Ethopia) P.L.C, How important the internal control system over Fixed Asset on the Company is.

1.4 Research Questions

The research team has been tried to assess the internal control over fixed assets by raising the following research questions:

- What types of internal control system adopted by the company?
- What are the reasons to decide the adoption of internal control system over fixed asset used by the company?
- What kind of policies and procedures has the company implement to administer the company's fixed assets?
- What kind of purchase policy does the company adopted to acquire fixed assets?
- For what purposes do the company fixed assets are used?
- What are the strengths and weakness of the company internal control system over fixed asset?

1.5 Objectives of the Study

1.5.1 General Objective

The general objectives of the study was to examine the internal control over fixed asset and to find out the problems related to internal control over Fixed Asset in the Cadila Pharmaceuticals (Ethiopia)P.L.C

1.5.2 Specific Objectives

- To evaluate the internal control environment that reflects the overall attitude of management and board of directors regarding the importance of controls in the company.
- To evaluate the company's purchase policies.
- To evaluate the company's policies and procedures.
- To evaluate the strength and weakness of the internal control system of the company.
- To evaluate the usage of the company fixed asset.

1.6 Delimitation /Scope of the Study

The study has focused on the internal control System over Fixed Asset during the year 2013-2014 by using various indicators such as fixed assets schedules, fixed assets policies and procedures of Cadila Pharmaceuticals (Ethiopia) P.L.C.

1.7 Definitions of Terms

Schedule of fixed asset: A summary of fixed assets with the relevant data like purchase cost, date of purchase, purchase invoice No, and fixed assets category, rate of depreciation and, accumulated depreciation and the like.

1.8 Research Design and Methodology

1.8.1 Research Design

The research team has been used descriptive study that has been used to employ with an assumption that it can help to generate adequate information about the major challenges in the internal control system over fixed assets.

1.8.2 Sampling Technique

The research team has been used a stratified sampling technique by taking samples from each department .Based on the relevant information given by the department ,we have given a higher percentage for the department who provide a relevant information about the internal control system over fixed asset.

1.8.3 Populations and sampling techniques

The population of the study will be divided by the departments sections as follows

Departments/Sections	No. of Workers	Sample Size
Human Resource	14	4
Finance	10	10
Marketing	3	3
Supply Chain	4	4
Engineering	24	10
Warehouse	18	9
Quality Assurance and Quality Control	27	5
Production	63	5
Total	163	50

1.8.4 Types and Source of Data Collected

1.8.4.1 Primary Sources of Data

The primary source of data collected through self administered questionnaires and face to face with Cadila Pharmaceuticals (Ethiopia) P.L.C Employees.

1.8.4.2 Secondary Data Collection

The secondary sources of data collected from written and published materials, audited financial statements, which expresses fixed asset control report related policies, procedures, schedule and related reference that serve for internal control of fixed assets.

1.8.5 Method of Data Collection

To conduct this study the researchers collected data from both Primary and secondary sources of Data. Primary sources of Data collected through questionnaires distributed to the responsible departments that support the researchers to get relevant information. And secondary data collected from company's written and published documents, Manuals Policies and Procedures, Financial Statements, which are essential for the completion of the research study.

1.8.6 Data Analysis Method

The research team applied in the study to analyze the data collected from both primary and secondary data is analyzed by using a descriptive analysis method of Percentage and presenting through tables and figures. The data Presented based on the three components of internal control structure (ICS) (The Control Environment, The Accounting System, and The Control Procedures.

1.9 Limitation of the Study

During the study of the research various constraints we face

- We may not get sufficient local research findings relate to the internal control system over fixed assets.
- Employees may not respond quickly due to different reason.

1.10 Organization of the Paper

The Research has four different chapters. The first chapter includes the background of the study, the background of the company, statement of the problem, research questions, and objective of the study, significance of the study, scope and limitation of the study, research design and methodology which used to prepare the research paper. Chapter two contains review of related literature. Chapter three, the main part of the study, deals with presentation and data analysis .and the last chapter, chapter four, deals with the summary, concussions and recommendations.

CHAPTER TWO

2. Review of Related Literature

2.1 Definition of Fixed Assets

The terms plant asset; plant and Equipment; property, plant and Equipment; or fixed assets often are used to describe the tangible assets used by a business enterprise in its operations. Use in operations distinguishes these assets from other tangible assets that are reported in the balance sheet as investments. Plant asset includes in this category are properties acquired for use in operations. Examples are Land, Buildings and structures of all types, Machinery, Equipment, Furniture Tools, returnable Container and leasehold improvements. Plant asset generally are acquired for use rather than for sale. In yielding services over many accounting period a plant asset does not change in physical characteristics, that is does not become physically incorporated in the finished goods of a business enterprise. (Mosich, Intermediate Accounting, 6th edition)

2.2 Accounting for Fixed Assets

A plant asset is a bundle of future services. The cost of acquiring such an asset is a measure of the amount invested in future services that will be provided by the asset. At the time of acquisition, cost is also an objective measure of the exchange value of an asset. The market price represents the simultaneous resolution of two independent opinions (the acquirer's and the seller's) as to the current fair value of the asset changing ownership. There are cases where the acquirer pays too high a price because of errors in judgment or excessive construction costs, and it is sometimes possible to acquire plant assets at bargain prices. This, however, are exceptional cases; accountants seldom have reliable evidence to support either "unfortunate" or "bargain" acquisitions. Accountants use cost as the basis of recording and reporting plant assets be-

cause it is reliable and because it is a measure of the investment in the future services. The problem of determining carrying amount (often referred to as carrying value or book value) subsequent to acquisition is also important. As a plant asset is used in operation, a portion of the original bundle of services (cost) is used up. (Mosich, Intermediate Accounting, 6th edition)

2.3 Cost of a Fixed Asset

The total cost of a plant asset is the cash outlet or its equivalent, made to acquire the asset and place it in operating condition. This is a clear and simple statement of the principle involved. Until a plant asset is ready to perform the services for which it was acquired, it is not complete. Some plant assets, such as a truck or a computer, are complete and ready to function at acquisition. The cost of such assets may be measured by the total of the invoice price (including sales tax) and transaction costs. Other assets, for example an automobile assembly line or the machinery for a paper mill, must be assembled, installed, and tested. All expenditures connected with the assembling, installing, and testing logically are viewed as a part of cost of the asset. (Mosich, Intermediate Accounting, 6th edition)

Historical cost is the usual basis for valuing property, plant, and equipment. Historical cost is measured by the cash or cash equivalent price of obtaining the asset and bringing it to the location and condition necessary for its intended use. The purchase price, freight costs, sales taxes, and installation costs of productive asset are considered part of the asset's cost. These costs are allocated to future periods depreciation. Any related costs incurred after the asset's acquisition, such as additions, improvements, or replacements, are added to the asset's cost if they provide future service potential. Otherwise they are immediately expensed.

Cost should be the basis used at the acquisition date because the cash or cash equivalent price best measures the asset's value at that time. Disagreement

does exist concerning differences between historical cost and other valuation methods (such as replacement cost or fair market value) arising after acquisition.

(Kieso & Weygandt, Intermediate Accounting, 9th edition)

2.4 Disposal of Fixed Assets

Plant asset may be retired voluntarily or disposed of by sale, exchange, involuntarily conversion, or abandonment. regardless of the time of disposal ,depreciation must be taken up to date of disposition ,and then all accounts related to the retired asset should be removed .ideally ,the book value of the specific plant asset would be equal to its disposal value. But this is generally not the case. As a result, a gain or loss develops. The reason: depreciation is an estimate of cost allocation and not a process of valuation. The gain or loss is really a correction of net income for the years during which fixed asset was used. If it had possible at the time of acquisition to forecast the exact date of disposal and the amount to be realized at disposition, then a more accurate estimate of depreciation could have been recorded and no gain or loss would be incurred.

Gains or losses on the retirement of plant assets should be shown in the income statement along with other items that arise from customary business activities. If, however the "operations of a segment of a business" are sold .abandoned, spun off ,or otherwise disposed of, then the results of "continuing operations "should be reported separately from "discontinued operations." Any gain or loss from disposal of a segment of business should be reported with the related results of discontinued operations and not as an extraordinary item.

(Kieso & Weygandt, Intermediate Accounting, 9th edition)

2.5 Cost Subsequent to Acquisition

Expenditures relating to plant assets normally are made throughout the economic life of the assets. Whether these expenditures should be charged against current revenue (revenue expenditures) or whether they should be capitalized (capital expenditures) often is a difficult question. The general approach for dealing with these expenditures may be stated as follows: Expenditures that result in additional asset services, more valuable asset services, or extension of economic life are capitalized and allocated to future revenues; expenditures to maintain plant assets in good operating condition are recognized as expenses. This approach is consistent with the principle of matching expired costs and revenue and should be applied to any expenditure of significant amount.

(Mosich , Intermediate Accounting, 9th edition)

After plant assets are installed and ready for use, additional costs are incurred that range from ordinary repair to significant additions. The major problem is allocating these costs to the proper time periods. In general, costs incurred to achieve greater future benefits should be capitalized, where as expenditures that simply maintains a given level of services should be expenses. In order for costs to be capitalized, one of three conditions must be present:

- The useful life of the asset must be increased.
- The quantity of units produced from the asset must be increased.
- The quality of the units produced must be enhanced.

Most expenditure below an established arbitrary minimum amount are expensed rather than capitalized. The distinction between a capital (asset) and revenue (expense) expenditure is not always clear –cut .determining the property unit with which cost should be associated is critical. If a fully equipped steamship is considered a property unit, then replacement of the engine might be considered an expense. On the other hand, if the ship's engine is considered

a property unit, then its replacement would be capitalized. (Kieso & Weygandt, Intermediate Accounting, 9th edition)

2.6 Nature of Depreciation

As time passes, all plant assets with the exception of land lose their capacity to yield services. Accordingly, the cost of such assets should be transferred to the related expense accounts in an orderly manner during their expected useful life. This periodic cost of expiration is called depreciation. Factors contributed to a decline in usefulness may be divided into two categories: physical depreciation, which includes wear from use and deterioration from the action of the elements, and functional depreciation, which includes inadequacy and obsolescence. A plant becomes inadequate if its capacity is not sufficient to meet the demands increased production plant asset is obsolete if the commodity that it produces is no longer in demand or if a newer machine can produce a commodity of better quality or at a great reduction in cost. The continued growth of technological progress during this century has made obsolescence an increasingly important part of depreciation. Although the several factors comprising depreciation can be defined, it is not feasible to identify them when recording depreciation expense.

2.7 Accounting for Depreciation

If a plant is expected to have no value at the time that it is retired from service, its entire initial cost should be spread over the expected useful life of the asset as depreciation expense. Also, if a plant asset's value at the time of retirement is expected to be very small in comparison with the cost of the asset, this value may be ignored and the entire cost spread over the asset's expected useful life.

If a plant asset is expected to have a significant value at the time that it is retired from service, the difference between its initial cost and this value is the cost (depreciable cost) that should be spread over the useful life of the asset as

depreciation expense. The plant asset's estimated value at the time that it is to be retired from service is called its residual value, scrap value, salvage value, or trade-in value.

In determining the amount of depreciable cost that is to be recognized as periodic depreciation expense, three factors need to be considered: the plant asset's (a) initial cost, (b) residual value, and (c) useful life.

2.8 Use of Depreciation Methods

Cost of fixed asset must be charged to the income statement in a manner that best reflects the pattern of economic use of the asset. Most common methods of depreciation include Straight Line Method and Reducing Cost Method.

2.8.1 Straight Line Depreciation Method

Straight line method depreciates cost evenly throughout the useful life of the fixed asset. Straight line depreciation is calculated as follows:

Depreciation per annum = $(\text{Cost} - \text{Residual Value}) / \text{Useful Life}$ Where:

- Cost includes the initial and any subsequent capital expenditure.
- Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.
- Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use. Useful life is normally calculated in units of years but it may be calculated based on an alternative basis. Useful life of an oil extraction company may for example be the estimated oil reserves.

2.8.2 Units of Production Depreciation Method

Units of Production Depreciation Method, also known as Units of Activity and Units of Usage Method of Depreciation, calculate depreciation on the basis of expected output or usage.

Depreciation per annum = (Cost - Residual Value) / Useful Life

The Formula for calculation of depreciation under Units of Production Method is as follows:

$$\text{Stage of Completion \%} = \frac{\text{Value of Work Certified as complete} \times 100}{\text{Total Expected Production or Usage}}$$

Where:

- Cost includes the initial and any subsequent capital expenditure.
- Residual Value is the estimated scrap value at the end of the useful life of the asset. Since residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of asset's cost equaling the residual value.

(Fees warren, Principles of Accounting, 16th edition)

2.9 Objectives of Internal Control System

The responsibility for establishing an internal control system is that of the management of an enterprise. As such, the objective of the internal control system are determined by the management keeping in view in its specific requirements which ,in turn ,depend on the nature of business, volume of operations,

etc. In general, however, an internal control system has the following objectives, among others.

- Adherence to policies and procedures laid down by management. Orderly and efficient conduct of the business is a major concern of the management of any enterprise. To achieve this objective, the management lays down a variety of policies and procedures.
- Safeguarding of assets. The assets of an enterprise are often susceptible to loss by theft, accidental destruction, etc. It is, therefore, important to establish policies and procedures to safeguard the assets.
- Prevention and detection of fraud and error. Prevention and detection of fraud and error is an important function of an internal control system.
- Accuracy and completeness of records and timely preparation of reliable information. Management requires various kinds of information as a basis for a variety of important business decisions. Besides, the management is also responsible for preparation of financial statements or other financial information –in several cases, such responsibilities placed on the management by the applicable legal requirements. Accuracy and completeness of records and timely preparation of reliable information is, therefore, an important function of an internal control system.

2.10 Scope of Internal Control System

The system of internal control includes the plan of organization and various other methods and procedures. The plan of organization refers to the organizational structures and the methods of assigning authorities and responsibilities. A proper plan on an organization is important for effective operation of the entire internal control system. Similarly, proper allocation of authorities and responsibilities also acts as an internal control.

2.11 Types of Internal Controls

An internal control system has a wide coverage that extends beyond those matters which relate directly to the functions of the accounting system. From this angle, internal controls can be classified into two broad categories: Accounting controls and administrative controls.

Accounting controls are the controls related to the accounting system. They are concerned with the achieving the following objectives.

- Transactions are executed in accordance with the management's authorization, that is, in accordance with the laid down policies and procedures.
- Transactions are promptly recorded in a proper manner. The purpose is to facilitate the timely preparation and communication of reliable financial information.
- Accountability for assets is maintained and assets are safeguarded from unauthorized access, use or disposal.

Accounting controls include:

- Proper segregation of duties relating to accounting functions.
- Rotation of duties.
- Periodic reconciliations.
- Checking the arithmetical accuracy of the records.
- Maintenance of control accounts and preparation periodic trial balance.
- Approval and control of accounts.
- Comparison with external sources of information.
- Comparison of the results of physical inspection of fixed assets, cash, investment and inventories with accounting records.
- Limiting direct physical access to assets and records.
- Comparison actual figures with budgets.

Administrative controls comprise of internal controls other than accounting controls. It has only an indirect effect on the financial information.

(Kamal Gupta and Ashok Arora, Fundamentals of Auditing)

2.12 Internal Control Structure

An accounting system must provide the information needed by management in reporting to owners, creditors, and other interested parties. In addition, the system should aid management in directing operations. The detailed policies and procedures used to direct operations and provide reasonable assurance that the entity's objectives are achieved are called internal controls.

An enterprise's internal control structure consists of the policies and procedures established to provide reasonable assurance that the enterprise's goals and objectives will be achieved. This internal control structure can be divided into three elements (1) the control environment, (2) the control procedures, and (3) the accounting system. The policies and procedures of an internal control structure will vary according to the size and type of business enterprise. In a small business where it is possible for the owner-manager to supervise the employees personally and direct the affairs of the business, few control policies and procedures are necessary. As the number of employees and the complexities of an enterprise increase, it becomes more difficult for management to maintain control over all phases of operations. As a firm grows, management needs to delegate authority and to place more reliance on the control structure in order to achieve adherence to enterprise goals and objectives.

- **The control environment**

The control environment of an enterprise represents an overall attitude towards and awareness of the importance of controls by both management and other employees. Factors influencing the control environment of an enterprise include management's philosophy and operating style, the organizational struc-

ture of an enterprise, and personnel policies and practices. Management's philosophy and operating style includes management's attitude concerning controls. The organizational structure of an enterprise establishes the framework for planning and controlling operations. Personnel policies and procedures include the hiring, training, evaluation, promotion, and compensation of employees to accomplish an enterprise's goal and objectives. Common personnel policies that impact on the control environment include the establishment of codes of ethics for employee conduct and conflict of interest policies.

- **The control procedures**

Control procedures are those policies and procedures that management has established within the control environment in order to provide reasonable assurance that enterprise goals will be achieved. General control procedures which can be integrated throughout the accounting system and which apply to all enterprises are:

Competent personnel and rotation of duties. The successful operation of an accounting system requires procedures to ensure that people are able to perform the duties to which they are assigned .hence, it is necessary that all accounting employees be adequately trained and supervised to perform their jobs. It is also advisable to rotate clerical personnel periodically from job to job. In addition to broadening their understanding of the system, the knowledge that others may in the future perform their jobs tends to discourage deviation from prescribed procedures. Rotation of duties is also very helpful in disclosing any irregularities that may have occurred.

Assignment of responsibilities: If employees are to work efficiently, their responsibilities must be clearly defined. Control procedures should exist to guarantee that no overlapping or undefined areas of responsibility exist. **Separation of responsibilities for related operations:** to decrease the possibility of inefficiency .errors and fraud, control procedures should exist to guaranty that re-

sponsibility for a sequence of related operations is divided among two or more persons.

Separation of operations and accounting: Control procedures should exist to ensure that responsibility for maintaining the accounting records are separated from the responsibility for engaging in business transactions and for the custody of the firm's assets. By such separation, the accounting records serve as an independent check on the business operations.

Proofs and security measures: Proofs and measures should be used to safeguard business assets and assures reliable accounting data. The use of fidelity insurance is also an aid to developing an effective internal control structure. It ensures against losses caused by fraud on the part of employees responsible for operations.

- **The accounting system**

The accounting system is an integral part of the internal control structure of an enterprise. Without the information generated by the accounting system, management would lack the ability to plan and direct operations in achieving enterprise goals. The accounting system includes the entire network of communication used by a business organization.

Principles of accounting systems:

Because of differences in businesses, in the number of transactions to be processed, and in the uses made of accounting data, accounting systems will vary from business to business. However, there are a number of broad principles that apply to all system.

Cost effectiveness balance: an accounting system must be tailored to meet the specific need of each business .since costs must be incurred in meeting

these needs. One of the major considerations in developing an accounting system is cost effectiveness.

Flexibility to meet future needs: A characteristic of the modern business environment is change. Each business must adapt to the constantly changing environment in which it operates. Whether the changes are the result of new governmental regulations, changes in accounting principles, organizational changes necessary to meet practices of competing businesses, changes in data processing, changes in data processing technology, or other factors, the accounting system must be flexible enough to meet the changing demands made of it.

Adequate internal controls: an accounting system must provide the information needed by management in reporting to owners, creditors, and other interested parties. In addition, the system should aid management in directing operations. The detailed policies and procedures used to direct operations and provide reasonable assurance that the entity's objectives are achieved.

Effective reporting: uses of information provided by the accounting system rely on various reports for relevant information presented in an understandable manner. When these reports are prepared, the requirements and knowledge of the user should be recognized.

Adaptation to organizational structure: only by effectively using and adapting to the human resources of a business can the accounting system meet information needs at the lowest cost. Since no two businesses are structured alike, the accounting system must be tailored to the organizational structure of each business. The lines of authority and responsibility will affect the information requirements of each business. In addition; an effective system needs the approval and support of all levels of management. (Fess Warren, Principle of Accounting, 16th edition)

CHAPTER THREE

3. Data Presentation and Interpretation

Overview of this chapter presents the data collected through questionnaires in attempt of attaining the researcher's objectives. The data gathered through such means are then analyzed through a descriptive analysis technique. The data analyzed and the analyses made are presented here with.

3.1 Type of Internal Control System

As modern business increased in size and techniques the adoption of internal control system has become inevitable in order to increase efficiency of the business for preventing errors and frauds as well as to ensure the proper utilization of the company physical and non physical resources. The common internal Control system is the policy and procedure in addition to those included components which insure that necessary actions are taken to address risks in achievement of the entity's objectives. There are potentially many such control activities generally related to policy and procedures that pertain to segregation of duties, information processing, physical controls and performance reviews. Therefore the need for the development of internal control system has become essential forever original resource like fixed asset in this respect the researcher collected the data shown in the table 3.1.1 below

Table 3.1.1 Types of internal control system

What types of internal control system adopted by the company?						
S No	Particular	No Of Respondents	Number		Percentage	
			Yes	No	Yes	No
			1	Segregation of duty	50	22
2	Purchase procedure	50	40	10	80%	20%
	Existence of fixed	50	48	2	96%	4%

Primary data

Figure: In the percentage to analysis

As it shown in the above table, 44% of the respondents support the existence of segregation of duty as one type of internal control system in their company, while 56% of the respondents do not support segregation of duty as one type of internal control system in their company. If employees are to work efficiently, their responsibilities and segregation of duty must be clearly defined but in the company 56% the respondents are lack of understanding segregation of duty this may be due to the fact that 56% of the respondents have inadequate awareness in the area of internal control system over fixed asset. This show the control activities of the company are weak. However; lack of awareness by some employees indicate that the basic control element i.e., the control environment is not phases by designed

As it shown in the same table 80% of the respondents support the purchase procedure used as one type of internal control system in their company system ,while 20% of them do not support the purchase procedures as one type of in-

ternal control system. This is due to lack of awareness about internal control system over fixed asset .It also shows the control environment is very weak in their company. Due to this reason the company did not follow similar procedures regarding to fixed asset control activities.

In addition to this 96% of the respondent answered the existence of fixed asset register as one type of internal control system on their company, while 4% of them answered that fixed asset register is not used as one type of internal control. In reality fixed asset register is crucial for identifying the status of every long lived asset. But because of not using fixed asset register is not type of internal control system, the company would not able to know the up to date states of each asset. This shows the control activity of the company on some extent is not very strong. Among the type of internal control system over fixed asset the company more uses the existence of fixed asset register of internal control system which records the acquisition of fixed Assets with the relevant data like Purchase Cost, Date of Purchase, Purchase Invoice No, and Fixed Assets Category, Rate of Depreciation and, Accumulated Depreciation and updates the discarding and disposal of fixed asset of the company.

3.2 Rational for the adoption of internal control system over fixed asset

The company internal control system consists of policies and procedures established to provide reasonable assurance that the company goals and objectives will be achieved. The rationale behind the internal control system over fixed asset is to safeguard the company's fixed asset and provide reasonable assurance in which the acquisition and disposal of the company fixed asset is recorded in the company's accounts. On the other hand, physical location and the custodian of the company's fixed asset should account in the fixed asset register. The necessary data regarding the company's fixed asset also maintained in the fixed asset register. Since the company's fixed asset has acquired with a huge

amount of investment, managing it will have a positive impact towards the success of the company.

Another important part of effectiveness and efficiency is safeguarding asset and records. The physical asset of a company can be stolen, misused, or accidentally destroyed unless they are protected by adequate control. Establish procedure for protecting all fixed asset particularly consideration should be given to employment of securities and operators restricting access to the assets.

Furthermore safeguarding of accounting records also affects the reliability of financial reporting. Accordingly the researchers gathered the following data to assess the rationale behind the internal control system over fixed asset practices of the company and summarized in table number 3.1.2 below

Table 3.1.2 Rationale for the adoption of internal control system over fixed asset

What are the reasons to adopt the internal control system over fixed asset in your Company?										
S No	Particular	No of respondents	Response							
			Number				Percentage			
			No Impor- tance	Some Impor- tance	Much Impor- tance	Do Not Know	No Impor- tance	Some Impor- tance	Much Impor- tance	Do Not Know
1.	Safeguarding of fixed asset	50	0	4	44	2	0%	8%	88%	4%
2.	Ensuring proper Usage	50	0	6	44	0	0%	12%	88%	0%
3.	Minimizing Wastage and unnecessary cost	50	0	6	42	2	0%	12%	84%	4%

Primary data

Figure: In the percentage to analysi

As it shown in the above table 8 % of the respondents indicate safeguarding fixed asset as some importance reason for adoption of internal control system in their company, while 88 % of the respondent indicate to the control safeguarding fixed asset as much importance for adoption of internal control system in their company. And 4% of the respondents indicate to the control of safeguarding fixed asset as do not know reason for adoption of internal control system in their company. This may be due to the fact that 4% of the respondent may have inadequate knowledge of the system safeguarding fixed asset and locating the physical asset as one type of internal control system over fixed asset. Also shows as the company should place special emphasis for the much important of safeguarding of physical asset.

As it shown in the above table 12 % of the respondents indicate ensuring proper usage as some importance for adoption of internal control system in their company ,while 88 % of the respondent indicate ensuring proper usage as much importance for adoption of internal control system in their company.

In addition to this 88% of the respondent indicated that the high importance of minimizing wastage and unnecessary costs as one reason for adoption of internal control system, while 12% of the respondents indicated that minimizing wastage and unnecessary costs as some importance for adoption of internal control system in their company .and the remaining 4% of the respondents do not share their idea.

3.3 Uses of Fixed Assets

Fixed assets are economic resources which cannot be easily liquidated (converted into cash), most notably a company's property, plant and equipment. These assets are usually listed on a company's balance sheet below current assets. Fixed asset that can be used for a number of financial period in the operation of a business. Fixed asset constitute major chunk of the total asset in

the case of all manufacturing entities .fixed asset are tangible asset that are used in the operation of a company and have a useful life of more than accounting period.

The essential characteristics of fixed assets include that they acquired for use in the operation of the company and that their usefulness will extend over a number of years. In principle once the company acquires the fixed asset it must be used for the operation activity. The researchers gathered the following data to assess as summarized in table number 3.1.3 below.

Table 3.1.3 Uses of fixed assets

S No	Particular	No of Responents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	Office Activity	50	50	0	100%	0%
2	Production Unit Output	50	44	6	88%	12%
3	Conduct Personal Activity	50	10	40	20%	80%

Primary data

Figure: In the percentage to analysis

As it shown in the above table 100 % of the respondents indicated the company's fixed asset is used for office activity, this show that the company's fixed

asset is effectively used by the company employees for the designated purpose .so that the company productivity will increase; this will maximize the company profits and provide the owners additional wealth.

As it shown in the above table 88 % of the respondents indicate company's fixed asset is used for Production unit output, while 12 % the respondents indicate the company's fixed assets are used for other purposes other than Production unit output. This may be due to the fact that 12% of the respondents are using the company's fixed asset for other company activity other than production unit output.

In addition 20% of the respondents indicated the company's fixed asset is used to conduct personal activity of the employees of the company, While 80% respondents indicated the company's fixed asset do not used for conducting their personal activities. This may be due to the fact that 20% of the respondents lack awareness and understanding of purposes of fixed asset in their company. In principle company's fixed asset shall not allowed for conducting personal activity.

3.4 Policy and Procedures Regarding To Fixed Asset

The organization over all approach and attitude towards designing and implementing policies and procedures that accelerated achievements of management objectives is an initial factor for wining today's competitive purpose. The specific policy and procedure designed and implemented by management regarding to fixed asset help to minimize the risks, ensure proper usage, maximize efficiency, and safeguard unnecessary wastage of resources. Therefore to meet the company objective, it is important to apply policy and procedures that govern fixed asset. In this respect the researchers collect data shows in table number 3.1.4 below

Table 3.1.4 Policies and procedures

Does the company have policy and properly utilize regarding to fixed asset?						
S No	Particular	No of Respon- dents	Responses			
			Number		Percentage	
			Yes	No	Yes	No
1	Financial/Purchase Manual	50	42	8	84%	16%
2	Conducting physical count and process	50	48	2	96%	4%
3	Purchase Plan	50	34	16	68%	32%

Primary data

Figure: In the percentage to analysis

As it shown in the above table 84 % of the respondents indicate that the company designed and implementing the financial manual and the remaining 16% of the respondents indicate that the company have not designed and implemented the financial manual this may be due to the fact the respondents may have inadequate knowledge of the internal control system.

As it shown in the above table 96 % of the respondents indicate that the company is taking periodic physical count of the company fixed asset and the remaining 4% of the respondents indicate that the company have not take periodic physical count ,this may be due to the respondents lack of knowledge about the internal control system.

As it shown in the above table 68 % of the respondents indicate that there is a purchase plan the company's fixed asset policies, while 32% of the respondents indicate that the company doesn't have a purchase plan. This result indicated that the absence of proper purchase plan as company's policy and procedures is very important to minimize costs and maximize revenues. However, the company has failed to capitalize on purchase plan policies

In general in the above table the majority of the respondents indicated the existence and use of Purchase/Financial manual and physical count as a fixed asset policy and procedures in their company. Even if the company conducts the physical count once in a year especially at the end of the physical period. It also vital in conducting physical count of fixed asset

3.5 Depreciation Method

Depreciation is defined as "the process of allocating of the cost of a fixed asset to expense in the accounting period that benefit from its use."It is the responsibility of management to select the depreciation method regarded as most appropriate to the type of asset and its use in the business.

There are many types of depreciation method for allocating the cost of fixed asset over the accounting period in its useful life. The most common type of depreciation methods the straight line method which provides for uniform periodic charge to depreciation expense over the life of asset, The unit of production method that provides for periodic charges to depreciation expense that may vary considerably depending upon the amount of usage of the asset .Both the declining balance and sum- of- years digit method which provide for a higher depreciation. Charges in the first year of use of the asset and a gradually declining periodic charges their after. In this respect the researchers collected the data shown in the

table 3.1.5 below

Table 3.1.5 **Depreciation method**

Which depreciation method is basically adopted in your company?						
S No	Particular	No of Respon- dents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1.	Straight Line Method	50	50	0	100%	0%
2.	Units of Production Me- thod	50	0	50	0%	100%
3.	Declining Balance Me-	50	0	50	0%	100%
4.	Sum of the years me- thod	50	0	50	0%	100%

Primary data

Figure: In the percentage to analysis

Even if all depreciation method has their own advantage and disadvantage, every company has the right to adopt more than one depreciation method for various assets .In this regard the above table shows that the respondents indicated that the company adopted 100% straight line depreciation method for all fixed asset of the company. Therefore, this shows that the company's inefficiency in choosing the appropriate method for appropriate assets. However, as per Ethiopian income tax proclamation No 286/2002, the organization is allowed to use pooling method for various fixed assets. For instance the rate to be applied for building is 5% ,vehicle 20% ,and office equipment 20%

,information and communication related equipment is 25%.in This regard the company also binded by this regulation for preparation of financial statement for tax purpose

3.6 Internal Control over Fixed Asset

Internal control over fixed asset relates primary to authorization of expenditure on acquisition, usage sales or disposal related transaction. The main control activities related to fixed asset are ensuring the proper valuation, validity of the record, existence of records in the book of accounts. If the company has not maintained adequate record properly it would affect on the reliability of overall finical statements .on other hand control over fixed asset is more useful to management of the company in discharging their responsibility especially those controls related to the reliability of financial reporting are important .In this respect the researchers collected the data shown in the table 3.1.6 below

Table 3.1.6 Controls over fixed asset

What do you think of your company's control over fixed assets?						
S No	Particular	No Of Respon- dents	Responses			
			Number		Percentage	
			Yes	No	Yes	No
1.	Do you think that the presentation and disclosure of all plant assets including depreciation method is adequate	50	18	32	36%	64%
2.	Do you think that all fixed asset are properly valued	50	41	9	82%	18%
3.	Do you think that validity is there when recorded of depreciation	50	42	8	84%	16%
4.	Do you think that all fixed assets are properly recorded	50	40	10	80%	20%

Primary data

Figure: In the percentage to analysis

As it has been shown in the above table 36% of the respondents expressed the adequacy of the presentation and disclosure of all plant assets including depreciation method in the report, While 64% of the respondents expressed they are inadequate .This is due to the fact that 64% the respondents may not have adequate understanding of the importance of presentation and disclosure of any change in depreciation method and related transaction in the financial statements..

As it has been shown in the same table 82% of the respondents expressed that all plant assets are properly valued, while 18% of the respondents expressed that not all plant assets are properly valued in the company. As a manufacturing company there are a large number of heavy and light fixed assets used for production activity. These require proper valuation of every fixed asset. Although the majority of the respondents indicated that the company fixed assets are valued properly. The slight variation in valuation could result in distorted financial position and results of operation as fixed assets constitute the largest portion of company assets and expenses.

As it has been shown in the same table 84% of the respondents indicated that there is a validity check before fixed assets are recorded, as one of the internal controls over fixed assets in their company, while 16% of the respondents indicated that there is no validity check when recorded. This result indicated that there is a slight gap in the fixed asset recording related internal control as identified by the 16% of the respondents.

In the other request, 80% of the respondents expressed all plant assets are recorded in the financial documents during acquisition, while 20% of the respondents expressed that not all plant assets are recorded in the financial documents during acquisition. This result indicated that there is a major weakness in the fixed asset recording process. This is due to the fact that the existence of different understandings about the treatments of fixed assets commencing from imitating purchase transaction up to disposal. The effect of this could adversely affect company operation and financial position. From the overall treatment of fixed assets in the book of accounts majority of the respondents have no awareness on the importance of maintaining proper accounting records.

3.7 Type of Purchase Policy

Purchase procedure practices of most companies are usually similar. In most cases many companies use certain purchase policies such as

- Approved capital budget.
- Prepared purchase requisition.
- Collect at least three Performa invoices from three different suppliers
- Analyze and inspect the Performa Invoices with the least Price and high quality.
- The purchase manager approves the Winner supplier among the collected Performa invoices.
- Prepared purchase order.
- The Purchase is conducting as per the request and the purchased goods are received by the Store keeper by the Goods Receiving voucher.
- The store keeper passes the relevant documents Purchase request, purchase order along with Goods Receiving voucher to the purchase department.
- The Purchase department prepares a payment request along with the relevant data of the Performa invoices analysis report, Purchase request, purchase along with Goods Receiving voucher.
- The disbursement accountant checks all the payment requests documents and prepares a check as per the purchase invoices and passes to the finance manager for approval.
- The finance manager approves the withdrawal of the check and then passes to the general manager for the final approval.
- The general manager approves the withdrawal of a check.
- They provide the processing information inputs from outside the department to produce output communication needed by individuals in other

departments to do their jobs in a coordinated and timely manner. In this respect the researchers collected the data shown in the table 3.1.7 below

Table 3.1.7 Purchase policy

Which of the following purchase policy does the company have adopted?						
S. No	Particulars	No of Respon- dents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	Performa collection	50	48	2	96%	4%
2	Establishment of purchase committee	50	36	14	72%	28%
3	Post purchase support	50	18	32	36%	64%

Primary data

Figure: In the percentage to analysis

As it has been shown in the table above 96% of the respondent indicated that Performa collection activity as one of the purchase policy of the internal control system in the company, while 4% of the respondents expressed as the company do not collect the Performa invoices as one of the purchase policy of the internal control system. 4% of the respondents may not have the awareness of the Performa collection activity as one of the purchase policy of the internal control system in the company. But, it is very crucial to create the awareness of the purchase policy among the employees for minimizing unnecessary wastage of company's and to take a cost advantage.

As it has been shown in the table above 72% of the respondent indicated that Establishment of Purchase committee as one of the purchase policy of the internal control system in the company, while 28% of the respondents expressed as the company do not establish a purchase committee as one of the purchase policy of the internal control system. 28% of the respondents may not have the establishment of the purchase committee when selecting a supplier. Since establishment of a purchase committees very essential to avoid biasness of selecting the supplier.

As it has been shown in the table above 36 % of the respondent indicated that the use of post-purchase support in the company, while 64% of the respondents indicated that the company do not use post-purchase support in the company. This is due to lack of knowledge about the company purchase policy purchase policy of the internal control system. 4% of the respondents may not have the awareness of the Performa

3.8 Benefits of Purchase Policy

For the achievement of organization goal and objectives, it is mandatory to follow a certain policy and procedure. One of them would be purchase policy. This may include authorization, Performa invoice collection and established purchase department. This is very important to reduce unnecessary cost, increase quality, save time and resource etc. In this respect the researchers collected the data shown in the table 3.1.8 below

Table 3.1.8 Benefits of purchase policy

What benefits does your company have attained as a result of adopting purchase policy and procedures?						
S. No	Particular	No of Respondents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	Cost reduction	50	45	5	90%	10%
2	Save Time and Resource	50	36	14	72%	28%
3	Uniform purchase activity	50	28	22	56%	44%
4	Increase quality and compatible assets	50	30	20	60%	40%

Primary data

Figure: In the percentage to analysis

As it shown in the above table, 90% of the respondents believe cost reduction as one of the benefit for the existence of purchase policy and procedures in their company, while 10 % of the respondents not believe cost reduction as one of the benefit for the existence of purchase policy and procedures in their company. This shows there is a room for understanding the benefit of purchase policy among some employees of the company.

In addition to this, 72% of the respondents believe that purchase policy and procedures save time and resource of the company, while 28% of the respon-

dents do not believe that purchase policy and procedures save time and resource of the company. This result shows that the company still required certain improvement in awareness creation for proper adoption and implementation of purchase policy and procedures especially to save time and resources.

In the same above table, 56% of the respondents believe that uniform purchase activity as one benefit of purchase policy and procedures in their company, while 44% of the respondents do not believe that uniform purchase activity as one benefit purchase policy and procedures in their company. This result shows that 44% of the respondents do not accept the benefit of purchase policy and procedures regarding uniform purchase activity.

In the same above table, 60% of the respondents believe that purchase policy and procedures increase quality and compatible assets in their company, while 40% of the respondents do not believe that purchase policy and procedures increase quality and compatible assets in their company. This may be due to the fact that 40% of the respondents do not have enough training in the work area of the company regarding to benefit of purchase policy and procedures.

If the policy is not adopted uniformly, the company may lose certain resources and it required a long time to make purchase. In overall, the respondents believe that the benefit of purchase policy and procedures from cost reduction, time saving and quality product enhancement point of view.

3.9 Fixed Asset Register

Every enterprise should maintain a detailed fixed asset record in the form of a register of fixed asset. It should be maintained independently .The balance on the fixed asset register should be agree with the balance on the controlling fixed asset ledger and the physically existed fixed assets. The advantage of maintaining a register of fixed asset include full details of each asset are recorded so as to facilitate physical verification to provide on independent check

on the accuracy of the account recording, to enable the correct depreciation charge of each year be exactly computed and to insure that fixed asset account are correctly adjusted to eliminate the cost and accumulated depreciation of individual asset sold or scrapped. Accordingly the data gathered is presented in table 3.1.9 below

Table 3.1.9 Fixed asset register

Is a fixed asset register maintained and kept regularly to date, showing for each asset?						
S. No	Particular	No Of Respondents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	Identification no	50	4	46	8%	92%
2	Physical location	50	6	44	12%	88%
3	Depreciation rate	50	42	8	84%	16%
4	Disposal date and proceeds	50	10	40	20%	80%
5	Acquisition date	50	36	14	72%	28%
6	Are fixed asset physically tagged upon receipt?	50	4	46	8%	92%
7	Is the value of fixed asset recorded in the general ledger?	50	44	6	88%	12%

Primary data

Figure: In the percentage to analysis

As it shown in the above table, 8% of the respondents indicated that the existence of identification of each fixed asset in its fixed asset register, while 92 % of the respondents indicated that there is no existence of identification number of each fixed asset in its fixed asset register. This shows that, it is very difficult to identify one fixed asset from the other.

As it shown in the same table above, 12% of the respondents indicated that the appearance of physical location information of fixed asset in fixed asset register, while 88 % of the respondents do not indicated that the appearance of physical location information of fixed asset in fixed asset register. In fact knowing the physical location of the fixed asset in the fixed asset register is very important to identify the nature and conditions of the fixed assets, to ensure proper safeguarding of each asset, within a certain period of time. But many of the respondents never believe the appearance of this information in fixed asset register. This may be one of the problems with in this company to ensure safeguarding fixed assets. The overall results show that the company faces some problem regarding the maintaining physical location record in the fixed asset register.

As it shown in the same table above, 84% of the respondents indicated that the appearance of depreciation rate of fixed asset information in fixed asset register, while 16 % of the respondents do not indicated that the appearance of depreciation rate of fixed asset information in fixed asset register. This may be due to the fact that, 16 % of the respondents may be lack of understating of the fixed asset register.

As it shown in the same table above, 20% of the respondents indicated that the appearance of disposal date and proceeds information of fixed asset in fixed asset register, while 80 % of the respondents do not indicated that the appearance of disposal date and proceeds information of fixed asset in fixed asset reg-

ister. In fact knowing the disposal date and proceeds of the fixed asset in the fixed asset register is very important to keep adequate record of the fixed asset in the fixed asset register. But many of the respondents never believe the appearance of this information in fixed asset register. Due to this reason the company does not able to know the exact economic life as well as the actual benefit at the time of disposal.

As it shown in the same table above, 72% of the respondents indicated that the appearance of Acquisition date of fixed asset information in fixed asset register, while 28 % of the respondents do not indicated that the appearance of Acquisition date of fixed asset information in fixed asset register. This may be due to the fact that, 28 % of the respondents may be lack of understating of the fixed asset register.

As it shown in the above table, 8% of the respondents believe that physical tagging of fixed asset upon receipt of a fixed asset, while 92 % of the respondents do not believe that physical tagging of fixed asset upon receipt of a fixed asset. This shows that, it is very difficult to identify one fixed asset from the other.

As it shown in the same table above, 88% of the respondents indicated that the value of fixed asset acquired is recorded in the general ledger, while 12 % of the respondents do not indicated that the value of fixed asset acquired is recorded in the general ledger. This may be due to the fact that, 12 % of the respondents may be lack of understating of the fixed asset register.

3.10 Strength and Weakness of Internal Control Over Fixed Asset

Companies have now working in a very dynamic environment. They are doing their operation in a very complex economic situation. In this respect companies have their own strength and weakness of performing their operations. Most companies have established standard operating procedures in order to manage

and control the companies operation. Concerning the fixed asset, a company must established strong internal control over fixed asset. Especially in the case of Cadilla Pharmaceuticals (Ethiopia) P.L.C, a manufacturing company, which has a huge amount fixed asset, should establish a strong internal control system over its fixed assets. The researchers analyzes the collected data in the following table number 3.1.10 below

Table 3.1.10 Strength and weakness of internal control over fixed asset

What do you think the overall strength and weakness of the company regarding to internal control system over fixed asset?						
S No	Particular	No Of Respon- dents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	To provide training for fixed asset usage	50	20	30	40%	60%
2	Strong relationship with supplier	50	42	8	84%	16%
3	Usage of fixed asset only for company activity rather than personal usage	50	50	0	100%	0%
4	The existence of qualified and competent employee	50	34	16	68%	32%
5	Supervision of fixed asset usage	50	34	16	68%	32%
6	Awareness of internal control system over fixed asset	50	36	14	72%	28%

Primary data

Figure: In the percentage to analysis

As it shown in the above table 40 % of the respondents indicated that providing training for fixed asset usage as one of the strength of the company, While 60 % of the respondents do not indicated that providing training for fixed asset usage as one of the strength of the company. In fact purchase of fixed asset should be incorporated with the proper utilization training .If the usage of fixed asset is not clear, it results damage and leads to disposal before completed its economic life.

As it shown in the above table 84 % of the respondents indicated that strong relationship with suppliers as one of the strength of the company, While 16 % of the respondents do not indicated that strong relationship with suppliers as one of the strength of the company.

As it shown in the above table 100 % of the respondents indicated the company's fixed asset is only used for company's activity rather than personal advantage, this show that the company's fixed asset is effectively used by the company employees for the designated purpose .so that the company productivity will increase; this will maximize the company profits and provide the owners additional wealth.

As it shown in the same above table 68% of the respondents indicated that the existence of qualified and competent employee as one strength of internal control system over fixed asset in their company, while 32% of the respondents indicated that the existence of insufficient qualified and competent employees. As one weakness of internal control system over fixed asset in their company.

As it shown in the same above table 68% of the respondents indicated that supervision of fixed asset as one strength of internal control system over fixed asset in their company, while 32% of the respondents indicated that supervision of fixed asset as one weakness of internal control system over fixed asset in

their company. Supervising the usage of fixed asset provide to ensure the proper utilization as well as the current physical condition of the fixed asset.

As it shown in the same above table 72% of the respondents indicated that awareness of internal control system over fixed asset as one strength of internal control system over fixed asset in their company, while 28% of the respondents indicated that awareness of internal control system over fixed asset. As one weakness of internal control system over fixed asset in their company.

3.11 Resolve the Problem Of Fixed Asset

What type of measure the company will take to resolve the problem may be existence in relation to fixed asset?

Table 3.1.11 Resolve the problem of fixed asset

What type of measure the company will take to resolve the problem may be existence in relation to fixed asset?						
S No	Particular	No Of Respon- dents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	Develop proper fixed asset policy and procedure	50	46	4	92%	8%
2	Recruitment of qualified	50	46	4	92%	8%
3	To provide on job training	50	34	16	68%	32%

Primary data

Figure: In the percentage to analysis

As it shown in the same above table 92% of the respondents indicated that develop proper fixed asset policy and procedures as one of the measure to be taken to resolve the problem to the internal control system over fixed asset of the company, while 8% of the respondents indicated that develop proper fixed asset policy and procedures do not as one of the measure to be taken to resolve the problem to the internal control system over fixed asset of the company. This may be due to the fact that 8% of the respondents lack of understanding the importance of proper fixed asset policy and procedures.

As it shown in the same above table 92% of the respondents indicated that recruitment of qualified employee as one of the measure to be taken to resolve the problem to the internal control system over fixed asset of the company, while 8% of the respondents indicated that recruitment of qualified employee do not as one of the measure to be taken to resolve the problem to the internal control system over fixed asset of the company.

As it shown in the same above table 68% of the respondents indicated that Providing on job training as one of the measure to be taken to resolve the problem to the internal control system over fixed asset of the company, while 32% of the respondents indicated that Providing on job training do not as one of the measure to be taken to resolve the problem to the internal control system over fixed asset of the company.

3.12 General Working Environments

The company working environment should be transparent to the employees. Since Company's policy and procedures should be prepared and communicated to the employees, it should be documented and readily available to the company's employees for the current and daily consumption. . Every employee within the company performs its duties as per his/her job description and the company's standard operating procedures. The flow of work between employees /sections should be written and documented. Each company's policy and pro-

cedures should be approved by the level managers or general manger. In this respect the researchers conduct the following request in table number 3.1.12

Table 3.1.12 General working environment

S No	Particular	No Of Respon- dents	Response			
			Number		Percentage	
			Yes	No	Yes	No
1	Are there written policies and internal operating procedures that have been approved by the top management/senior management?	50	46	4	92%	8%
2	Does the company have a code of ethical conduct that has been made available to all employees?	50	42	8	84%	16%
3	Are procedures documented kept current and readily available for daily use by all employees?	50	22	28	44%	56%
4	Are roles and responsibilities clearly defined in writing and communicated?	50	22	28	44%	56%
5	Is there an organizational chart that clearly defines the lines of management authority and responsibility?	50	48	2	96%	4%
6	Has management established a backup plan for sudden or significant changes in personnel?	50	24	26	48%	52%

Primary data

Figure: In the percentage to analysis

As it shown in the above table, 92% of the respondents indicated that the company written policies and procedures are approved by the top level managers/General managers, While 8% of the respondents indicated that the company written policies and procedures are not approved by the top level managers/General managers. This may be due to the fact that 8% of the respondents may have lack of understanding about the company's written policies and procedures.

As it shown in the same table, 84% of the respondents indicated that the company has ethical code of conduct which is available to all employees in the company, While 16% of the respondents indicated that the company doesn't have ethical code of conduct which is available to all employees in the company. This may be due to the fact that 16% of the respondents may have lack of knowing about the company's ethical conduct available to employees or the company doesn't create the awareness of the company's ethical code of conduct within the employees in the company.

As it shown in the same table, 44% of the respondents indicated that the documented procedures kept current and readily available for daily use by all employees, While 56% of the respondents indicated that the documented procedures do not kept current and readily available for daily use by all employees. This shows that the internal control system is weak concerning the availability of documented procedures for daily use. This will reduce the standard uniform operating procedures.

As it shown in the same table, 44% of the respondents indicated that roles and responsibilities clearly defined and communicated in written, While 56% of the respondents indicated that roles and responsibilities do not clearly defined and communicated in written. It shows that the efficiency of each employee may not evaluate and the efficiency of the employee may be decreased, because

their responsibilities not clearly defined. Internal control system procedures should exist to guarantee that no overlapping or undefined areas of responsibility exist.

As it shown in the above table, 96% of the respondents indicated that there is an organizational chart that clearly defines the lines of management authority and responsibility, While 4% of the respondents indicated that there is no an organizational chart that clearly defines the line of management authority and responsibility. This shows that 4% of the respondents are lack of awareness what mean that an organization chart and lines of management authority and responsibility.

As it shown in the above table, 48% of the respondents indicated that the company management established a backup plan for sudden or significant changes in personnel. While 52% of the respondents indicated the company do not established a backup plan for sudden or significant changes in personnel. This will result the company's productivity may be reduced when the key company's personnel resigned, or not available in the work place.

CHAPTER FOUR

4 .Summary, Conclusion and Recommendation

This chapter includes summary of major findings conclusions and recommendations of the study, based on the research findings.

4.1 Summary of Major Findings

Based on the analysis made the following findings are summarized.

4.1.1Types of Internal Control System over Fixed Asset

Cadila pharmaceuticals (Ethiopia) PLC adopted internal control system to prevent fraud and errors, such as segregation of duty, purchase procedure and monitoring fixed asset register. Among the types of internal control system over fixed asset 96% of the respondents indicated that company more uses monitoring fixed asset register internal control system.

4.1.2Reasons of Adopting Internal Control System over Fixed Asset

Cadila pharmaceuticals (Ethiopia) PLC adopted the internal control system over fixed asset for the following reasons: for Safeguarding of fixed asset, ensuring proper usage, and Minimizing Wastage and unnecessary cost. Among the reasons of adopting internal control system over fixed asset 88% of the respondents indicated safeguarding of fixed asset and ensuring proper usage of fixed asset are the main reason to adopt internal control system in the company.

4.1.3 Uses of Fixed Assets

The company's fixed asset is used to carry out for various purposes like using the fixed asset for office activity, for production unit output, and for personal conduct. 100% of the respondents indicated that the company's fixed asset is used to carry out the company activity rather than personal usage.

4.1.4 Policy and Procedures Regarding to Fixed Asset

The company has policy in order to properly utilize the fixed asset. Among the policies, the majority of the respondents indicated that conducting physical count of fixed asset taken at the end of the fiscal Period is more appropriate.

4.1.5 Depreciation Method

Among the four basic depreciation methods, straight line method was adopted by the company for all fixed assets. Though all the respondents respond the company has been used the straight line method, the Ethiopian revenue and customs authority disclosed various depreciation methods should be used by the enterprises as per 286/2002 income tax proclamation.

4.1.6 Internal Control over Fixed Asset

From the internal control point of view, the company emphasis on the proper valuation, proper record and the validity of fixed asset. But still there is a problem about understanding the importance of internal control system.

4.1.7 Types of Purchase Policy

The types of purchase policy Adopted by cadila pharmaceuticals (Ethiopia) PLC are Performa collection, establishment of purchase committee, Post purchase support. Among the purchase policy the majority of the respondents indicated that Performa collection is the most adopted purchase policy in the company.

4.1.8 Benefit of policy and procedure

Majority of the respondents indicated the benefits of purchase policy and procedures from cost reduction, safe time and resource, uniform purchase activity, and increase quality and compatible assets. Among the benefits of purchase policy the majority of the respondents indicated that cost reduction is the most benefit gained from purchase policy.

4.1.9 Strength and Weakness of Internal Control System over Fixed Asset

100% of the respondents indicated that the Usage of fixed asset only for company activity rather than personal usage as one strength of internal control system in the company. The company doesn't provide training for fixed asset usage as one weak of the internal control system in the company.

4.2 Conclusion

The internal control system over fixed asset of cadila pharmaceuticals (Ethiopia) PLC is doing well with the existence of some problems and it mainly to prevent both fraud and errors.

In the process of adopting the internal control over fixed asset, the company does not give more emphasis on segregation of duties. To increase the efficiency of the employees, duties should be segregated between the employees; this will reduce overlapping of responsibilities. So that segregation of duties must be a requirement to increase the productivity of the company.

The fixed asset of cadila pharmaceuticals (Ethiopia) PLC are hundred percent used for office activity. Due to lack of awareness, there is a possibility using company's fixed asset for personal activity, like office equipment and vehicles. So that the company should implement some controlling methods to manage company's fixed asset like implementing vehicles Log Book.

The policy and procedure regarding to fixed asset in cadila pharmaceuticals (Ethiopia) PLC which was stated in the financial and purchase manual almost similar with principle of internal control but some problem was reflected during implementation. The company has also accomplished periodic inventory count to verify the existence location, and condition of fixed asset through the inventory counting members. They are consists of different departments. But the counting activity taken place once in a year.

As we have been with the accountant, it has the purchasing committee to accomplish the process of purchasing procedure for approval of buying the fixed assets through the purchase department and mention the advantage of having purchase committee to see the expected risk on buying of the fixed asset in advance from different suppliers. Since the purchase committee is organized from different discipline/subject matter/ of member of personnel. In general terms the purchase plan of the company is not very strong. This problem was also re-

flected on the other purchase transaction activity like purchase of raw material and office supplies.

It is true that every company should maintain detailed fixed asset record in the form of register of fixed assets, which should be maintained independently of the balance there on the general ledger. It should be periodically agreed with the relevant control account in the nominal ledger. The advantage of maintaining a register of fixed assets is that full details of each asset are recorded so as to maintain the whole history of the company's fixed asset. So that the company should maintain a full detail data of the company's fixed asset to efficiently manage the fixed assets,

Facilitate physical verification to provide an independent check on the accuracy of the account recording to enable the correct depreciation charge accumulated depreciation of individual asset sold or scrapped. This practice also existed in Cadila Pharmaceuticals (Ethiopia) PLC but not exercised properly.

4.3 Recommendation

Based on the general finding and conclusion the researcher forwarded the following recommendation:-

1. The company should create awareness within the company employees about the importance and benefit of internal control system over fixed asset and the way of application as well as its usage.
2. The company should develop a checking mechanism for the implementation of its internal control system over fixed asset.
3. The company should create a custodian ship and a liability about the company's fixed asset.
4. The company should segregate duties within its employees and provide a job description for each employee.
5. The company should develop a controlling mechanism for the usage of its fixed asset.
6. The company should make a strong relationship with the company's fixed asset supplier to get post purchase service in addition to pre purchase service.
7. It is advisable to use other depreciation methods in addition to straight line method as per income tax proclamation 286.2002 for various fixed asset.
8. The company should maintain the fixed asset register regarding the relevant data about the fixed asset.

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DECLARATION

I, the undersigned, declare that this senior thesis is my original work, prepared under the guidance of ATO MAHRI H. All sources of material used of the manuscript have been duly acknowledged.

Name

Signature

Place of Submission **SMU**

Date of submission _____

ADVISOR APPROVAL

This paper is submitted for examination with my approval as the university advisor.

Name

Signature

Place of Submission **SMU**

CHAPTER ONE

1. INTRODUCT

1.1 Back ground of the study

Cash is money which a firm disburses immediately without any restriction. Now a day's cash include coins, currencies and cheques held by the firm and the balance in its bank account. The basic characteristics of neat-cash is they can readily by converted in to cash .Cash is important current asset for the operation of business firm. It is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. Any firm should keep sufficient, neither more nor less. Cash shortage will disrupt the firms manufacturing operation while excess cash will Simply remain idle without contributing any effort towards the firms profitability .To improve the performance of business as well as to introduce new business opportunity in the organization cash is very important, since cash is the most powerful working capital. And hence study and research in the collection and payment and handling of cash has paramount importance. Cash management is concerned with the management of cash Flows in and out of the firm cash flows within the firm, and cash balances held by the firm at point of time by financing deficit or investing surplus. Cash management assumes more importance than other current assets because cash is the most significant and the least productive assets that a firm holds. Cash management is the art of keeping corporate cash balances at the lowest level. Hence the profitability as well as sustainability of the firm depends on systematic approaches it follows on the management of this sensitive resource. Bank of Abyssinia as well as other banks in Ethiopia use the money for credit, investment, premium for share holders, reserve for national bank, liquid asset based on decisions of general assembly, rules of the bank and regulations of national bank. Systematic approaches must be taken by Bank of Abyssinia to wisely allocate this sensitive resource by using cash management techniques such as forecasting, mobilizing and managing cash flow and maintaining customer relations in order to maintain the liquidity level at optimum. The most important tool used for liquidity test is current ratio, hence doing at least past five years liquidity analysis by current ratio should be done(Pandey;1999).

It is known fact that anybody uses cash for day-to-day activities and face cash managing problems, budgeting, forecasting, raising etc. It is experienced by this study team that un-programmed cash use by bank of Abyssinia put on conflict with their customers. Hence study and knowledge on this area will have paramount importance.

1.2 Back Ground of Organization

Abyssinia bank is established on Feb 16 1996 in accordance with the Commercial code of Ethiopia of 1930 and the licensing and supervision of Banking Business proclamation No 84/1994. The bank came in to existence by obtaining a license from the national bank of Ethiopia and registered in the bureau of Trade, Industry and Tourism of bureau of Addis Ababa city Administration. The head office of Abyssinia Bank is in Addis Ababa and located in olompia Getu commercial building on the way to Africa Avenue. Its main branch, Mahatma Gandhi branch is also located in the Ghion Hotel area. The bank had been operating with only one branch, Mahatma Gandhi branch, until the end of June 1996 since then the bank has opened many branches in Addis Ababa and Outside Addis Ababa. Nowadays, the bank is operating with 78 branches and one agency office, 38 of them are in Addis Ababa and 40 of them are around and outside of Addis Ababa .The Abyssinia bank was established with an authorized capital of birr 50 million (Fifty million) out of which 25 million was subscribed and the remaining was paid up capital in cash by 131 founder share holders. The bank has 315 million subscribed capitals, 630 million authorized capital 44.74 million is paid up capital. The total number of shareholders is 1,319, the bank is administered by a board consisting of nine members appointed by the general meeting of share holders for term of three year, but they are eligible for another term. The board appoints the president of the bank who carries out the day to day management of the bank, three vice president and seven department managers with high academic qualification and long years of professional and banking experience to assist the president. The bank provides both domestic and international banking service. The domestic banking service includes local remittance, accepting deposits, granting loans, advances and issuing guarantees and bonds. Also the international banking services are foreign remittance, Financing import and export, foreign exchange services, and issuing guarantees.(Annual Report:BOA;2012).

1.3 Statement of the Problem

cash management is concerned with the management of cash Flows in and out of the firm cash flows within the firm, and cash balances held by the firm at point of time by financing deficit or investing surplus cash management assumes more importance than other current assets because cash is the most significant and the least productive assets that BOA holds. Cash management is the art of keeping corporate cash balances at the lowest level, since cash is a non-productivity asset, with jeopardizing short term liquidity. Hence the profitability as well as sustainability of the firm depends on systematic approaches it follows on the management of this sensitive resource. Research on the cash management of a firm helps to properly allocate its cash on proper way. Bank of Abyssinia operates and manages its cash in many ways bank of Abyssinia collects cash form costumers in many ways and documents. Bank of Abyssinia as well as other banks in Ethiopia use their cash for credit, investment, premium for share holders, reserve for national bank, liquid asset based on decisions of general assembly, rules of the bank and regulations of national bank. The systematic approaches taken by bank of Abyssinia to wisely allocate on this area was decide the profitability of the firm .Therefore, this research was study and analyze how bank of Abyssinia is managing its cash by using cash management tool, current ratio analysis for last five years, to see which and how cash management elements are being used in bank of Abyssinia.

1.4 Research Questions

This study is given answer for the practical analysis of cash management the cash of Abyssinia Bank .Hence the study will try to the following basic questions

- ⇒ To what extent the techniques are used by bank of Abyssinia effectively to manage its cash?
- ⇒ Where does the current ratio of Bank of Abyssinia lie when compared with the general allowable boundary?
- ⇒ How past five years liquidity ratio trend looks like, are they random, or trended to some target?
- ⇒ How effective is the cash forecasting process of Bank of Abyssinia?

1.5 Objectives of the Research

1.5.1 General objective

The general objective of the study is to evaluate the cash management practice of Bank of Abyssinia

1.5.2 Specific objectives

- ⇒ To evaluate the current asset and liability data of Bank of Abyssinia for last five years
- ⇒ To assess the last five years current asset and liability forecast data.
- ⇒ To evaluate the cash forecast in process of Bank of Abyssinia give better recommendations.
- ⇒ To assess the liquidity position of the bank by using current ratio recommends improvement directions.

1.6 SIGNIFICANCE OF THE STUDY

The significance of this study was to find out problem related with cash and as such better approach to deal with maintaining good cash management level in any organizations. It will be helpful for administrators of bank of Abyssinia to assess their management style in which intern had impact on cash their organization finally it may contribute for further research studies under taken.

1.7 Scope of the study

The scope of this study is highly confined to cash management analysis of Bank of Abyssinia hade office. It is generally known fact that better compiled data can be found, and hence is the cash management analysis of the Last five years (2009-2013), we find the audited report in this consecutive five years. It is somewhat narrow in scope and largely focuses on cash management analysis of bank of Abyssinia.

1.8 Research Design and Methodology

The study's design and methodology are discussed in detail in below mentioned sections.

1.8.1 Research Design

The study used descriptive research designed, which is design to obtain information concerning cash management analysis and to draw conclusion from the fact discovered. Because, the descriptive research is description of the state of affairs as it exists at present.

1.8.2 Sample size and population

For the purpose of identifying the necessary information about cash management analysis the bank of Abyssinia total employees are 85. Out of this the researchers selected 26 employees who are decided that they fit the area of the study. The respondents were selected based on judgmental sampling method. The reason for using judgmental sampling is to involve the personnel who have understanding about the topic under the study.

1.8.3 Sampling technique

In order to collect primary data the researchers used the judgmental or purposive sampling. Because, the researchers uses own judgmental to select people who is familiar with the sampling frame and have a particular expertise or knowledge which make them suitable and select target respondent that provide the relevant information.

1.8.4 Types of Data Collection

The data was collected from primary and secondary source. The primary data were collected through questionnaire. The secondary data were collected from books, magazines, journals, brochures, annual reports and other related documents.

1.8.5 Methods of Data collection

From various kinds of data collection instruments, the researchers of this study through open ended and close ended types of question and unstructured interview method used to collect primary data from cash management department and employers of bank of Abyssinia. Secondary data was gathered from different source such as books, magazines, annual reports, journals, brochures and other related document.

1.8.6 Data analysis Methods

The data collected through questionnaire is then analyzed using descriptive analysis techniques.

Descriptive technique is a description of the state of affairs as it exists at present.

1.9 Limitation of the study

There were so many limitations to complete the research

- Time and financial constraints
- Employees unwillingness to provide relevant information
- Over lapping of various assignments.

1.10 Organizational of the study

This study is organized in to four chapters. The first chapter introduction which includes back ground of the study, statement of problem, research question, objective of the study, significance of the study, scope of the study, research methodology, limitation of the study and organization of the study. Chapter two review of related literature. In chapter three, analysis of the research data with interpretation with related findings are presentation. Chapter four concludes the study with summary, conclusion and recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 DEFINITION OF CASH, MANAGEMENT AND CASH MANAGEMENT

According to Johnson Cash is one of the very important current assets for the operations of organizations. Cash is the basic input needed to keep the business running on a continuous basis; it is also the ultimate output expected to be realized by selling the services or products manufactured by the firm. Cash is both the most important and the least productive asset that a business possesses. On the one hand, it is important because bills must be paid in cash. If cash is not available in sufficient quantity at the right time, obligations can be met. And the company becomes insolvent. Possessing value in other assets may be little consolation if they cannot be turned in to cash when needed or at least as collateral for needed loans.

Cash is the money, which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the Firm and balance in its bank account. Sometimes near-cash items, such as marketable securities or bank times a deposit of near cash asset is that they can readily be converted in to cash (Pandey; 1999).

As quoted in Richard pettinger (1997) Henri Fayol defines management as process of forecasting, planning, organizing commanding coordinating and controlling. "E.E.L Brech called it is the social processes of planning. Coordination, control and motivation`` Writing in the 1980,s Tom Petters defined it as organizational direction based on sound common sense, pride in the organization and enthusiasm for its works. It is clear that management is a partly the process of getting done through people; and partly the creative and energetic combination of the skill and talent of the individuals concerned with doing things (pettinger, 1997).

Cash management is in general of major importance in business enterprise because cash is a means of acquiring goods and service. Thus the goal of cash manager is to maximize the amount of cash the firm must hold for use in conducting it`s normally business activities yet, at the same time, to have sufficient cash to take trade discount. To maintain its credit rating and also to meet unexpected cash needs (Pandey;1999).

Cash management is the process of maximizing the liquid assets through the acceleration of receivable and the disciplined control of disbursements.

The amount of cash to be held can be determined by balancing two kinds of cost decisions.

- 1) Opportunity cost of not investing, which increases as cash balance increases
- 2) Information costs involved in making the decisions to invest, borrow, or repay loans, which decrease as the amount of cash balance (Pandey;1999).

Elements of cash management

Cash management is made up of four major elements

- 1) Forecasting
- 2) Mobilizing and managing the cash flow
- 3) Mobilizing banking relations and
- 4) Investing surplus cash

Forecasting can be defined as the ability to calculate, predict, or plan future events or conditions using current or historical data. A cash budget monitors how much money will be available for investment, when it will become available and for how long (Pandey;1999).

Cash mobilization involves techniques used to assemble funds and make them readily available for investment. Maintaining good relation with banks, saving and loan association, investment bankers, commercial paper dealers, and security analyst is an important part of cash management. Bankers prefer compensating balances to fee payments because deposits are the main source of bank's loanable funds. A cash budget should provide an estimate of the organization's cash requirements for disbursement by months, weeks, or days. The cash management is generally centered on forecasting and internal controls.

The responsibilities of management with respect to cash are

- To ensure that there is sufficient cash to carry on operations
- To invest any idle cash
- To prevent loss of cash due to theft or to misappropriations.(Pandey;1999)

2.2. Cash balance requirement (motives)

There are four major requirements that must be satisfied if the goal of meeting the corporation's cash needs to be attained. The requirements are

- Transaction requirements
- Precautionary requirements
- Speculative requirements
- Compensating balance requirements

Transaction requirement

Precautionary requirements are the amounts of cash needed to meet the forecast out flows contain in the firm's cash budget (Fabozzi 1996; Ross 1998).

Precautionary requirement

Precautionary requirements are the amounts of cash needed to meet unanticipated cash payments. Cash balance held for precautionary requirement reflects the uncertainty of future cash flows. It is a common practice, however to keep at least some of the firm's precautionary balances invested in marketable securities(Fabozzi 1996;Ross1998).

Speculative requirements

Speculative motives are the cash balance that is held by the business venture to take advantage of bargain purchase that might arise

Speculative motive: money held under the motive constitutes a store of value a liquid asset that holder intends to use to make speculative gains (Fabozzi 1996;Ross 1998).

The money held on this motive will be invested in bonds and securities at the opportunities time. If the price of bond is expected to rise (i.e. in other words the rate or interest is expected to fall people buy bonds in order to make profit by selling them when price rise. If the price of bonds are expected for fall (i.e. the rate of interest is expected to rise) people sell bonds to avoid losses. The amount of money held under this motive will depend on the rate of interest (Fabozzi 1996; Ross 1998).

2.3. Cash planning

Cash planning is a technique to plan and control the use of cash. It protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given Period. The forecast may be based on the present operations or the anticipated future operations. Cash planning may be done on daily, weekly or monthly basis. The period and frequency of cash planning generally depends up on the size of firm and philosophy of management. Large firms prepare daily and weekly forecast. Medium size firms may usually prepare weekly and monthly forecasts. Small size firms may not prepare formal cash forecasts because of the non-availability of information and small-scale types of operations (Pandey, 1999).

2.3.1. Cash forecasting and budgeting

Cash budget is the most significant device to plan and control receipts and payments. A cash budget is a summary statement of the Firms expected cash inflows and outflows over the projected period. Cash forecast are needed to prepare cash budgets. Cash forecasting may be done on short-term or long term basis. Generally Forecasts covers periods of one year or less are considered as short-term; those extending beyond one year considered as long term. Forecasting provides a basis on which to measure the differences between actual events and the plan, so that the nature and extent of corrective actions can be more clearly defined (Pandey; 1999).

2.3.1.1. Short-Term Cash Forecasts

It is comparatively easily to make short-term forecasts. The important functions of short-term cash forecasts are

- To determine operating cash requirement
- To anticipate short term Financing
- To manage investment of surplus cash

The short term forecasts helps in determining the cash requirements for a predetermined period to run business. If the cash requirements are not determined, it would not be possible for the management to know how much cash balance is to be kept in hand, to what extent bank financing be depend up on and whether surplus funds would be available to invest in a marketable security.

One of the significant roles of the short term forecast is to pin point when the money will be needed when it can be repaid. With such forecasts in hand, it will not be different for the financial manage to negotiate short-term financing arrangement with banks.

The other function of the short-term forecasts is to help in managing the investment of surplus cash in marketable securities. A carefully and skill fully designed cash forecasts helps a firm to

- I. Selects securities with appropriate maturities and reasonable risk
- II. Avoid over and under investing
- III. Maximize profits by investing idle money (pandey, 1999)

Short term cash forecasting methods the two most commonly used methods of short term cash forecasting are.

- To receipt and disbursement method
- The adjusted net income method

Receipts and disbursement method cash flows in and out most companies in a continuous basis the prime aim of receipts and disbursement forecasts is to summarize these flows during a predetermined period. In case of those companies where cash item of income and 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

- I. Operating
- II. Non-operating
- III. Financially

Cash sales and collection from customers is the most important part of operating cash inflows. Developing sales forecast is the first step in preparing forecast. All precaution should be taken to forecast sales as accurately as possible. In case of cash sales, cash is received at the time of sales. On the other hand, cash is released after sometime if sale is on credit. The time is realizing cash on credit sales depends up on the firms credit policy reflected in the average collection period. Non operating cash inflows include sales of old assets and dividend inters income. The magnitudes of these items are generally small when internally generated cash flows are not sufficient .the firm resorts to external financial resources financial cash inflows [pandey;1999]

The next step in the preparation of cash budget is estimation of cash knows. Which include the following?

- I. Operating outflows-cash purchases payments of payables, advances to supplies. Wages and other operating Expenses
- II. Capital expenditure it is relatively easy to predict the Expenses of therefore over short run .Firms usually prepare this budgets ,the before, capital expenditure are predictable for the purpose of cash budgets.
- III. Contractual payments-repayment of loan and interest and tax payments.
- IV. Discretionary payments-ordinal preference dividend.

Adjusted Net Income Methods

This method of cash forecasting involves the tracing of working capital flows. It is sometimes called the sources and uses approach.

Two objectives of adjusted net income approach are

- I. To project the company need for cash at further date
- II. To show whether the company can generate the required funds internally, and if not, how much will have to be borrowed or raised in the capital market.

In preparing adjusted net income forecasts item such as net income. Depreciation, taxes, dividends, etc can easily be determined from the company's annual operating by budget.

The benefits of the adjusted net income method are

- It highlights the movement in the working capital items, and thus helps to keep a control on a firm's working capital
- It helps in anticipating a firm's financially requirement

The major limitation of this method is it fails to trace cash flows, and there for, it is utility in controlling daily cash operations is limited (Pandey, 1999)

2.3.1.2.Long-term-cash for casting

Long term cash forecasts may be made for two, three or five years. As with the short term forecasts; company's practice may differ on the duration of long-term forecasts to suit their particular needs.

Long-term cash forecasting reflects the impact of growth, expansion or acquisitions; it is also indicates financing problems arising from these developments (pandey, 1999).

The major uses of the long-term cash forecasts are

- It indicates a company's future financial needs, especially for its working capital requirements.
- It helps to evaluate proposed capital projects. It pin points the cash required to finance these projects as well as the cash to be generated by the company to support them
- It helps to improve cooperative planning Long-term cash forecasts compete each division to plan for future and to formula project carefully.

Compensating Balance Requirements

Compensating balances are the amounts of cash needed to meet certain lending terms commercial banks. For example, a corporation applies to a commercial bank for \$ 100,000 loan. As a condition for receiving the loan the borrowing firm agrees to keep an amount equal to 10% of the loan that is \$ 10,000 on deposit in a checking account of the lending bank until the entire loan is repaid the \$ 10,000 is called the compensating balance. Normal transaction and precautionary balance may be adequate to meet most or all of the required compensating balance (NEVEU, 1985).

2.4. Investing idle cash

The primary function of a bank is to act as a depository for its customers. Funds are deposited to meet the credit need of its service area but deposit. Flow and how demands are subject to high degree of uncertainty with respect to their direction, magnitude and timing. A commercial bank must have a back up sources of liquidity to cope with these uncertainty flows. It is to meet its legal and social responsibilities as a depository and a lender. Investing idle cash has two primary functions. The first function is that it 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 needs. Because the minimum investments required purchasing money market instruments is generally very large, the market is dominated by commercial banks, states and local governments, financial and non bank institutions and more recently mutual funds. These Large investors purchase money market instruments to convert temporary cash surpluses into highly liquid interest bearing investments (Brick, 1984).

The principal, money market instruments are

- Treasury bills
- Negotiable certificates of deposit
- Commercial paper
- Bankers agreement

Investments of temporarily idle cash in selected types of marketable securities are an element of good financial management.

Such holding are regarded as a secondary cash reserve capable of quick conversion to cash at any time, although producing a steady rate of return (Meigs ;1989).

1.4.1. Treasury bills

These are the most frequently issued marketable securities. They are sold weekly or monthly on auction basis and have a maximum maturity of one year. A treasury bill does not carry an interest coupon; interest rate is the difference between the price paid auction and that received then sold or received at maturity. Although these are ``Liquid`` because they can quickly converted in to cash without undue risk of capital loss .

1.4.2. Negotiable Certificate Deposit

In essence of negotiable certificate of deposit is a receipt issued by a bank or savings and loan association in exchange for deposited or funds. The bank agrees to pay the amount deposited, plus interest, to the bearer of the receipt on the date specified of the certificate.

1.4.3. Commercial paper

When a well-known corporation with a good credit rating wishes to borrow owner for a short period of time, it issues a promissory note called commercial paper.

2.4.4. Bankers' Acceptances

Drafts that a customer has drawn on a bank and which bears the banks promise to pay them at maturity are called bankers acceptance. The acceptance reflects the obligation of both the bank and the drawer to pay the face amount

2.4.5 Repurchase Agreement

A purchase agreement is a contract in money market instruments. A borrower who needs funds for a few days enters in to a contract to sell securities. Usually treasury bills from his inventory and agrees to purchase them bank later at given price. Often the stated simply as that amount necessary to provide a certain yield basis to the buyer for the time involved (Brick, 1984) .

2.5. Managing cash receipts and payments

2.5.1. Imp rest System of cash Funds

Immediate cash payments that are too small to made by check may be made from a petty cash fund under the imp rest system the petty cash fund is created by drawing a cheque to petty cash for amount of the fund. In recording the establishment of the find, petty cash fund is charged and cash is credited. The cash is then turned over to the cashier or some person who is to be responsible for payment made out of the fund (Samons and Karrenbrock;1996).

According to Simons and Karrenbrock the petty cash operation should be maintained from other cash funds employed for a particular business purpose. Methods other than the imprest system are sometimes employed in handling petty cash. The imprest system may be employed not only for petty cash but also for other cash funds in large organizations.

2.5.2. Cash change Fund

According to Fees warnn retail stores and other business that receive cash directly from customers must maintain a fund of currency and coins in order to make change. Drawing a check for the required amount, debiting the account cash on hand and crediting cash on bank may establish the fund. At the end of each business day the total amount of cash received during the day is deposited and the original amount of the change fund is retained.

2.5.3. Cash Gap

It is simple concept that help operating people understands how their actions affect a company's cash flow. Although a desirable cash gap varies with the economic sector, geography and season, the concept can be used to improve cash management at any company, on matter how the industry, tradition and the nature of business often set the typical cash gap in a given industry. Some industries are inherently higher cash gaps than other.

Some of the ways to reduce the cash gap are

- Increase the payable period and
- Decrease collection period (Hampton, 1989)

2.6. Statement of cash Flows

The statement of the cash flow explains how a company's obtained and used cash during some period. The sources of the area known as cash inflows, and the users are called cash out flows. The statement classifies cash receipt (i.e. inflows) and payments (i.e. outflows) into three categories ‘

- Operating activities
- Investing activities
- Financing activities

The following section defines these activities and outlines the types of cash flows that are normally classified under cash category.

2.6.1.Operating Activates

Operating activities include cash inflows and outflows generated by Running (i.e. operating) the business. Some of the specific items that are shown under this section are as follows.

1. Cash receipts from sales, commissions fees and receipts from interest and dividend
2. Cash payment for inventories, salaries,

Operating expenses, interests and taxes note that. Gains and losses are not included in this section. The total cash collected from the sale of assets is included in investing activities section.

2.6.2. Investing Activities

Investing activities include cash flow that are generated through company's purchase or sale of long-term operationally assets. Investment in other company's and its lending activities some items include in this sections follow

1. Cash receipt from the sale of property, plant, and equipment or of marketable securities as the collection of loans.
2. Cash receipts from the sale of property. Plant, and equipment or of marketable securities as well as loans made to other determining cash flow investing activities may also require an analysis of changes in the beginning and ending account balances income statement data .

2.6.3. Financing Activities

Financing activities include cash inflows and outflows associated with the company's own quality transaction or its borrowing activities. The following are some items a appearing unfer the financing activities

1. Cash receipts from the issued of stock and borrowed funds.
2. Cash payments for the purchase of treasury stock, repayment of debt and payment of dividends (Edmonds; 2000).

According to Edmonds Chas flow financing activities can frequently be determined by simply analyzing the change in the balances of liability's and stockholders equity accounts.

2.7. Objectives of Cash Audit

1. Establish available cash that is to be there.
2. Prove the cash that ought to be there.
3. Prove whether the cash on hand is needed or not
4. Check independent accountability for cash transaction.
5. Prove disbursement authorization s
6. Prove handling receipt
7. Prove cash protection
8. Establish management reporting methods and timely monitoring

2.8.Internal Control for Cash

Good and desirable internal control measures that ideally may be considered to segregate duties and functions are

- Handling or sales transaction (for additional details see sales internal control procedures)
- Cash receiving and keeping
- Cash mail receiving
- Depositing of cash
- Comparison of cash receipts and deposits
- General ledger entries and records (summery control records, sales, accounts receivable)
- Preparation of bank reconciliation
- Custody of petty cash fund
- Handling of purchase transaction (for additional detail see purchase internal control procedures)
- Payment voucher preparation
- Check preparation
- Check signing and issuing (Yohannes Kinfu;1966).
- Check custody
- Voucher register (entries)
- General ledger entries and records (summery controls purchase accounts payable)
- Advances payment-purchase and travel and other advances
- Budgeting
- Payroll
- Inventory control (storing & issuing)
- Pre-numbered forms-casher receipt, checks, vouchers and other receipts review of internal control would mean reviewing that
- All sources of cash receipts (sources of incomes) are properly established, identified and authorized at point of operations, which includes examining sales processes.
- All cash received are documented includes assuring properties of forms and mathematical accuracy.

- All cash received are handled under strict protective custody, which includes physical protection, daily depositing of cash receipts in fact to bank or central cashier and cashier integrity.
- All supporting records and evidences of cash received are independently corporate and maintained. (Yohannes Kinfu;1966).

2.9. The Financial Statement analysis Method

The ratios that are applied for analysis of primary financial statement are

- Liquidity: is ability to pay obligation that are expected to become due to with is the next year's operating cycle. You would look very closely at the relationship of its current assets to current liability
- Working capital:- one measure of liquidity is working capital, which is the excess of current assets over current liabilities When working capital is positive. There is greater likely hood that the company will pay its liabilities. When the reverse is true, short term creditors may not be paid, and the company may ultimately be forced in to bankruptcy
- Solvency: - its ability to pay interest as is comes due and to repay the face of values the debt at maturity. Solvency rations measure ability of enterprise to survive over a long period of time. The debt to total assets ratio in one source of information about paying ability.
- Current cash debt coverage ratio:- cash provided by the operating activities divided by the average current liabilities. Because cash provided by operating activities evolves the entire year rather than a balance at one point time is often considered a vetter representation of liquid on the average day.
- Current cash debt = $\frac{\text{cash provided by operation}}{\text{Average total liabilities}}$

It is due to decide the company's power to generate sufficient cash provided by operating activities to meet its current obligation (Bringham, 1995).

Cash debt coverage ration:- it is the ration cash provided by operating activities to total debt as represented by average total liabilities. This ratio indicates a company's ability to repay its liability from cash generated from operation

Cash debt coverage ratio = cash provided by operation

Average total liabilities

To sum up the above literature review, the application of cash management is very much useful for the whole company particularly for BOA the responsibilities of management with respect to cash are

- To ensure that there is sufficient cash to carry on operations.
- To invest any idle cash and to prevent loss of cash due to theft or misappropriate

Therefore, like any other business organization cash management is useful in BOA. So as to forecast their cash efficient budgets allocation and to mobilize the idle cash of the bank of Abyssinia, it is useful to ensure that there is sufficient cash to under take their activities appropriately.

CHAPTER THREE

3. DATA ANALYSIS INTERPRETATION AND PRESENTATION

This chapter of the research deals with the analysis, presentation, and interpretation of data gathered from the questionnaire distributed. 26 questionnaires distributed to employees of Bank of Abyssinia, (87%) of the respondents were able to cooperate in filling the questionnaire while 4(13%) was unable to do so because of unknown inconveniencies. And interview was held with the manger of accounting department.

3.1. Analysis of the findings

Table 3.1.1. Background information of respondents.

No	Item	Number respondents	of	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	

4	How long have you worked for the present position?		
	Less than 2 years	2	7.7
	2 – 5 years	9	34.6
	6 – 10 years	11	42.3
	Above 10 years	4	15.4

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 female. 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 bank of Abyssinia are adults.

Item 3 Of the table shown above implies the education level of the sample respondents which indicates 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 BOA are B.A. degree holders. This implies that the majority of employees at position professional can be bright up to succession planning to fill critical positions in order to have sustained contribution and continued excellence.

3.2. Analysis of data

Table3.1.2. Bank technique to manage its cash

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

Source :Own survey

Table 3.1.2 Shows cash management technique efficiency, 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 from the total numbers of respondents majority of them didn't give there response. From the above data the researcher concludes that bank of Abyssinia doesn't employ effective technique in order to manage its cash.

Table 3.1.3. Counting and balancing of cash

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

Source : Own survey

Table 3.1.3. Shows the regular counting and balancing of cash on hand, the data indicates that 11(42%) of the respondents rated it excellent, 8(31%) rated very good, 7(27%) rated good and none of the respondents rated low or very low. From the above data one can observe the existence of regular counting and balancing of cash on hand.

Table 3.1.4. Management control the existence of cash

No.	Item	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: Own survey

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 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 good in the mind of the employees.

Table 3.1.5. Management control over inflow and outflow of cash

No.	Item	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 :Own survey

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 and this shows the bank didn't concentrate on the amount of reserve.

3.3 Reserve of 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.

Table 3.1.6. Checking timely collection of loans and advance

No.	Item	No of respondents	Percentage (%)
1	What is the extent of the management effort in checking timely collection of loans, credit, and advances?		
	Very high	6	23
	High	13	50
	Medium	7	27
	Low	0	0
	Very low	0	0
	Total	26	100

Source : Own survey

Table 3.1.6. 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 and 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 in order to maximize the amount of cash on hand.

Table 3.1.7.Safeguarding of cash

No.	Item	No of respondents	Percentage (%)
1	How do you rate the banks performance with regard 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: Own survey

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. This means the bank use different mechanisms to save its cash through investment and short term loan.

Table 3.1.8. Investments

No.	Item	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 : Own survey

As it is shown in the above table, 4(15%) of the respondents agrees, 22(85%) of the respondents strongly to the statement that the bank invests its idle cash in different profitable securities.

As majority of respondents indicated the bank invests idle cash on treasury bill and short term loan before investing to assure their profitability which is a good cash management technique.

3.4. Types of bank investment

The bank invests in government bond for long-term investment and Treasury bill for short term investment.

Table 3.1.9. Authorization

No.	Item	No of respondents	Percentage (%)
1	Does the bank make every payment after a proper authorization?		
	Yes	5	19
	Yes	18	69
	Neutral	3	12
	No	0	0
	No	0	0
	Total	26	100

Source : Own survey

Table 3.1.9. 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%) yes and yes to the statement respectively. This shows the bank follows a strict procedure in making every payment. This implies that the bank strictly manage or minimize the risk of cash payments.

Table 3.1.10. Accessibility of documents.

No.	Item	No of respondents	Percentage (%)
1	Confidential documents and assets 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 :Own survey

As it is shown in the above table, 3.1.10 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 which help the bank to protect not only cash bills but also all other assets from the theft.

Table 3.1.11. Segregation of duty.

No.	Item	No of respondents	Percentage (%)
1	There is a proper segregation of 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 :Own survey

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 a good controlling system over segregation of duties among employees that work on payment collection and recording. This implies that every payment collected and recorded on the time in order to know the current position of the bank.

Table 3.1.12. Storage of recorded documents

No.	Item	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 :Own survey

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 the bank did use computerized accounting system in order to attain the reliability of the record.

Table 3.1.13 .evaluating effectiveness of internal control.

Item	Number of respondents	Percentage %
How do you rate the performance of evaluating the effectiveness of internal control on a timely basis?		
Very good	5	19
Good	9	35
Moderate	12	46
Bad	0	0
Very bad	0	0
Total	26	100

Source :Own survey

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 moderate 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 strengths of internal control is educated.

3.5 . effectiveness of internal control over current asset

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.

Table 3.1.14. Recording transaction.

Item	Number of respondents	Percentage %
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; Own survey

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 that the bank properly keeps a record of payments, receipts, and cash. This helps the auditors simply checking the reliability of the financial records.

3.6.Meets of cash need

The banks major cash need is meeting 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 large amount of money that the bank needs to meet its cash need and also invest their money in different profit earning investment.

Table 3.1.15 forecasting possibility of unexpected outflows

Item	Number of respondents	Percentage %
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 :Own survey

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 bad. This indicates that the bank is not as ready as it should be for the situations of unexpected outflows.

Table 3.1.16. Capacity of the bank to meet its current obligation

Item	Number of respondents	Percentage %
How do you measure the capacity of the bank to meet its current obligation?		
Very good	0	0
Good	5	19
Moderate	0	0
Bad	11	41
Very bad	10	40
Total	26	100

Source: Own survey

As it is indicated in the above table 11 (41%) of the respondents rated the banks capacity in meeting its current obligation as badly, 10 (40%) of them very badly and the rest 5(19%) of respondent rated it as good. The majority of the respondents rated as badly. This indicates that the bank didn't perform the variety of short term finances that allows it to easily fulfill its current obligation.

3.7. Short term financing sources of bank

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

- Checking account: this 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.

3.7.1. The strategies of the bank used to collect

Short term loans from customers

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

Table 3.1.17. Prediction of future trends

Item	Number of respondents	Percentage %
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: own survey

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.

Based on the data majority of the respondents implies that the bank use financial ratio analysis to predict future trends in a business. This implies that the bank can use the out come of the analysis as an input to design the future action plan.

3.6. Data gathered from secondary source

3.6.1 Financial data (in million birr)

	Fiscal years				
	2009	2010	2011	2012	2013
Cash in hand	612.145	661.575	792.519	811.933	831.143
Cash at bank	15.63	57	193.72	12.6	4.07
Reserve account with NBE	1693.59	1606,706	1,322. 609	650. 017	424. 607
Deposit with foreign banks	374. 93	638	587. 059	812. 485	371. 416
Treasury bills	374. 94	_____	_____	585.565	448. 965

Total loans and advances	2,442. 74	2,919.69	3,205. 208	3,797. 3	4,608. 533
Total asset	5,476. 62	6,279.54	7,278	8,239. 5	10,160
Deposits	4494. 19	5, 139	6, 075	6,771.245	8,496. 148

Source annual audit report of the bank

3.6.2 Financial ratio (the figure is in percentage)

Financial Ratios	Fiscal years				
	2009	2010	2011	2012	2013
Current ratio	60	57.6	47.7	33.78	24. 48
Liquid ratio	49.2	47.76	39.8	27. 2	25. 25
Quick ratio	60.28	61.36	54.8	56.08	46. 09

As the data indicates that the banks current ratio declining from 60% on the year 2009 to 24% on the year 2013. Based on the data on the year 2009, 2010, 2011, 2012 and 2013 that has 60%, 57.6%, 47.7%, 33.78% and 24.48% of liquid asset for the deposits. This implies that the bank have had good performance on the year 2009. Similarly on the year 2009 among the total asset 49. 2% of it was liquid and 60.25% of them were loans but on the other years these become declining. This implies that the bank have good performance on the year 2009 than others and the performance becomes declining on the other years.

3.8. Liquidity of current asset

Liquidity risk arise in the general funding of the groups activity and is the management of positions it included both the risk of binge unable to liquidate on asset at reasonable price and in an appropriate time from and the risk management group continuously assess liquidity risk by identifying and monitoring change in funding required to meet business goal 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.

CHATER FOUR

4. Summary Of Findings, Conclusion And Recommendation

The researchers summarize in the previous chapter the researcher tried to investigate problems weakness and strength of bank of Abyssinia regarding cash management analysis. In this chapter findings results, conclusion and recommendation.

4.1 Summary of findings

The study was intended to cash management analysis in the case of bank of Abyssinia. To conduct these study researchers used both primary data collection method through questionnaire, unstructured interview and referring of different annual reports and related books.

This section points out and analyzed on chapter three will be summarized briefly.

- According to table3.2.1cash management technique efficiency, as per the data 58% of respondents are neutral 27% are agreed and 15% strongly agreed about the effectiveness of cash management technique.
- As the bank records every transactions related with payments, receipt and cash properly. The majority of the respondents, that is 92% of strongly agreed to the statements. There is the existence of regular counting and balancing of cash on hand.
- Bank of Abyssinia follows a strict procedure in making every payment.
- The bank properly keeps a record of payments, receipt and cash.
- Management control on ascertaining cash existent is acceptable.
- The bank evaluates the effectiveness of internal control over current asset.
- There is an internal auditor check the effectiveness of the internal control. It is evaluated by:-
 - Reconciling cash on hand with recorded amount.
 - 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
 - Bank of Abyssinia implements a good controlling system over segregation of duties.

4.2 Conclusions

The study was undertaken with the intention of cash management analysis in the case of bank of Abyssinia.

- ❖ The management control over the inflows and outflows of cash is at a good position.
- ❖ The bank management control on ascertaining cash existence is good in the mind of the employees.
- ❖ The management strongly works to ensure the timely collection of loans, credit and advances in order to maximize the amount of cash on hand.
- ❖ The bank used to different mechanism to save its cash through investment and loan.
- ❖ The bank strictly manages or minimize the risk of cash payments.
- ❖ The bank has strongly protects its documents and assets which help the bank to protect not only cash bills but also other assets from the theft.
- ❖ When every payment collected and recorded on the time in order to know the current position of the bank.
- ❖ The bank did use computerized accounting system in order to attain the reliability of the records.
- ❖ When we observe performance of the bank in evaluating the internal control in timely basis in not as expected by employees
- ❖ The bank properly keeps are cord of payments, receipts, and cash the auditors simply checking the ratability of the financial records.
- ❖ Bank of Abyssinia use different shot term financing sources that bear interest and investment that interest like: checking account, saving accounts, certificate of deposit treasury bills.

4.3. Recommendation

Based on the pervious chapter we would like to give the following recommendation.

- Attention should be given to internal control over cash since it is the corner stone of cash management.
- Most of the asset of BOA is invested short term loan we recommended them to giving long term loan and to sell bond to generate additional income.
- A more systematized forecasting should be carried out general funding level for anticipated and unanticipated expenditures should be determined by looking at post trends and changes that have occurred that will impact future forecasts.
- The bank should identify and monitored the achievement of cash management objectives continuously.
- The bank should consider whether the cash management policies and procedure are clearly communicated, understand and implemented by personnel in cash are.
- Communication-successful cash management requires municipally coordinated. The includes the need to communicate policies and procedures internally within departments to promote a clear understanding of what is expected and what the bank wants to achieve.

APPENDIX

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DECLARATION

Advisee's Declaration

We, the undersigned, that this senior essay is our original work, Prepared under the guidance of Ato Benyam Aragaw. All source of materials used for the manuscript have been acknowledged

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

CASH MANAGEMENT ANALYSIS
THE CASE OF ABYSSINIA BANK

BY

FATUMA SABIR

HAWA ALAMUDIN

JUNE, 2014

SMU

ADDIS ABABA

CASH MANAGEMENT ANALYSIS

THE CASE OF ABYSSINIA BANK

A SENIOR ESSAY SUBMITTED

TO THE DEPARTEMENT OF ACCOUNTING

BUSINESS FUCALTY

ST.MARY'S UNIVERSITY

IN PARTIAL FULTILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF ART IN ACCOUNTING

BY

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APPROVER BY THE COMMITTEE OF EXAMINERE

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EXTERNAL EXAMINER

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