CASH MANAGEMENT PRACTICES AT AGRICULTURAL DEVELOPMENT BANK (ADB)

BY

Prince Osei Bremang

A thesis submitted to the School Of Business, Kwame Nkrumah University of Science and technology,
in partial fulfillment of the requirement for the award of degree of

MASTERS IN BUSINESS ADMINISTRATION

In

ACCOUNTING

School of Business

Faculty of Arts and Social Sciences

JUNE, 2009

DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgment has been made in the text.

PG244407
PRINCE OSEI BREMANG .... June 2009 ....

Student Name & ID Signature Date

Certified by:

MR. J. M. FRIMPONG .... 21-10-09 ....

Supervisor (s) Name Signature Date

Certified by:

.... 21-10-09 ....

Head of Dept. Name Signature Date

DEDICATION

Dedicated to my dear parent, Mr. and Mrs. E. A. Bremang and my lovely wife

Nana Ama Osei Bremang

ACKNOWLEDGEMENT

Many people assisted in the preparation of this Essay. I am grateful to Mr. J. M. Frimpong, my supervisor, for giving me the necessary supervision in the course of writing this material.

I extend thanks to the staff of Agricultural Development Bank (ADB), who made information available to me.

I offer special thanks to Mr. Stephen George Osei who meticulously read the entire draft of the essay and Nana Ama Osei Bremang who provided effective secretarial support.

Finally, I cannot overstate the thanks due to Mr. Edward Adu Bremang who encouraged me to undertake this programme, and colleagues Frederick Asante, Emmanuel Frimpong and Samuel Yawlui for providing the support and inspiration needed to complete this work.

ABSTRACT

Cash management is a broad term that refers to the collection, concentration and managing the monies of a firm efficiently and effectively in order to maximize cash availability and interest income on any idle funds. The study attempts to identify the extent to which ADB uses cash management techniques in managing their cash activities. ADB's Cash Management Practices were analyzed under cash collection, cash disbursement, cash planning, and investment policies and practices. Interviews were conducted with officials of ADB who also completed questionnaires. There was a sampling of twenty branches among the fifty branches of ADB across the country. Audited financial statements covering a five year period (2004-2008) was also examined. The research finding indicated that cash management techniques are not very well practiced by ADB. It also indicated that ADB does not employ professionals to perform the company's cash management. The study concludes that the ADB cannot achieve efficiency in their operations and increase in its profitability without making significant improvement in their cash management practices.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND REVIEW

Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. It encompasses a company's level of liquidity, its management of cash balance, and its short-term investment strategies.

Cash management is also a technique used by corporate treasurers to accelerate the collection of receivables, control payments to trade creditors, and efficiently manage cash.

Efficient cash management is more than just preventing bankruptcy but rather it improves the profitability and reduces the risk to which the firm is exposed.

Cash is important to every business firm and its management in organizations is one of the most challenging duties of a financial manager. The basic objective in cash management is to keep investment in cash as low as possible while still operating the firm's activities efficiently and effectively. The Financial Manager is aware that if most of a firm's financial resources are kept in cash, liquidity will be achieved. This liquidity would have been achieved however, at the expense of profit that would have accrued to the organization if cash had been invested. If on the other hand the financial manager devotes resources to financial assets like fixed assets and investments, profitability would be improved but at the expense of liquidity. The significant importance of liquidity is reflected in this quotation by Mozes (1994).

The financial analyst who knows and understand the operations of the financial market cannot do so without cash. The most important aspect in planning is to have enough money to meet payments and never to reach a situation that obligations cannot be met. Some obligations can be postponed but others must be met, and when the economy becomes free market oriented, default on payment committed may lead to bankruptcy. This is the great danger of not being liquid in a market economy. Nobody will take you to court for not making profit but you may be taken to court if you do not pay your bills. The organization should therefore strive to maintain an optimal level of cash that would ensure that liquidity is maintained but not at the expense of profitability.

After determining that optimal level of liquidity, the firm must put into place efficient procedures for the collection and disbursement of cash. These procedures should ensure that cash due to the company are collected as early as possible and payments required to be made by the company are delayed and made as late as possible, bearing in mind not to destroy the firm's credit standing with its suppliers. Leaving accounts receivable uncollected can be equated to leading money to customers without interest charges. Delay payment due on the other hand can be equated to taking interest free loans from suppliers. Yankey (1974) indicated a number of Ghanaian business firms which permitted their trade debtors to take three to four years to pay a thirty (30) day debt. The debts carried no interest or service charges even though these firms were paying 10% interest on overdrafts granted to them from Commercial Banks. Again Baclays Bank started giving customers four to six years personal loans when ADB only give maximum of two years duration. This is a clear indication of gross inefficiency in cash management existing in most Ghana business firms.

When the firm has obtained idle cash through early collection and delayed payment, the third step in cash management is to invest the idle cash in marketable securities for maximum profit.

Cash consists of the firm's holding in demand deposits and currency. It is the only thing that firms, both for profit and not-for-profit have in common. Cash Management therefore plays a very pivotal role in every organization. Cash is considered to be one of the scare resources that companies have and therefore needs to be managed efficiently and effectively to achieve the maximum returns on.

A firm must therefore develop skills and techniques to manage and correctly forecast their cash needs in order to make appropriate investment and borrowing decisions. It must also decide on the criteria to use to determine the split between cash holdings and marketable securities or other short-term investment. Interest earnings from these short-term investments would enhance profitability. Cash Management therefore becomes an important method of ensuring that the little cash that the company has is managed well so that the company achieves its goals and objectives.

It is clear from the foregoing that the efficiency with which cash can be managed to provide liquidity and profitability in balance is the essence of cash management. Investigation will be carried out in this study to determine how the various aspects of cash management are carried in ADB and how this approach confirm or deviate from theoretically presented practice.

1.2 STATEMENT OF THE PROBLEM

Given the diversity of banking business, ADB recently suspended all their loan disbursements for more than three months due to liquidity problem as a result of inefficiencies and reckless lending. This study would like to find out what type of cash management practices are use by ADB and whether those in charge of cash know the existence of cash management techniques?

Again there is a large volume of receivables that ADB confess they cannot collect because of customer's unwillingness to pay. This study will investigate ADB's receivables management, which has a direct impact on their cash management, to determine whether their lack of funds is due to debts that they have not been able to collect.

1.3 RESEACH QUESTIONS

The primary purpose of this research is to analyse the effect of cash management practice on firm's profitability for ADB. By identifying the proper management of cash, this research hopes to help organizations to improve the successful management of their cash. Specifically, this research study will answer the following questions.

1. To what extent does cash management enhances profitability
2. What are the cash collection and disbursement policies used by ADB.
3. What techniques of cash management are used by ADB.
4. What problems does ADB encounter in relation to cash management.

1.4 OBJECTIVE OF THE STUDY

The cash management practices of ADB will be studied and analysed to find out the extent to which they contribute to profitability.

The specific aims are:

1. To determine the extent to which cash management enhances profitability
2. To analyse cash collection and disbursement policies used by ADB.
3. To investigate the cash management techniques that are being used by ADB.
4. To identify the nature and range of problems that ADB encounter in relation to cash management and their suggested solutions.
5. To provide working and acceptable solution for possible improvement in their cash management practices.

1.5 SIGNIFICANCE OF THE STUDY

Cash Management involves managing the monies of the firm in order to maximize cash availability and interest income on any idle funds. A business firm must generate sufficient cash to be able to meet its immediate obligation and to continue its business. Success, however, does not depend entirely on how much profit the firm makes but to a large extent on how the profits generated are managed and utilized for the survival of the organization. Even the most profitable business will quickly fold up if it does not have adequate liquid resources to meet its day to day financial obligation.

Every organization needs cash and there are four major reasons for holding cash. First, cash is needed for the day to day activities of the organization; payment of corporate expenses such as taxes, dividends, payrolls and suppliers. Second, there is the need to hold cash for speculative purposes, to invest in profit making opportunities as they arise, such as taking advantage of changes in security prices the third major reason is that Commercial Banks require that cash balances are kept with them to compensate for baking services rendered to the firm. Finally, firms hold cash as a precaution against situations where there would be unexpected drain on cash, or where management would need cash for emergency purposes at a time when cash inflows are less than projected.

This study will bring more insight on cash management and the urgent need for proper cash management in ADB and problems that can arise from the lack of it. These findings will also help businesses to discover how to make every manager more cash conscious, how to turn accounts receivable into cash and finally how to utilize investment options in order to improve their liquidity and profitability.

1.6 SCOPE OF THE STUDY

The study is restricted to ADB. The focus was to study the effect of cash management in all Banks. Due to time constraints the focus was narrowed down to capture only ADB nationwide. ADB was chosen because; it forms one of fairly large indigenous commercial banks, that has grown rapidly to become a major player in the industry. The researcher also realized that proper books are kept and that helped in carrying out the study. Again it was easy to get assess to information.

Of the entire population of about 50 branches, 20 of them were sample for the study. The main data used was the Audited Financial Statements for the periods 2004 – 2008 (ref to appendix 3). The researcher could lay hands only on this five – year financial report from firm.

1.7 LIMITATION TO THE STUDY

Due to confidentiality it was impossible to get some vital information. However in spite of these limitations, the appropriate approaches were used to minimize their effects.

Finally, the initial attempt was to carry out the study in Banks but due to time constraint, attention could only be ADB. In the future, it is the aim of the researcher to extend this study to cover more Banks in the country.

1.8 ORGANISATION OF THE STUDY

The study is organized into five chapters. The first chapter is basically about the introduction and research questions and Chapter two reviews the related literature

Chapter three also gives a description of the methodology where as Chapter four present the analysis and the discussion of the results based on the set of objectives of the study.

Chapter five gives the summary of the findings as well as some recommendations.

CHAPTER TWO

2.0 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 INTRODUCTION

Cash is the lifeblood for every organization therefore it is practically impossible for a business organization to survive without cash. Since cash is considered as the backbone of every organization, there is always a keen interest in managing it. Though many principal and fundamental concepts about cash management have not changed, the few alternations are worth discussing.

Cash is the most important current asset and the most liquid of a firm's assets for the operation of the business. According to Pandey (1999) it is the basic input required to keep the business running on a continuous basis and the ultimate output expected to be realized by selling the services or product of the business firm. Shortage of cash will disrupt the firm's operations while excess cash will detract from the profitability motive of the firm. He defines cash as inclusive of coins, currency and cheques held by the firm, as well as balances in the firm's bank accounts. Sometimes assets that can be readily converted into cash such as marketable securities are also included in cash. Dauten (1956) includes money orders, bank drafts, cashier's cheques and regular cheques drawn against demand deposits as cash.

Cash and Marketable Securities provide liquidity for a firm. Effective liquidity management requires that cash be managed through appropriate cash collection and disbursement methods with excess cash being invested until needed while anticipated shortages being financed with borrowing. Thus liquidity management focuses on cash management, short-term investing and short-term borrowing.

The main objective of cash management is to provide the firm with sufficient liquidity to meet its obligations as they fall due as well as enhance profitability but not so little cash as to subject the firm to undue financial distress.

2.2 MOTIVES FOR HOLDING CASH

According to Ross et al, there are two primary reasons for holding cash. These are transaction motive and compensating balances. However, Keynes identifies three motives for holding cash and these are:

- Transaction Motive
- Precautionary Motive and
- Speculative Motive.

Since Keynes also has the transaction motive, we can therefore say that there are four reasons or motives for holding cash.

2.2.1 Transaction motive

The transaction motive requires a firm to hold cash for its normal disbursement activities such as the payment of purchases, wages and salaries, dividends, taxes and other operating expenses. This need to hold cash comes about because inflows and outflows of cash are not perfectly synchronized. For some periods cash payments exceed cash receipts and the firm needs to maintain some balance to be able to make required payments when due. If the firm does not maintain an adequate amount of cash, it may run short and would have to sell marketable securities or borrow.

2.2.2 Precautionary Motive

Organizations always meet unexpected challenges, which in most cases require immediate and prompt response. It therefore becomes prudent for organizations to include in their planning measures to meet such unexpected situations. With precautionary motive there is the need to hold cash as a cushion or buffer against unexpected emergencies during periods when cash inflows are less than projected.

Precautionary motive can be defined as the need to hold cash as a safety margin to act as a financial reserve. Parkins (1995) emphasize that, money is held as a precaution against unforeseen events that require unplanned purchases to be made. The amount of money that an organization holds depends on its attitude towards risk. The higher the anticipation of risk and its impediment, the greater the quantum of money held.

Horne and Wachowicz (1992) advised that the firm should attempt to earn profit on the cash set aside for precautionary and transaction reasons by investing the bulk of it in marketable securities.

2.2.3 Speculative Motive

Keynes defines this as the need to hold cash in order to take advantage of, for example, bargain purchases that might arise, attractive interest rates, and in the case of international firms, favorable exchange rate fluctuations. The speculative motive involves holding cash for investing in such profit making opportunities as and when they arise. Profitable opportunities for investment may sometimes arise and they are always unexpected and cannot be planned for.

For most firms, reserve borrowing ability and marketable securities can be used to satisfy speculative motives. Thus, for a modern firm, there might be a speculative motive for maintaining liquidity, but necessarily for holding cash. In other words, this motive considers the losses that could be avoided for holding securities such as bonds, stocks and the like by business organizations when there is an anticipated fall in the market value.

The speculative reason primarily is determined by the interest rate, which is inversely related to the amount of money demanded by individuals and firms. This means that the higher the interest rate, the attractive it becomes for organizations to hold securities as wealth rather than money.

2.2.4 Compensating Balance

Compensating balance is another reason for holding cash. With this, cash balances are kept at commercial banks to compensate for the banking services the firm receives. A minimum compensating balance requirement by banks providing credit services to the firm may impose a lower limit on the level of cash a firm holds. The compensating balances usually are fixed at 25% of the credit.

2.3 ADVANTAGES OF HOLDING CASH

When a firm holds cash in excess of some necessary minimum, it incurs an opportunity cost. The opportunity cost of excess cash is the interest income that could be earned in the next best use, such as investment in marketable securities. It can therefore be said that the main disadvantage of holding cash is the interest forgone.

There are about four major advantages for holding cash. Suppliers normally give trade discounts to their customers who pay early. The cost of not taking such discounts could be high so a firm with adequate cash can take advantage of the trade discounts.

Current and acid test ratios are important and are considered as the key items in credit analysis. Having adequate cash strengthens these ratios because of the role that cash plays in determining these ratios. Maintaining an adequate ratio does not only benefit the firm through obtaining favorable terms with its suppliers but also it can maintain a credit line with its bankers.

Thirdly, there is an advantage of holding cash by taking advantage of favorable business opportunities that may come along from time to time such as special offers from suppliers. Beside the opportunities, there are other changes that the organization can tackle very fast when adequate money is held. These are strategies to meet competitors, adopting new style of business or moving into other lines in order to wine more customers.

Lastly, there is the advantage of being able to meet emergencies such as strikes, fire outbreaks, unfavorable market conditions and others. From the above, one can see the importance for firms to keep an adequate level of cash.

2.4 NATURE OF CASH MANAGEMENT

The management of cash involves managing the monies of the firm in order to maximize cash availability and interest income on all idle funds (Horne, 1998). According to Pandey (1999), cash management involves the control over the receipt, payment and investment of cash in order to minimize idle non earning cash balances. Philips (1997) considered effective cash management as requiring that cash be managed through appropriate cash collection and disbursement methods with excess cash being invested until needed and anticipated shortages being financed with borrowing. Writing about treasury management practices in the US, he noted that when double digit interest rates were common in the late 19770s and early 1980s, effective cash management was critical to an organization's financial well being. Idle cash carried with it significant opportunity cost either in lost investment revenue or excess interest payments on lines of credit. This situation is clearly very relevant to the Ghanaian situation where double digit interest rates currently prevail. The obvious strategy for the Ghanaian firms is to speed up collection of receivables and to keep cash at a minimum balance, investing the surplus cash in profitable investment opportunities. To make this possible, the firm needs to evolve strategies regarding the following facets of cash management; Cash Planning, Managing Cash Flows, Determining the Optimal Cash Level and Investing Surplus Cash

2.5 CASH PLANNING

The need for cash planning is an essential tool for strategic growth of every firm. Every firm needs cash in order to achieve and maintain growth in sales and earnings. A business firm might be making adequate profit but its needs may be such that it consumes cash at a faster rate than the rate of its inflows. At other times the firm might have excess cash when its cash inflows exceed its outflows. Cash planning will enable the firm anticipate its future cash flows and needs so as to forestall or reduce the possibility of cash shortages and cash surplus. Cash planning may be done on a weekly or monthly basis.

Pandey (1999) observed that the period and frequency of cash planning generally depends upon the size of the firm and the philosophy of management. Large firms prepare daily and weekly forecasts while medium firms usually prepare weekly and monthly forecasts. Small firms may not prepare normal cash forecasts because of non availability of information and the smallness of the scale of operation. The same observation was made by Hargreaves and Smith (1982) who noted that 'it is a sad fact that many small companies do no pay attention to cash planning until crisis occur, either it is not considered important or management does not have sufficient time'.

2.5.1 Cash Forecasting and budgeting

A cash budget is a forecast of the future cash receipts and disbursement of a firm. It is useful to the financial manager in determining probable cash balances of the firm over the near future and in planning for the financing of future cash need.

According to Brealy and Myers (1996) a cash budget provides a standard against which future performance can be judged. The financial manager through the cash budget is able to gain control over the cash and liquidity of the firm. (Horne and Wachowicz, 1992). The most commonly used method of short term forecasting is the receipt and disbursement method.

2.5.2 **Receipt and Payment method**

This is generally used to forecast for short periods such as a week or a month. The first step is to identify the three broad sources of cash inflows; the operating, non operating and financial sources. The operating sources of cash are cash sales and collections from customers. Non operating sources include sale of old assets, dividends and interest income. Financial sources of cash are borrowings and issuance of securities. Inflows from all these sources should be forecasted as accurately as possible.

Ross, Westerfield and Jaffe (1996) identified the next step as forecasting the total cash disbursements under the four basic categories. Payment of accounts payable including payments for goods or services. The next category includes all other normal costs of doing business that requires expenditure, such as wages and dividends. Capital expenditures are payments of cash for long-lived assets. The last category, long term financing includes interest payments on long term outstanding debts and dividend payments to shareholders.

Once the forecasts for cash payments have been developed, they can be matched against the forecasted cash receipts to obtain the net cash inflow or outflow for each period. The financial manager would then arrange his finance according to the outcome.

2.5.3 Sensitivity Analysis

Donaldson (1969) recommended working out more than one cash budget for each period to take into account deviations from expected cash flows. One budget, for example, could be based on cash forecast upon assumption of a maximum probable decline in business and another upon the assumption of the maximum probable increase in business. By bringing possible events into the open for discussion, management is better able to plan for contingencies. Not only will such discussion sharpen its perspective on the probability of occurrence of a particular event, but it will give management a better understanding of the magnitude of its impact on the firm's cash flows. Horne and Wachowicz (1992) recommend that for the purposes of internal planning, it is far better to allow for a range of possible outcomes than to rely solely upon the expected outcome. When significant deviations occur, the cash budget should be revised in keeping with new information.

2.6 CASH MANAGEMENT TECHNIQUES

Weston and Brigham (1993) strongly assert that cash management has changed for sometime now, basically due to some factors. They simplify these factors into two; interest rates and new technology paticularly electronic fund transfer mechanisms. Ross et al (1998) also talks about the electronic fund transfers and other high-speed, "paperless" payment mechanisms. The basic objective in cash management is to keep the investment in cash as low as possible while still keeping the firm operating efficiently and effectively. To do this financial managers have at their disposal, a variety of cash management techniques. These are aimed at collecting receipts as quickly as possible and making payments late. It is important to know the terms used.

2.6.1 Float

Float arises out of certain imperfections in the collection and disbursement systems. Delays create float. According to Ross et al, float is the difference between book cash and the bank cash, representing the net effect of cheques in the process of clearing. It is undoubtedly that, the amount of money that one has according to his chequebook can be very different from the amount of money that his bank thinks he has. The reason is that some of the cheques written have not yet been presented to the bank for payment. The same thing is true for businesses. The cash balance that a firm shows on its books can be very different from the balance that their banks may have.

Ross et al (1998) talk about the common one as the preauthorized payment arrangement. With this arrangement, the payment amounts and payment dates are fixed in advance. When the agreed upon date arrives, the amount is automatically transferred from the customer's bank account to the firm's bank account, which sharply reduces or even eliminates collection delays. Firms that have on-line terminals use the same approach; meaning that when a sale is made, the money is immediately transferred to the firm's account. There are two types of float that businesses experience and these are Collection and Disbursement floats.

2.6.1.a Collection Float

Cheques received by the firm create collection float. This is the delay on the firm's receipts of funds. It is the time interval between the time when a customer or payee deducts a payment from its checking account ledger and the time when the seller or payee actually receives the funds in spendable form. It increases book balances but does not immediately change available balances.

2.6.1.b Disbursement Float

Cheques written by a firm generate disbursement float. This causes a decrease in the firm's book balance but no change in its available balance. Differently put. It is the lapse between the time when a firm disburses funds and the time when the funds are actually withdrawn from its account. The firm can benefit from the disbursement float especially when it known the time period it will take for its suppliers to present the cheques and the length of time the clearing process will take to be completed. During this time, it can obtain the benefit of this cash by temporarily investing it in marketable securities.

2.7 ACCELERATING CASH COLLECTION

Every manager would not want his cash to go bad and as a result develop efficient ways that can enable fast collection and management of inflows. Horne (1998) explains accelerating of collection simply as reducing the delay between the time customers pay their debt and the time the cheques are collected and become usable funds for the firm. This can be achieved by reducing collection float. The firm must not only aim at fast collection but also to convert their payments into hard cash as quickly as possible. The cash collection process involves mailing, processing and clearing time. The amount of time cash spends in the collection process depends on where the customers are located and how efficient the company is in collecting cash. Some of the techniques used to accelerate collections and reduce collection time are lockboxes, concentration banking and wire transfer.

2.7.1 Concentration Banking

With the concentration banking system, instead of a single collection centre located at the company's headquarters, multiple collection centres are established. Customers in a particular geographical area are instructed to remit their payments to a collection centre in that area. When payments are received, they are deposited in the collection centre local bank. The collection centre will then transfer funds above some predetermined minimum to a central or concentration bank account, usually located at the firm's head office each day. Horne (1998) describes a concentration bank as one with which the company has a major account- usually a disbursement account.

The strategy if effectively implemented can render numerous merits to the firm. First because there is a local bank in the customer's locality, it is assumed that they have a local bank account, which can ease cheques to be processed on time. Also mailing time is reduced because customers and the firms hold bank accounts in the same locality. In addition, there is the likelihood of getting accumulated funds invested in interest paying asset because funds can be centralized in a main account.

2.7.2 Lockbox System

Horne (1998) identified the purpose of a lockbox system as the elimination of the time between the receipt of remittances by the company and their deposit in the bank.

The company rents a local post office box and authorizes its bank in each of the areas in which the lockboxes are maintained to pick up remittances in the box. Customers are instructed to mail their remittances to the lockbox. The bank picks up remittances several times a day and deposits the cheques in the company's account.

The advantage with this system is that cheques are deposited and become usable funds sooner than if they were processed by the company prior to deposit. The lockbox arrangement is however costly because the bank requires compensation for the additional services rendered. The cost is directly proportional to the number of cheques deposited so it is only profitable if the average remittances are large.

Financial experts like Horne and Wachowicz, Jr. (1998) acknowledge this process as the simple most important tool for accelerating the collection of remittances. This system, which is the oldest tool in cash management system, has the advantage of reducing mailing time. In other words, the lag between the time cheques are received by the organization and the time they actually are deposited at the bank is eliminated.

2.7.3 Pre-Authorized Debits

This is also another tool used to speed up collection of money from customers. This system does not involve the writing of cheques but allows funds to be transferred from customers' bank account. Weston and Brigham (1993) see such transaction as a "checkless or paperless of their accomplishments without traditional cheques". With this system payments are shown up in both the organization and the customers' bank statements, therefore eliminating mailing and cheque clearing system time.

As a matter of fact, this system renders a great deal of perfection, efficiency and accuracy in organizational transactions. Organization receives money faster; the risk of transporting money by crude means is curbed.

2.7.4 Mobile Collection

Firm frequently give special attention to handling large payments so they can be deposited at the banks as quickly as possible for clearing to begin. This special handling normally involves personal pick-ups or by messenger or courier services. Thus when a small number of payments account for a large proportion of total deposits it would benefit a firm to initiate a method like this to accelerate the collection and deposit of these large cheques. Standard Chartered Bank in Ghana employs this tool by allowing some of its staff to go round collecting cash and cheques by its customers (firms). ADB also employ this tool by picking huge sums of cash from filling stations.

2.7.5 Wire Transfers

After customers' remittances are deposited with the local banks, there is the need to transfer funds in excess of required compensating balances to the concentration bank. Ross et al (1996) identified wire transfers as the fastest but most expensive means of transferring funds. It takes only a few minutes and the cash becomes available to the firm. Wire transfers take place electronically from one computer to another and eliminate mailing and cheque clearing time.

2.8 METHODS OF CONTROLLING DISBURESEMENT

Controlling and slowing disbursement is another technique of cash management. It involves payments to suppliers, service providers, employees' wages and salaries, dividend to owners, interest, contractors and the government. Whereas the underlying objective of collection is maximum acceleration, the objective of disbursements is to slow them down as much as possible. The firm must aim not only at paying its account payables as late as possible but also slow down the availability of those funds to suppliers and other creditors once payment has been dispatched, thus maximize disbursement float.

Beehler (1978) observed that cash managers are pursuing the delay of cash disbursement with the same aggression employed in increased efficiency of funds collection. However, Rao (1987) advised against the abuse of these strategies, because their excessive use might destroy the firm's credit standing with its suppliers. Some of the techniques for slowing down disbursements are presented below.

2.8.1 Delaying Payables

The guiding principle here is to pay accounts only when they are due since there is no benefit in paying earlier. Conn and Lindberg (1978) recommend that if the regular payment date for an invoice falls on a weekend, payment should be made on the Monday following the weekend instead of the proceeding Friday. The cash thus detained can be invested in overnight securities. Ross et al (1996) recommend writing cheques on a geographically distant bank to delay disbursement. An Ashanti based supplier for example, might be paid with a cheque drawn on a

Takoradi bank and this would increase the time for the cheque to be cleared through the banking system.

Some critics actually consider this technique to be unethical because some organizations intentionally use it to delay normal cheque clearing system. Others also argue that it is a good strategy especially among large organizations to have and operate in different regions using difference bank accounts at any particular point in time. Again interest income can be earned on the cash when invested in short-term marketable securities. Also, when the firm does not have enough funds to pay for the debt, it can mobilize some cash during the delay time so that by the time the cheque is presented and processed, there would be some funds.

2.8.2 Drafts

Firms can use drafts for payments instead of cheques. Drafts are not payable on demand. When presented to the issuer's bank for collection, the bank must present the draft to the issuing firm before making payment. After the draft has been accepted, the firm must deposit the necessary cash to cover the payment. This enables the firm to keep lower cash balances in its disbursement accounts whiles at the same time delaying the time the firm actually has to thave funds available to cover the draft.

2.8.3 Zero Balance Accounts

The Zero Balance Accounts (ZBA) are special disbursement accounts that allow cheques to be paid and funded through a master account. There are subsidiary accounts such as payroll, payable accounts that are serviced by the master account. When cheques are cleared from the subsidiary accounts at the end of the day leaving a zero or negative balances on them, funds are automatically transferred from the master account to each disbursement accounts. When the master accounts goes negative or is emptied, it is filled or supported by an overdraft borrowing facility from the bank or through short-term securities. This system is an ideal for managing cash well because exerting control on disbursement always reduces an amount of idle cash there.

2.8.4 Authorization for Payment

This is one of the tolls used to control payments. In an organization's effort to restrict payments of goods and services approves invoices and all forms of expenditures so that unnecessary expenditures can be avoided. This system will be effective when invoices and other expenditures are certified, approved and authorized by top management instead of employees. Control system will improve; paper work will speed up when management can have time to review various items before payments are effected.

The disadvantage with this approach becomes real when the workers who go for the invoices can negotiate with the suppliers to increase the quotations so that they can have their share after management's approval.

2.9 DETERMINING THE OPTIMUM CASH BALANCE

With efficient collection and disbursement of cash, there would be certainly surplus of cash and the firm needs to determine the optimal level of cash to hold so as to invest the excess in marketable securities.

2.9.1 **Baumol Model**

William Baumol (1952) was the first to provide a formal model of cash management incorporating opportunity cost and trading cost to establish the target cash balance (Ross et al, 1996). The model makes the following assumptions:

i. The firm is able to forecast its cash needs with certainty

ii. The firm's cash payments occur uniformly over a period of time

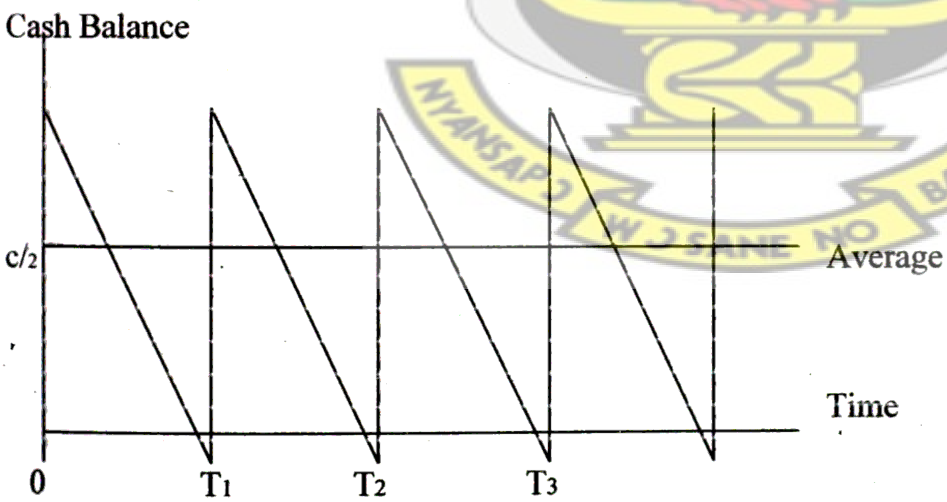
iii. The opportunity cost of holding cash is known and does not change over time

iv. The firm will incur the same transaction cost whenever it converts securities into cash.

A firm is assumed to start operation with a specific cash balance, 'C'. During its normal operations its cash balance decreases till it reaches zero. The firm replenishes the cash balance to the original level 'C' by selling marketable securities. This pattern which continues over time is represented in figure 2a.

Figure 2a

Baumol's MODEL FOR Cash Balance



To determine the total costs of the firm's cash-balance policy and the optimal cash balance policy, the following information is required.

C	=	The fixed cost of selling securities
T	=	The total amount of new cash needed for transactions Purposes over the relevant planning period.
K	=	the opportunity cost of holding cash; that is the interest rate on marketable securities.

i. The firm incurs holding cost for keeping the cash balance instead of investing in marketable securities.

Holding cost = $K(C/2)$

ii. The firm incurs a transaction cost whenever it converts marketable securities to cash

Transaction cost = $C(T/C)$

iii. The annual cost of the demand for cash will be;

Total cost = $K(C/2) + c(T/C)$

iv. The optimal cash balance C* is obtained when total cost is minimum and it can be determined by this formula;

$$C^* = \frac{2CT}{K}$$

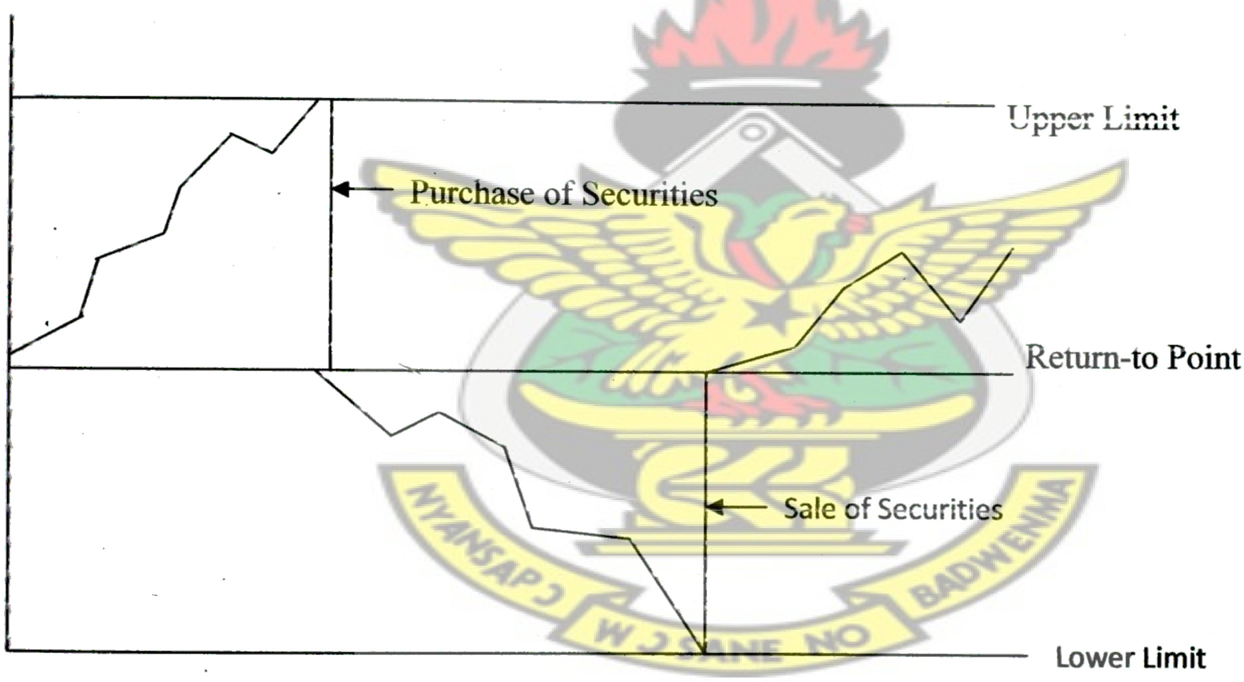
The limitation of the Baumol Model is that it does not take into account fluctuations in cash flows.

2.9.2 The Miller - ORR Model

The Miller – Orr Model overcomes the limitation of the Baumol Model and makes room for cash flow variations. Miller and Orr (1996) provided for two (2) control limits in their model; the upper and lower limits. If the firm's cash flows hit the upper limit, it buys sufficient marketable securities to bring its cash balance to a required level. Similarly, if it hits the lower limit it sells sufficient marketable securities to bring it back to the normal level. This is illustrated in figure Figure 2b.

Miller – Orr Model

CASH BALANCE



The solution for the optimal values of the upper limit and the return – to point depends upon the fixed cost, the opportunity cost and the degree of likely fluctuation in cash balances.

The optimal value of the return – to point 'Z' is

$$Z = \sqrt{\frac{3b\,\sigma}{4i}}$$

Where b = fixed cost associated with security transaction

O = Variance of daily cash flows (a measure of the dispersion of those flow).

i = interest rate per day on marketable securities.

The optimal value for the upper limit is simply 3z. The financial manager can set the lower limit about zero depending on the firm's liquidity requirements.

2.10 INVESTING SURPLUS CASH

If a firm has temporary cash surplus, it can invest in many types of securities and short-term investment opportunities. The most important characteristics of short-term marketable securities that the financial manager needs to consider are their maturity, default risk and marketability (Ross et al, 1996).

Maturity of a security is about the period over which interest and principal are made. Under normal circumstances the longer the maturity period of the security, the higher the yield and the risk. This risk is due to the tendency of interest rates to fluctuate. For safety reasons therefore short-term securities are preferred for investing excess cash.

Marketability of a security relates to the ability of the firm to convert the security into cash quickly and without loss of price. Generally when a security has lower marketability, it has a greater yield to attract investors. Firms however prefer to invest in securities that are readily marketable.

2.10.1 Types of Marketable Securities

Below are the marketabl securities available in the Ghanaian market.

2.10.1.a Tresury Bills

These bills are normally sold on auction basis and are fully guaranteed by Government. They are sold on a discount and at maturity the investor receives the par value. The difference between the discount and the par value is the return for investors.

2.10.1.b Repurchase Agreements

This is the sale of short-term securities by Government security dealers with the agreement that the dealer will repurchase the security at a specified future data. The investor receives a given yield while he holds the security. Their maturities are normally very short and are tailored to the needs of the investor. The holding period is normally overnight to fourteen days.

2.10.1.c Commercial Papers

Commercial papers are short-term unsecured securities issued by well known credit worthy companies. They are normally issued with a maturity of three months to one year and are sold at a discount through direct placement.

2.10.1.d **Certificates of Deposits**

These are issued by banks to borrow money from the public. They are issued for a specified period of time at a specific rate of interest. The issuer stands ready to redeem them at any time. Their maturities normally range from a few days to a year. The default risk is that of the bank failing (Horne, 1998).

2.11 FORECASTING TECHNIQUES

Many executives, particularly from large firms that have had to downsize think that they can start a new career by running their own businesses. According to King (1994) the one aspect o running a business they lack, no matter how good they are at selling, or manufacturing, or engineering, is to understand and control cash.

With those in charge of a firm's finance, their goal is to maintain as adequate amount of cash to meet the day-to –day expenditures of the firm. An insufficient amount of cash may cause an embarrassment in not being able to meet emergencies, payrolls and taking advantage of trade discounts. On the other hand, holding an excess amount of cash does not also help. It does not solve the problem of having inadequate cash but results in loss of interest income from investments.

It is therefore imperative that financial managers plan for their financing needs. The techniques used in forecasting the financing needs of firms include: Cash Budget, Percent of Sale Method, Proforma Financial Statements and Fund Flow Statements.

2.11.1 Cash Budget

Ross et al (1996) defines cash budget as a forecast of cash receipts and disbursement for the next planning period. In their understanding they perceive cash budget as tool that assists organization to estimate future receipts and disbursements that will be available in its planning systems.

Kaen (1995) also defines it as a forecast of cash flows and cash balances over a specified planning horizon. He indicated further that it is used to estimate the financing needs and manage the cash position of the company. Horne (1995) simply says it is the process of projecting future cash receipts and cash disbursement. It tells the financial manager when and in what quantity cash is flowing out of the firm. Archer et al (1983) puts it in this way, planning cash budget should be understood in the line of permitting the organization to evaluate the magnitude and timing of future net cash inflow and outflow. It is seen that the cash budget focuses on the future.

2.11.2 Percent of Sales Method

Another technique used by financial managers to plan their financing needs is the Percent of sales Method. This technique is seen to be very simple and practical. The underlying assumptions are that:

The current assets are directly related to sales

The current levels of assets are optimal.

The approach is that balance sheet items that vary with sales are identified. Since the company will be operating at full capacity, each balance sheet item will vary as sales increase. For example, cash receivables, inventories and fixed assets will increase with increase in sales. No percentages are computed for notes payable, common stock, and retained earnings because they are not assumed to maintain a direct relationship with sales volume. If the company's assets are to increase with increase in sales, so must the liabilities and equity in order to maintain the projected sales.

2.11.3 Proforma Financial Statements

According to Block & Hirt (2000) the most comprehensive means of financial forecasting is to develop a series of proforma, or projected financial statements.

Based on the projected statements, the firm is able to estimate its future level of receivables, inventory, payables and other corporate accounts as well as its anticipated profits and borrowing requirements. Some of the advantages are that the financial manager can carefully track actual events against the plan and make necessary adjustments. Secondly, the statements are often required by its bankers and other lenders as a guide for the future.

2.11.4 Fund Flow Statement

This is a method by which the net funds flow between two points in time is studied. Cash flow projection is therefore a forecast of the difference between cash coming "in" and cash going "out" of the business. By knowing the cash position now and in the future, the financial manager can:

- Make sure that there is enough cash to purchase sufficient inventory for seasonal cycles
- Take advantage of discounts and special purchases
- Properly plan equipment purchases for replacement or expansion
- Prepare for adequate future financing and determine the type of financing appropriate
- Impress lenders with ability to plan and repay financing, etc.

For every use of funds, there must be an offsetting source. Funds statement is prepare on a cash basis by classifying net balance sheet changes that occur between two points in time, classifying from the income statement and the surplus statement and consolidating the information in a source and use of funds statement form.

CHAPTER THREE

3.0 METHODOLOGY

3.1 SCOPE

This research was designed to evaluate the operations of ADB in terms of cash management for five years (2004, 2005, 2006, 2007 & 2008). The focus is on a general investigation to determine the management and controlling cash collection and disbursement, whether they efficiently invest cash and to the extent to which cash management aid in profit making.

The research focused on some departments of ADB at the head office. The necessary data on operations gathered were analysed.

This section is further categorized into data collection, and sources of data. The study adopted a purely descriptive method to examine the consistency between cash management as described in the literature and as practiced in ADB and the reasons for any inconsistency thereof.

3.2 POPULATION AND SAMPLE SELECTION PROCEDURE

The research was centered on five main departments at the head office. These include the Treasury department, the Credit department, Research department & foreign department, Consumer banking and Accounts department. These departments were selected based on the fact that they co-ordinate activities of cash management. Most reports submitted either to management or Bank of Ghana is generated by these departments. Again polices are also developed and implemented by head of departments.

Again of the entire branches of about 50, 20 of them were sampled for the study. First the researcher targeted the branches across the whole country in other to get representative from each region. The twenty branches were as follows; Abeka La-Paz, ADB House, Ashanti Bekwai, Atebubu, Bawku, Berekum, Bolgatanga, Cape coast, Enchi, Hohoe, Koforidua, Prempeh II st, New Edubiase, Madina, Nkawkaw, Nkoranza, Takoradi, Tamale- Main, Tema and Wa.

Simple random sample technique was used to select the branches for the administration of the questionnaires. This technique was used because; it helped to get a true representative of the branches from all the regions.

3.3 DATA COLLECTION

The research used the survey method to gather and analyse data on the topic being discussed. Relevant data for the study was derived mainly from secondarysources.

SECONDARY DATA

Most data collected were from the banks annual reports and also from monthly reports submitted to bank of Ghana. Accounting records and annual reports of ADB was also analysed for use in the study. Bank of Ghana and the Ghana association of Bankers also provided data on the industry.

PRIMARY DATA

This was obtained by direct communication with respondents from ADB and experts in the field of cash management through interviews with the various heads of department and the use of self administered questionnaires. The unstructured face-to-face interviews were held with the target groups. These informal interviews were found to be very useful since theses departments facilitate the development, implementation and evaluation of policies in the bank and also it provided an in-depth understanding of the banks operations, policies and data generation.

The questionnaire comprises of open and close ended questions. It captured the following information about ADB;

i. Collection Policy and Procedures
ii. Cash Planning Policy and Procedures
iii. Investment Policy and Procedures
iv. Existing controls over cash receipts and disbursement
v. Acknowledged problems and their suggested solutions.

3.4 DATA PRESENTATION AND ANALYSIS

Data on the profit and loss accounts were evaluated. Again balance sheet items such as deposit, investments, cash holding and advances were analysed over the same period. These data have been presented using tables and graphs. Collected raw data was summarized and displayed in the form of tables these were also analysed to determine their deviation from or conformity with theoretical principles of cash management. Financial ratios were employed to determine the liquidity position of ADB. Gross income of ADB was also analysed to determine the volume of income that can be directly attributed to the investment of excess cash in marketable securities.

A liquidity ratio was also used to analysis operations by measuring the firm's ability to meet current obligations

3.5 MEASURES OF OPERATIONS

3.5.1 Questionnaire Design

The questionnaire was designed to provide both qualitative and quantitative information on the prevailing cash management practices in ADB and how to allow appropriate conclusion and recommendation to be derived. The covers the following major areas:

- Policy towards cash management and idle cash balance
- Level of cash balance and forecasting tools
- Splitting of liquid assets
- Managing receivables and gaining of float.

3.5.2 Measures

The questionnaire used in this study comprises a combination of ordinary scales, closed question responses and request for factual information.

(i) **Ordinary scales:** These were used in the questionnaire because they have the advantage of converting a qualitative response. Another benefit of ordinal scales is that they are ranking scales that have the ability to determine a single attribute and allow statistical calculations to be made.

(ii) **Closed questions:** Both dichotomous and multiply choice, were used. The main benefit of a dichotomous closed question is the 'clear cut' response it offers but its downside that is 'polarises' the required responses. The benefit of a multiply choice closed question is that a 'menu' of answers is provided that requires one response and therefore overcomes the 'polarity' of dichotomous closed questions.

(iii)Open questions: Some follow up questions were open – ended questions. These give respondents the opportunity to volunteer information and comments rather than limiting them to the researcher's opinions supplied. The major advantage of open questions is that they promote the free flow of information while its downside lies in the difficulty of analysis and statistical treatment responses.

All the data needed could have been gotten from top management and the audited financial statements, through the conduct of interview but the researcher decided to go beyond them so that top mangers do not give only good stories, that was the reason why 20 more branches were selected in addition to the information's gathered at the head office

3.6 ORGANISATION PROFILE

The Agricultural Development Bank - ADB - was set up by an Act of Parliament (Act 286) in 1965 to promote and modernize the agricultural sector through appropriate but profitable financial intermediation. Its original name then was the Agricultural Credit and Co-operative Bank and the establishing Act gave its main object as "to provide credit facilities to agriculturists and persons for connected purposes".

It assumed its present name in 1970 when a subsequent Act of Parliament (Act 352) amended the earlier legal instrument of the Bank and thereby broadened its functions to make it a fully-fledged banking institution.

3.6.1 Vision

Achieving the position of being the largest, prudently managed and the most profitable growth-oriented agricultural development bank in Africa.

3.6.2 Mission

ADB is committed to building a strong customer-oriented Bank, run by knowledgeable and well-motivated staff, providing profitable financial intermediation and related services for a sustained and diversified agricultural and rural development.

3.6.3 Functions

1. The provision of credit facilities for the development and/or modernization of agriculture and allied industries
2. The identification and promotion of agricultural enterprises in Ghana, whether singly or jointly, with persons or institutions, both local and foreign
3. The initiation of, or participation in, the conduct of research and training designed to promote agricultural development in general
4. Investment in processing and transportation of agricultural produce
5. Operation of current, savings and fixed deposit accounts
6. Financing to cottage industries
7. Management of special funds and loans granted to the Government of Ghana by other governments and international organizations

8. Undertake international banking.

3.6.4 Basic agricultural lending goals

1. To strengthen domestic food security;
2. To generate foreign exchange savings through cost effective production of import substitutes;
3. To generate sustained increases in foreign exchange earnings through rapid expansion of particularly non-traditional agricultural export crops;
4. To generate promote profitable value-addition to agricultural produce through investment in agricultural marketing and processing.

3.6.5 Profile of services

1. Development Banking

- **Agricultural production & marketing credit**

This covers small-scale, medium-scale and large-scale operators in all the agricultural and allied sub-sectors, namely, food crops, cash crops, industrial crops, inland and off-shore fishing, livestock, poultry, etc.

- **Agro-processing financing**

Financing under this category is intended to create an adequate capacity for processing of local industrial crops for both the export and domestic markets. Examples include palm oil, rubber, cotton, etc.

- **Cocoa farm maintenance & bean purchases**

Credit is extended to cocoa farmers to maintain existing farms. In addition, funding is provided to licensed cocoa-buying companies (LBCs) to purchase cocoa beans during the major and minor seasons.

- **Export development financing**

Financing is made available for the production, purchasing packaging and freighting of exportable produce, especially of agricultural products under the non-traditional export sector development programme.

- **Agri-business financing**

Credit under this category is targeted at the business sector which provides services to the mainstream agricultural sector, such as the importation and supply of agricultural inputs, distribution and storage of agricultural produce, hiring of agricultural equipment, and the provision of transport and haulage services.

2. **Corporate Banking**

- **Foreign account services**

ADB operates a foreign account service at designated branches to cater for the foreign business needs of the business community. The account is denominated in the major convertible currency of the customer's choice. This may be held locally or offshore.

- **Domestic current account service**

Corporate bodies in both the agricultural and non-agricultural sectors are offered a unique current account service locally to facilitate their business operations nationwide. The account is opened at a specific branch but can be operated throughout the ADB branch network.

- **Service desk**

At the request of the corporate body, the branch opens a service desk at the client's own premises to facilitate prompt service to both the client's customers and staff.

- **Business credit**

Business credits may be denominated in either local currency or foreign exchange.

- International banking

To help promote the foreign business of customers, ADB maintains a network of correspondent banks and operates on the SWIFT system of payments and communication.

Personal Banking

- **Current account service**

A low minimum deposit is required and the account attracts interest on the outstanding balance.

- **Salary account service**

This is operated for salaried workers to receive their salaries from their employers.

- **Savings deposit account service**

This may be an ordinary savings account, a fixed deposit account or even a call deposit account. Each has its own interest-yielding rate for the holder.

- **Personal loans**

Salary account holders are eligible for low-priced personal loans payable over a maximum of 24 months. This requires only the Employer's undertaking to pass the applicant's salary through his or her account until the end of the loan period.

- **Local payment service**

  Local transfer payments are easily undertaken on one's account as well as over-the-account for non-account holders. Payment orders are issued and honoured at all the Bank's branches.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

ANALYIS OF CASH MANAGEMENT PRACTICES OF AGRICULTURAL DEVELOPMENT BANK

4.1 INTRODUCTION

This chapter analyses the cash management policies and practice of Agricultural Development Bank to assess their effectiveness. This will be measured by their ability to optimise collection, maintain liquidity and achieve profitability through investments. The chapter is divided into two parts. The first part contains an assessment of cash policies, assessment of cash planning, investment polices and their effectiveness of cash management practices. The final part also contains the overall critical analysis of the questionnaire collected from the various branches.

4.2 CASH COLLECTION POLICIES AND PRACTICES

Agricultural Development Bank identified inability to optimise collection as their major problem. This leads to liquidity problems and inefficient operating procedures.

The table below is the liquidity ratios and cash ratios of ADB.

Table 4(a)

LIQUIDITY RATIOS OF ADB (2004-2008)

Year	Current ratio	Cash ratio
2004	1.15	0.47
2005	1.17	0.39
2006	1.18	0.43
2007	1.19	0.35
2008	1.16	0.25

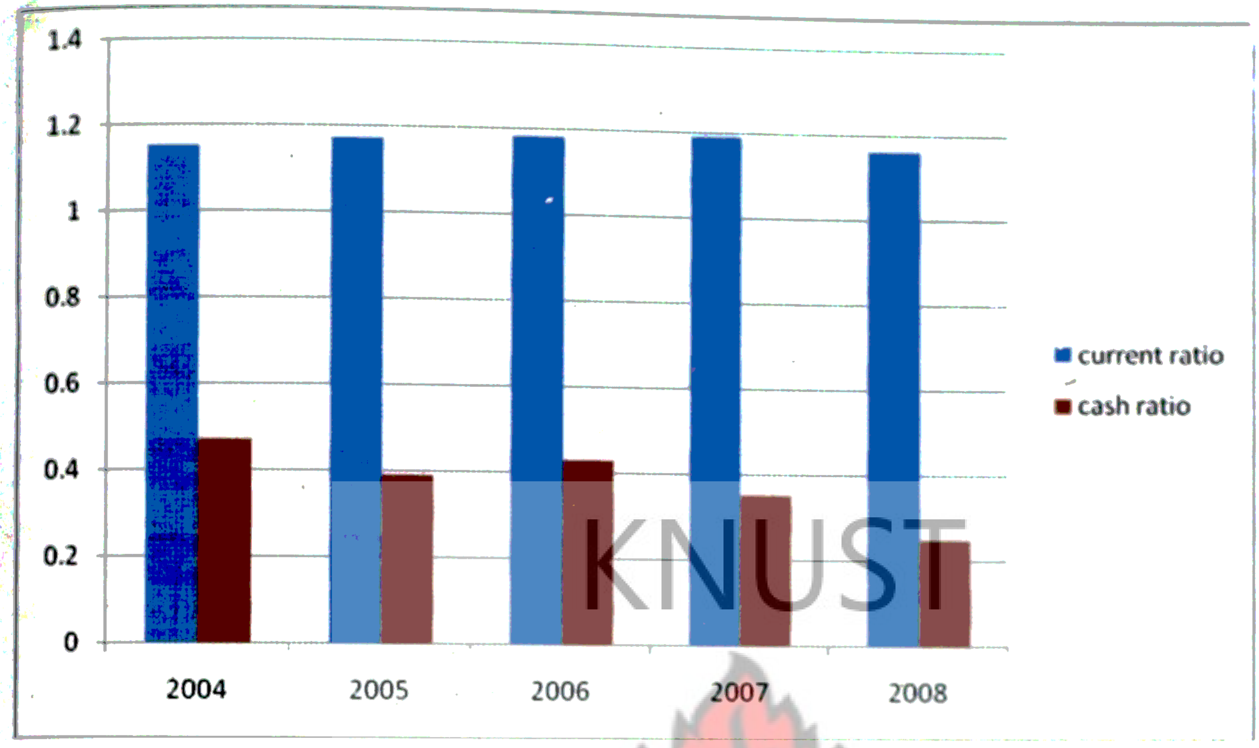
Since there is no Industrial average to compare with, the conventional rule would be used. As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory. This rule is based on the logic that in a worse situation, even if the value of current assets becomes half, the firm will be to meet its obligation. The current ratio represents a margin of safety for creditors. The higher the current ratio, the greater the margin of safety; the larger the amount of current assets in relation to current liabilities, the more the firm's ability to meet its current obligations.

The trends of ADB's current ratio showed a generally positive pattern, meaning that current asset consistently exceed its current liabilities throughout the period from 2004 to 2008. From 2004 to 2005 there was an increase of 1.74%, then rose to 0.85% in both 2006 and 2007 and fell to 2.52% in 2008.

However, the current ratio is a test of quantity, not quality. The current ratio measures only total cedis' worth of current assets and total cedis' worth of current liabilities. It does not measure the quality of assets. Liabilities are not subject to any fall in value. If the firm's current assets consist of doubtful and slow-paying debtors or slow-moving and obsolete stock of goods, then the firm's ability to pay bills is impaired; its short-term solvency is threatened. Thus, too much reliance should not be placed on the current ratio; a further investigation about the quality of the items of current assets is necessary. However, the current ratio is a crude-and quick measure of the firm's liquidity.

Therefore looking at the current ratio ADB has a greater 'cushion' between its current obligations; they are forced to depend on short term loans. Between 2007 and 2008 ADB borrowed GH 33,899,620 and GH 108,372,163 respectively.

Figure 4 (a) Current and Cash ratio (2004-2008)



Since cash is the most liquid asset, a financial analyst may examine cash ratio and its equivalent to current liabilities but Cash ratio would be the least to emphasis because there is nothing to be worried about since ADB has a reserve borrowing power.

Trends in the quick ratio have been ignored because ADB has no significant amount of inventory, therefore liquidity would be analysed with respect to accounts receivables.

4.2.1 EFFICIENCY IN LIQUIDITY

Closely related to inability to optimize collection is low liquidity. Apart from 2008 when ADB registered a current ratio of 1.16, the ratio increased significantly over the period from 2004 to

2007. The currently ratios of 1.15, 1.17, 1.18 and1.19 over the period has increase consistently with respect to years. There was no industrial average to compare with.

The current ratio is a rough indication of the Company's ability to service its current obligations. Generally a ratio that is below the industry average means that when the company is compared to industry peers, a narrow 'cushion' exists between current obligations and company's ability to pay them. However, the ratio is only an indication of numerical superiority of current assets over current liabilities. Suspect receivables sometimes include contract billings in excess of cost, resulting in lower levels of collectible receivables. Above industry performance does not necessarily reflect efficient collection of receivables and efficient cash management.

4.3 CASH PLANNING POLICIES AND PRACTICES

ADB is suppose to have target balance, and also have a specific amount that they maintain at any given time but ideally such regulations are not adhered to. This situation is mostly to blame for lack of liquidity that they complain of. They either keep too much cash in the banks, incurring the opportunity cost of not investing in marketable securities, or they invest too much in securities and end up having to borrow at an interest rate higher than what they earn on their investments. From their cash budgets and cash flow statements, they are able to determine their transactional cash needs for the immediate two months ahead. For the five years under study, ADB had a lot of idle cash on hand whiles they took short term loans from Bank of Ghana and other financial institutions. These monies earned the company no interest whiles they paid interest on short term loans acquired. This will reduce profitability since high interest would be paid on the loans acquired. The graphs in figure 4(b) depict the cash standing idle as against short term loans owed by ADB.

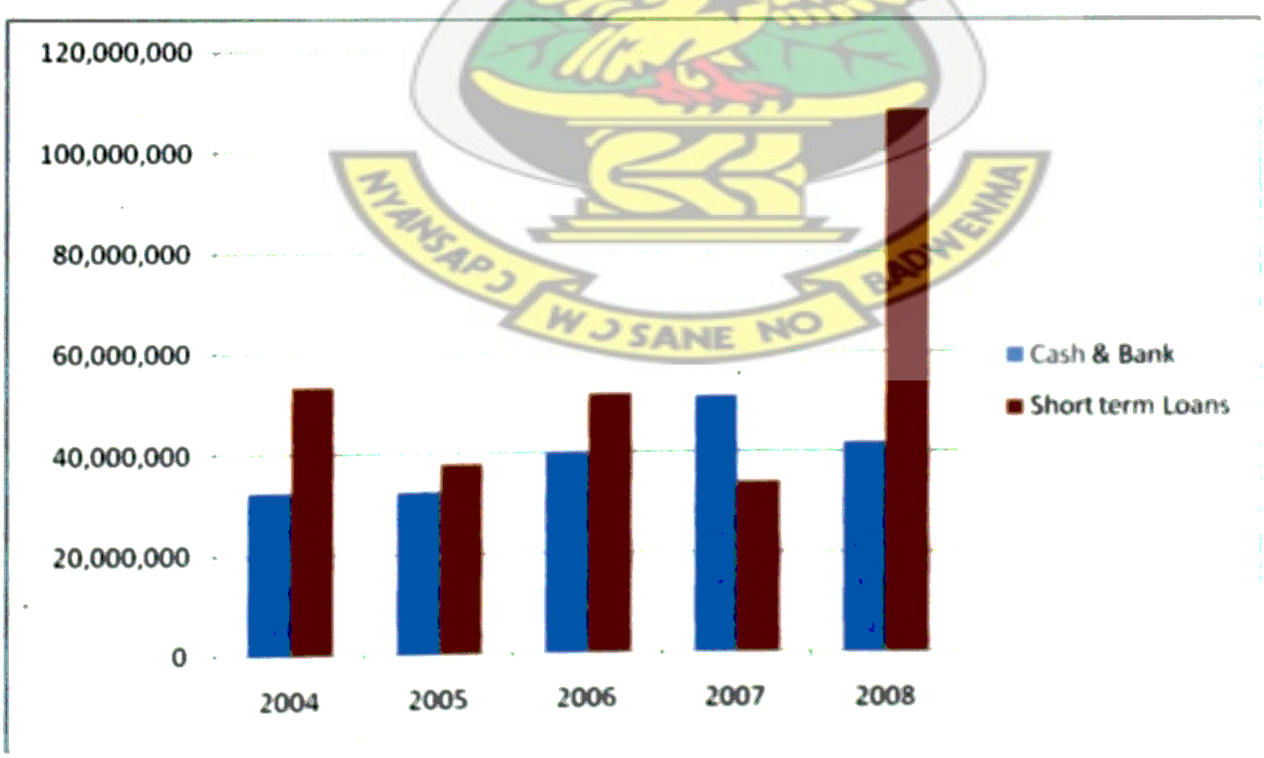
Table 4(b)

CASH AND SHORT TERM LOANS (2004-2008)

(AMOUNT IN GH CEDIS)

Year	Cash and Bank(GH¢)	Short Term Loans (GH¢)
2004	32,458,200	53,374,100
2005	32,292,800	37,748,300
2006	40,140,600	51,765,100
2007	51,047,582	33,899,620
2008	41,887,152	108,372,163

Figure 4 (b) Cash and Short-term Loans (2004-2008)



4.4 INVESTMENT POLICIES AND PRACTICES

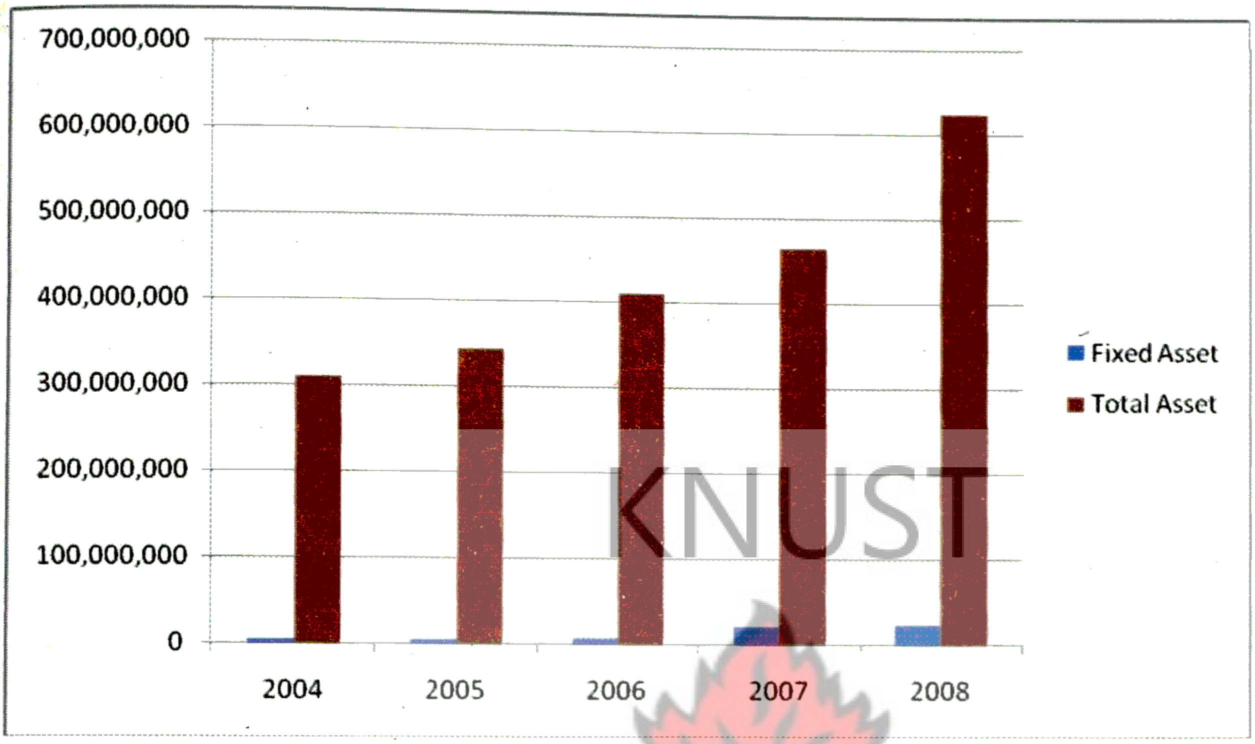
ADB claim that they keep cash balances at a minimum and invest excess cash in marketable securities. Minimizing investment in fixed assets was identified as another investment policy of the ADB. Below is a table showing the investment in fixed assets as compared to total asset of ADB.

Table 4 (c)

FIXED & TOTAL ASSETS (2004-2008)

Year	Fixed Asset	Total Asset
2004	4,806,600	309,459,000
2005	5,194,500	343,172,700
2006	7,096,500	410,319,000
2007	21,484,240	465,190,891
2008	22,328,817	624,270,478

Figure 4 (c) FIXED & TOTAL ASSETS (2004-2008)



As the graph depicts, the investment in fixed asset as compare to total asset was very low and this is a very good management of cash. Most of the components of the total asset were liquid assets which can be easily converted into cash.

4.4.1 EFFICIENCY IN INVESTMENT

In selecting marketable securities, ADB invested mainly in Government securities (such as Ghana Government index securities and Treasury Bills) and also other unlisted short term securities. This is considered as a wise investment decision because the rate of return is very high. Looking at the total income surplus figure, the income from the total securities alone contributed 60.50% in 2004, 48.91% in 2005, 56.81% in 2006 36.63% in 2007 and 76.18% in 2008 respectively.

The cost of investing in securities can be better appreciated when the income from the total amount invested (Government securities and Unlisted cash & short term funds) is compared with the total income surplus. Investment income reflected an appreciable percentage of overall revenue. Table 4 (d) provides details of income generated from investment and the total income surplus.

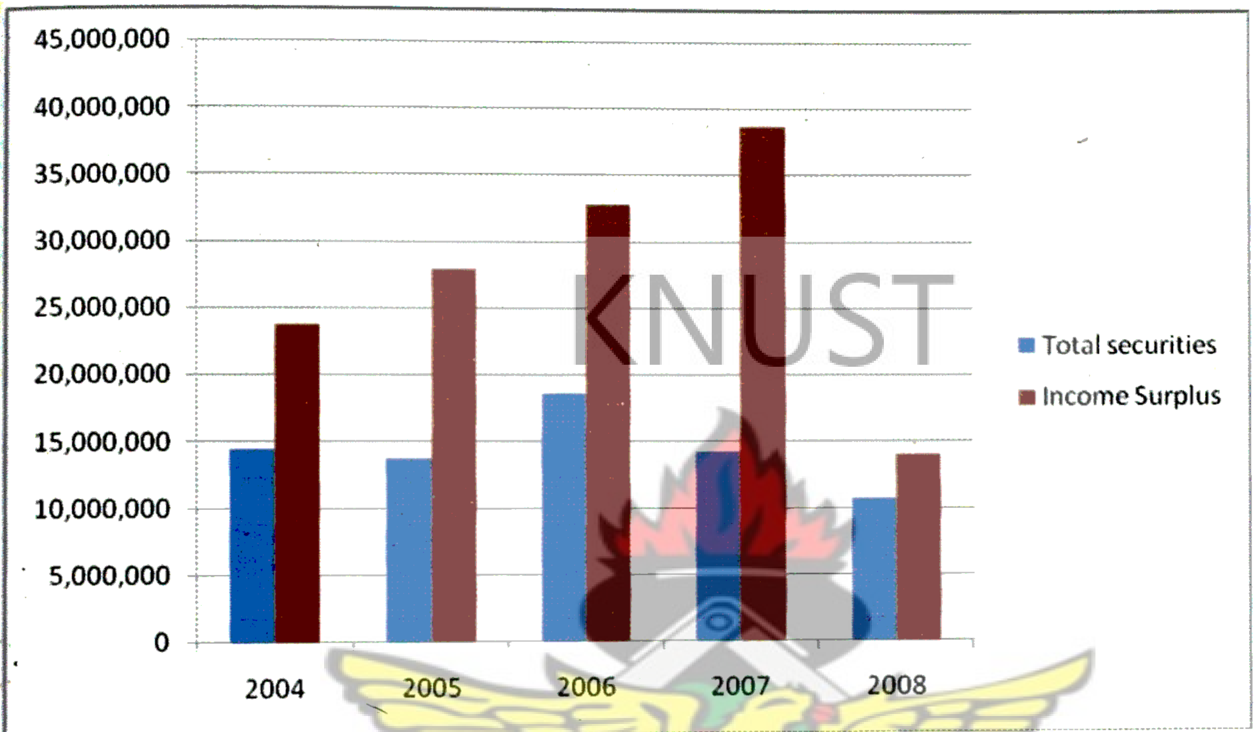
Table 4(d)

INCOME FROM SHORT TERM INVESTMENT AND THEIR PERCENTAGE TO OVERALL REVENUE OF ADB

(AMOUNT IN MILLION)

Year	Government securities	Unlisted Cash & Short term securities	Total securities	Total Income Surplus	% of total security to income surplus
2004	12,406,300	1,977,600	14,383,900	23,774,700	60.50
2005	12,722,900	912,700	13,635,600	27,881,500	48.91
2006	16,842,300	1,749,100	18,591,400	32,725,700	56.81
2007	12,893,333	1,277,933	14,171,266	38,684,837	36.63
2008	9,547,042	1,081,224	10,628,266	13,952,384	76.18

Figure 4 (d) Trend in total securities and Total Income surplus



4.5 POLICY TOWARDS CASH MANAGEMENT AND IDLE CASH BALANCE

	Number of Responses	Total Number of Respondents	Percentage (%)
1. Any policy towards cash management			
a) Yes	20	20	100
b) No	-	20	
2 Any Idle cash balance?			
a) Yes	16	20	80
b) No	4	20	20
3 How surplus or idle cash balances is treated			
a) Remain at Branch			
b) Forward for treasury bills	20	20	100
c) Buy commercial paper	-	-	-
d) Keep it in the office safe	-	-	-

Encouragingly, there was a 100% of existence of a policy towards cash management.

This may be due to the fact that businesses have realized that cash is the life-blood of every business and therefore there is the need to take measures to manage it carefully. In general, the nature of the policy towards cash management was to safeguard cash against all forms of risks. This is done by making sure that all the firms' expenses are paid using cheques and all incomes paid into the bank. Even though there is a policy towards cash management the basic objective in cash management of keeping the investment in cash as low as possible while still operating the firm's activities effectively and efficiently may be lost in the context of the respondents. This is because there can be more than enough cash in the current account and instead of investing it in short-term marketable securities to obtain interest income, it will be just "sitting" in the account doing nothing.

About 20% seems not having idle cash balances whereas 80% said they have. The higher percentage of 80% having idle cash balance claim that the idle cash balances are normally transferred for purchase of securities. It was discovered that about 100% of these branches use their surplus or idle cash balance to buy treasury bills. The branches may believe it is the safest form of short-term security.

The zero percentage in putting the idle cash balance in buying commercial paper may be that, the branches are not aware of the existence of these marketable securities or not familiar with the money market. However, the zero percentage in keeping it in the office safe is quiet encouraging. Gone are the days when monies were kept in safes. This also discourages the situation whereby safes are broken into and the money taken away.

4.6 LEVEL OF CASH BALANCE AND FORECASTING TOOLS

	Number of Responses	Total Number of Respondents	Percentage (%)
4 Any Specific Level of Cash Balance at any given time?			
c) Yes	18	20	90
d) No	2	20	10
5 Any Forecasting Tool to Determine the Cash Balance?			
c) Yes	20	20	100
d) No	-	20	-
6 Do They Include The Following?			
e) Cash Budget	16	20	80
f) Fund Flow Statement	20	20	100
g) Performa Financial Statements	-	20	-
h) Percent of sale Method	-	20	-
i) Other	-	20	-

Based on the response given, it was seen that 10% had no specific level of cash balance held at a particular period of time. The other 90% said that their branches determine at a particular point in time a specific amount of money that should be held.

It should not be overlooked that no matter how successful an organization is, continued financial planning is still essential. It should also be recognized that profit alone is generally inadequate to finance significant growth and therefore, a comprehensive financing plan must developed. The financial manager or whoever is in charge of the firm's money can then carefully trace actual events against the plan and make the necessary adjustments.

Furthermore, the statements are often required by bankers and other lenders as a guide for the future. It is therefore encouraging to know that all the respondents, that is 100% employ forecasting tools to determine their cash balance. As to the type of method used in forecasting, there was a 100% response to using fund flow statement and 80% of cash budget in addition. The zero percentage in the other methods may be that the respondents are not familiar with them. The 100% usage of the fund flow statement can be attributed to the ease and many advantages that users may have found with it. Financial institutions will also want to see how funds from previous loans were used before approving or extending a new one. The researcher believes this explains why the 100% usage of fund flow statement.

4.7 SPLITING OF LIQUID ASSETS

	Number of Responses	Total Number of Respondents	Percentage (%)
1. Any Criteria As To How Liquid <u>Assets Should Be Split?</u>			
a) Yes	10	20	50
b) No	10	20	50
2. <u>Do They Include The Following?</u>			
a) Inventory Model approach	-	20	-
b) Miller-Orr Model approach	10	10	100
c) Other	-	-	-
3. <u>If No How?</u>			
Arbitrarily Chosen	4	20	20

It is interesting to know that 50% of the twenty branches that said they have idle cash balance have criteria as to how liquid assets are split for marketable securities. The other 50% said there is nothing like any criterion used. The research also discovered that the Miller-Orr model approach is used or practiced by all the branches that said they have criteria towards splitting actual holding from marketable securities.

Since this model is about when to buy or sell securities, that is, allowing cash to meander till it reaches either the upper or lower limit set by the organization, it helps or makes it easier for the firms to decide as to when to invest or sell. In other words, they do that as to when the need arises. The zero percentage is the practice of the inventory model can be attributed to unfamiliarity of this model with the organizations.

The fact that some of the branches choose arbitrarily indicates that there is no proper planning done.

4.8 MANAGING RECEIVABLES AND METHODS TO GAIN FLOAT

	Number of Responses	Total Number of Respondents	Percentage (%)
1. Techniques Used To Manage Your Receivables			
a) Concentration Banking	-	20	-
b) Locked-Box System	-	20	-
c) Cash Discount	10	20	50
d) Transfer of Funds	20	20	100
Direct Payment by Cheque	4	20	20
3. Any of The Methods To Delay Payments So As To Gain Float?			
a) Writing cheque on Remote Banks.	-	20	-
b) Posting cheque at the very last minute	-	20	-
c) Paying for purchases on the last day or credit period	18	20	90
d) Other – Cash Payment	2	20	10
5. Do You Face Any Problems In Managing The Funds In Your Organization?			
a) Yes	-	20	-
b) No	20	20	100

As to the techniques used to manage the companies' it was discovered that 100% preferred transfer of funds to all the other techniques. In addition, there was a 50% in the use of cash discount and 20% by direct payment by cheques. The higher percentage in the practice of the funds transfer may be due to the fact that branches want to avoid the temptation associated with handling physical cash and all other forms of risks. The 50% practice of cash deposit and 20% payment by cheques as well also indicate that branches want to avoid the temptation associated with handling physical cash and all other forms of risks. However, the zero percentage in remaining techniques can be due to the non-existence of such techniques in the companies.

With the methods to delay payments so as to gain floats, 90% seems to use paying for their purchases on the last day or credit period. The other two methods not practiced may be due to the fact that they are not familiar with them. It may also be that the companies would not want to mar the relationship between them and their suppliers by writing cheques on remote banks. Moreover, it can also be that these companies do not have accounts with the remote banks.

ADB claim they delay payment of accounts till the last day of the credit period and also in addition write cheques to their creditors to delay payment and to gain float.

This practice would be good management if it did not destroy relationships between the company and its suppliers.

Surprisingly, none of the companies said that they have problems in managing the funds in their organizations. This, the researcher believes that the branches may not want to wash their "dirty garments" in public even though they were all assured of confidentially.

Generally ADBs performance of cash management practice was good during the period under study. Examinations of answered questionnaires and financial statements have proven that ADB has superior cash management policies and practices. With a better collection of accounts receivables the Company was able to make profits from 2004 to 2008.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

This study has been undertaken to investigate the extent to which ADB practice cash management techniques in managing their cash. This chapter summarizes the findings of the research and draws conclusion based on the summary and makes recommendation. Also Findings from analysis of the data will be compared with literature and theoretical principles to determine whether they are consistent.

Cash management involves managing the monies of the firm in order to maximize cash availability and interest income on any idle funds. It plays a very essential role in every organization. It is therefore important that firms develop skills and techniques to manage and correctly forecast their cash needs in order to make appropriate investment and borrowing decisions.

The research indicated that out of the 20 branches that the questionnaires were administered to, all the 20 responded. It was also indicated that there was a 100% existence of some form of policy towards managing cash in all the branches.

Even though the study unearthed a number of discrepancies and inconsistencies in the cash management practices of ADB, some of their practices conformed to recommended procedures. Findings of the study indicate, for instance, that all the branches do prepare monthly cash budgets to forecast future sources and uses of cash

Furthermore, it was discovered that some branches are not aware or not familiar with the money market. The zero percentage in the other short-term marketable securities apart from the treasury bills indicates that. These branches cannot be much blamed because the money market in Ghana is not much developed.

The research also indicated that majority of the branches of ADB are not aware of the specific level of cash balance held at a particular period of time. However, the researcher can say that apart from fund flow statement and cash budget, these branches are not familiar with the other methods because of the zero percentage by the branches.

It was also discovered that the Miller-Orr model approach is practiced by some of the branches as a criterion to split actual cash from marketable securities. However, some do that arbitrarily. The fact that this is done arbitrary indicates that proper planning is not done. It also indicates that businesses are not aware of these techniques.

It also discovered that branches use transfer of funds to manage their receivables. This may be to encourage their debtors to pay early and not to default payment. The zero percentage in the other techniques can be attributed to non-existence of such techniques.

Surprising, about 90% of the branches pay their creditors on the last day of credit period as indicated by the research. This is a very good way to boostrap the activities of the branches. Again to speed up collection, ADB practice the concentration banking systems where payment can be made at any branch of ADB because of their networking systems

Most of the selected branches had no a target balance that they maintained and could therefore not determine precisely the portion of their inflows needed to be invested or kept on hold.

Representatives of the branches claim that they make all effort to slow down disbursement within acceptable limits. Bekwai branch deliberately writes cheques on remote banks to gain float and Tamale branch ensures that payment is made on the last day of the credit period and cheques are timed to arrive on the due date.

It is alarming to discover that ADB was owing and paying interest on loans but still kept large bank balance that earned no interest.

The unique environmental and cultural factors notwithstanding, there are basic and general principles in cash management which are applicable to every situation and need to be embraced wholly by the branches of ADB. These broad principles are the determination of a target cash balance, speeding up of collection, slowing down disbursement and investment of excess cash at the lowest risk for the highest return.

5.2 CONCLUSION

The study of this research was to investigate the extent to which ADB employ cash management tools in managing their cash activities. The researcher focused on cash collection, disbursement, planning and investment policies.

The summary of this study shows that ADB does not really employ fully the tools needed to carry out proper cash management activities. This can be attributed to unique environmental and cultural factors and the fact that qualified personnel are not employed to carry out this task.

Improvement in the cash management practices of the selected branches would significantly reduce operating expenses and would definitely ensure a remarkable increase in their profitability. Cash is seen to be the lifeblood of every organization and therefore businesses need to develop the skills to manage it carefully. ADB has to employ the appropriate cash management techniques to manage their cash activities in order to gain the profitability associated with it.

5.3 RECOMMENDATIONS

To improve the use of cash management practices, ADB should organize Seminars and short courses on cash management periodically, for Chief Executives and Managers in charge of finance and accounting so that they can be familiar with the cash management practices this is because an observation that the Company does not adhere to its target balance was made. The problem identified for this drawback is the lack of exposure of finance and accounting staff of the Company to financial principles and theories.

The education recommended would further ensure that good investment decisions are taken to eliminate all short falls in their investment policies and practices.

Again the money market should make its instruments known by educating the public as a whole and ADB must also assess the money market frequently.

Specific level of cash balance should be set by ADB and should be strictly adhere to, in order not to lose interest income for idle cash to be invested.

Professionals should also be employed to manage the cash activities. When this is done, proper planning will be ensured and this will help remove padding from budgets.

ADB must establish good credit policies with customers on loans in order to speed up collections. Charges must be added to customers who pay late in order to discourage them from paying late.

To optmise and speed up collection. It is recommended that ADB adopt the following policies. In the light of the large debtor figure standing in the books of the Company, and the fact that these debts could easily go bad especially loans to cocoa farmers, the following actions are recommended.

i. ADB should engage in debt factoring in order to release funds for their operations.

ii. The services of debt collection agencies should be employed to mop up the arrears, allowing employees of the Company to concentrate on the main business of the Companies.

Finally the bank should control its disbursement activities by pruning down administration cost and also making payments with cheques in other to take advantage of float since float can generate millions of cedi if invested overnight.

5.4 RECOMMENDATION FOR FURTHER RESEARCH

This paper admits that owing to time constraint, only one bank was used, the outcome may not be reflective of all banks in Ghana, therefore, there could be other research using various banks to confirm the results.

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Cash management component definition

Current Ratio	Current Asset/current liability
Cash Ratio	Current Asset – marketable security/current liabilities

APPENDIX 1

SCHOOL OF BUSINESS

(KWAME NKURMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY)

QUESTIONNAIRE ON CASH MANAGEMENT PRACTICES AT AGRICULTURAL DEVELOPMENT BANK

This questionnaire seeks to gather relevant information on cash management practices at ADB.

We would be very grateful if you would complete as much of the questionnaire as possible. Please be assured that information provided will be treated with the utmost confidence and will be used solely for academic purpose.

Thank you.

1. Does your Branch have a cash management policy? (Please tick as appropriate).

   Yes [ ]
   No [ ]

2. What is the nature of your policy?

   a. Speeding collection of accounts receivable
   b. Slowing payment of accounts
   c. Minimizing investment in inventory
   d. Minimizing bank balance
   e. Other (please specify)

   ....

3. Do you have any idle cash balance?

   Yes [ ]

   No [ ]

4. What do you do with your idle or surplus cash balance?

   a. Purchase treasury bills
   b. Commercial paper
   c. Certificate of Deposit
   d. Put in foreign currency or euro dollar accounts
   e. Hold it in cash tills

f. Other
(specify)..

5. Why do you put your excess cash in any of the items mentioned in question 4?

a. Safe keeping
b. To earn interest
c. That is the tradition
d. Other
(Please specify)..

6. What do you do when you have deficit cash?

....
....

7. Do you have a specific balance usually held at any given time?

Yes [ ]
No [ ]

8. Do you employ any forecasting tools in determining your cash needs and cash balance?

Yes [ ]
No [ ]

9. If no, how do you determine your future needs for cash and make provision for it?

....

10. If yes, which of the techniques do you employ?

a. Cash budget
b. Cash flow statement
c. Proforma financial statement
d. Percent of sales method
e. Regression analysis
f. Other
(Please specify)
....

11. Do you employ any specific cash management models or criteria as to how liquid asset should be split between actual cash holding and marketable security?

Yes [ ]
No [ ]

12. If yes, which one of the following do you use?

a.)Inventory model approach – with this approach when an organization holds
too much money the opportunity cost is very high and transaction cost in borrowing or selling securities is also high when it holds less than its needs.

b.)Miller-Orr approach – this is where the organization sets upper and lower
limits for cash balance.

c. Other
(please specify)..

13. If no, what guidelines do you follow in deciding how much excess funds to invest in marketable securities or to hold as cash balance?

....
....
....
....
....

14. Do you have any criteria for selecting marketable securities to invest in?

Yes [ ]
No [ ]

15. If yes, indicate the selection criteria considered.

a. Financial risk
b. Interest rate risk
c. Liquidity risk
d. Taxability
e. Yield
f. Default risk
g. Other
(Please specify)..

16. How long does it take you to collect your receivable?

....
....
....

17. Which of the techniques listed below do you use to speed up your collection?

a. Lock box
b. Concentration banking
c. Cash discount
d. Letters or telephone calls
e. Special handling of large remittances
f. Other
(Please specify)
....

18. Which of the following methods do you use to delay payments so as to gain float?

a. Writing cheques on remote banks
b. Paying for purchases on the last day of the credit period
c. Using drafts for payment instead of cheques
d. Posting cheques at the very last minute
e. Other
(Please specify)
....

19. Do you face any problems in managing the funds of your company?

Yes [ ]
No [ ]

20. If yes, do the problems include any of these?

a. Cash leakages or embezzlement
b. Liquidity
c. Inability to optimize collection of accounts receivables
d. Unaware of the availability of marketable securities or investment opportunities
e. Unawareness of the availability of marketable securities
f. Strict company regulations
g. Lack of knowledge of cash management techniques
h. Other
(Please specify)..

21. How do you think the problems and impediments to efficient cash management in your company could be overcome and cash management improved?

....
....
....
....

22. Do you think good and effective cash management has any bearing on the profitability of your company?

Yes [ ] in what way?

....

No [ ] why?

....

23. How do you measure success of your policy?

....

24. State yardsticks of measuring your policy?

....
....
....

25. Do you have any other views on how cash management can be improved in your company in particular and Ghana as a whole?

....
....
....
....
....

Thank you very much for your cooperation.

APPENDIX 2(A)

LIST OF FIGURES **PAGE**

APPENDIX 2(B)

LIST OF TABLES

APPENDIX 3 (A)

Balance Sheet as at 31 December 2008

	Note	2008 GH¢	2007 GH¢
Assets			
Cash and balances with Central Bank of Ghana	14	41,887,152	51,047,582
Gov't securities	15	87,323,906	81,972,356
Deposits and balances due from banking institutions	16	22,077,304	24,757,394
Other investments	17	6,171,070	6,171,070
Loans and advances to customers (net)	18	370,606,658	228,983,092
Other assets	19	72,599,471	55,548,640
Long Term Investment		1,276,100	1,276,100
Property and equipment	20	22,328,817	21,484,240
Total assets		624,270,478	471,240,474
Liabilities			
Customer deposits	21	319,499,930	271,024,641
Borrowed funds	22	108,372,163	33,899,620
Other liabilities	23	87,717,161	71,606,522
Total liabilities		515,589,254	376,530,783
Capital resources			
Share capital	24	50,000,000	20,000,000
Revaluation surplus		13,102,990	12,066,347
Income surplus		13,952,384	40,912,769
Credit Risk Reserve		5,933,168	3,505,338
Statutory reserve		25,692,682	18,225,237
Shareholders' funds		108,681,224	94,709,691
Total liabilities and shareholders funds		624,270,478	471,240,474

The financial statements on pages 25 to 74 were approved on behalf of the board of directors on 25th March, 2009 and were signed by:

Managing Director

General Manager/
Finance

Secretary

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Agric and more...

Income Statement for the year ended 31 December 2008

	Note	2008 GH¢	2007 GH¢
Interest income	6	59,688,900	42,327,367
Interest expense	7	(20,474,861)	(11,298,781)
Net interest income		39,214,039	31,028,586
Fee and commission income	8	26,065,292	17,420,758
Net fee and commission income		26,065,292	17,420,758
Other operating income	10	10,152,985	6,395,295
Net Non-Interest Revenue		36,218,277	23,816,053
Operating income		75,432,316	54,844,639
Impairment losses on loans and advances	18	(6,923,146)	(3,831,236)
Operating expenses	11	(57,292,114)	(42,889,565)
Other Income		6,137,686	5,280,368
Other Expenses		(2,419,852)	(1,806,307)
Profit for the year		14,934,890	11,597,899

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Cashflow Statement for the year ended 31 December 2008

	Note	2008 GH¢	2007 GH¢
Operating activities			
Cash generated from operations	25	(82,996,806)	(11,721,374)
Investing activities			
Purchase of property and equipment	20	(2,982,966)	(4,737,643)
Proceeds from disposal of property and equipment		85,091	103,418
Increase in other investment securities		-	(1,870,870)
Net cash used in investing activities		(2,897,875)	(6,505,095)
Dividend paid		(1,000,000)	-
Financing activities			
Receipts/payments in Banks and other financial institutions		74,472,543	(17,865,480)
Increase in Credit Reserve		5,933,168	3,505,338
Net cash generated from financing activities		80,405,711	(14,360,142)
Increase in cash and cash equivalents		(6,488,970)	(32,586,611)
Cash and cash equivalents at 1 January		157,777,332	190,363,943
Cash and cash equivalents at 31 December	25	151,288,362	157,777,332

APPENDIX 3 (B)

Balance Sheet as at 31 December 2007

	Note	2007 GH¢	2006 GH¢
Assets			
Cash and balances with Bank of Ghana	8	51,047,582	40,140,600
Government securities	9	81,972,356	104,937,100
Due from other banks and financial institutions	10	24,757,394	51,382,000
Other investment securities	11	6,171,070	4,300,200
Loans and advances to customers	12	222,933,509	150,923,300
Other assets		55,548,640	50,263,200
Long-term investment in subsidiaries		1,276,100	1,276,100
Property and equipment	15	21,484,240	7,096,500
Total assets		465,190,891	410,319,000
Liabilities			
Customer deposits	16	271,024,641	234,414,300
Due to Bank of Ghana	17	26,789,249	28,569,000
Due to banks and other financial institutions	18	7,110,371	23,196,100
Interest payable and other liabilities	19	70,420,251	54,638,400
Total liabilities		375,344,512	340,817,800
Shareholders' funds			
Stated capital	20	20,000,000	20,000,000
Income surplus		38,684,837	32,725,700
Statutory reserve fund	21	19,095,195	16,775,500
Capital surplus	22	12,066,347	-
Shareholders' funds		89,846,379	69,501,200
Total liabilities and shareholders' funds		465,190,891	410,319,000

The Board of Directors approved the financial statements on 13th March, 2008.

Chairman

Managing Director

Director

General Manager/
Finance

Secretary

ADB
AGRICULTURAL DEVELOPMENT BANK
Agric and more

Profit and Loss Account for the year ended 31 December 2007

	Note	2007 GH¢	2006 GH¢
Interest income	2	42,327,367	42,055,000
Interest expense	3	(11,298,781)	(11,066,600)
Net interest income		31,028,586	30,988,400
Fee and commission income		17,709,992	14,264,900
Other operating income	4	4,691,955	6,405,000
Operating income		53,430,533	51,658,300
Operating expenses	5	(40,289,188)	(31,129,200)
Charge for bad and doubtful debts	14	(7,336,574)	(7,965,600)
Operating profit		5,804,771	12,563,500
Other income	7	5,280,368	1,639,300
Other expenses		(1,806,307)	(2,565,000)
Profit before reconstruction levy		9,278,832	11,637,800
National reconstruction levy		-	(872,800)
Profit after levy transferred to income surplus		9,278,832	10,765,000

Income Surplus Account for the year ended 31 December 2007

	2007 GH¢	2006 GH¢
Balance at 1 January	32,725,700	27,881,500
Transfer from profit and loss account	9,278,832	10,765,000
Transfer to statutory reserve fund	(2,319,695)	(2,691,300)
Proposed dividend	(1,000,000)	(3,229,500)
Balance at 31 December	38,684,837	32,725,700

Cashflow Statement for the year ended 31 December 2007

	2007 GH¢	2006 GH¢
Operating activities		
Operating profit	9,278,832	11,637,800
Reconciliation between operating and net cash inflow from operating activities:		
Depreciation and amortization	2,304,414	1,403,600
Change in provision	7,239,460	7,395,000
Profit on sale of property & equipment	(91,960)	(17,400)
Net movement in property & equipment	100,378	(613,800)
	9,552,292	8,167,400
Net cash provided by operating activities before changes in operating assets and liabilities	18,831,124	19,805,200
Changes in operating assets and liabilities net of effects from acquisitions of companies:		
Increase in loans and advances	(79,249,669)	(32,052,100)
(Increase)/decrease in other assets accounts	(5,285,440)	16,152,000
Increase in customer deposits	36,610,341	52,958,200
Increase/(decrease) in interest payable and other liabilities	14,781,851	(11,466,500)
Reconstruction levy paid	-	(428,300)
Net change in operating assets and liabilities	(33,142,917)	25,163,300
Net cash provided by operating activities	(14,311,793)	44,968,500
Dividend paid	-	(2,009,400)
Investing activities		
Purchase of property and equipment	(4,737,643)	(2,691,800)
Increase in trade investments	(1,870,870)	(600,000)
Proceeds from sale of property & equipment	103,418	17,400
Investments in equity shares	-	9,696,900
Net cash provided by investing activities	(6,505,095)	6,422,500
Financing activities		
Payments to banks and other financial institutions	(17,865,480)	14,016,800
Net cash used in financing activities	(17,865,480)	14,016,800
Net increase in cash and cash equivalents	(38,682,368)	63,398,400
Cash and cash equivalents at the beginning of the year	196,459,700	133,061,300
Cash and cash equivalents at the end of the year (Note 24)	157,777,332	196,459,700

APPENDIX 3(C)

Balance Sheet as at 31 December 2005

	Note	2005 ¢'m	2004 ¢'m
Assets			
Cash and Balances with Bank of Ghana	8	322,928	324,582
Government Securities	9	771,300	866,999
Due from other banks and financial institutions	10	236,385	344,495
Other Investment securities	11	37,002	33,001
Loans and Advances to Customers	12	1,262,662	845,365
Other assets		639,775	502,528
Long-term Investment in Subsidiaries		109,730	129,554
Property and Equipment	15	51,945	48,066
Total assets		3,431,727	3,094,590
Liabilities			
Customer deposits	16	1,814,561	1,603,705
Due to Bank of Ghana	17	308,633	301,157
Due to banks and other financial institutions	18	68,850	232,584
Interest payable and other liabilities	19	612,559	397,223
Total liabilities		2,804,603	2,534,669
Shareholders' Funds			
Stated Capital	20	200,000	200,000
Income Surplus		278,815	237,747
Statutory Reserve Fund	21	140,842	122,174
Shareholders' Funds		619,657	559,921
Total Liabilities and Shareholders' Funds		3,424,260	3,094,590

The Board of Directors approved the financial statements on ....March, 2005.

Chairman

Managing Director

Director

General Manager/Finance

Secretary

Profit and Loss Account for the year ended 31 December 2005

	Note	2005 ¢'m	2004 ¢'m
Interest income	2	330,560	309,870
Interest expense	3	(105,500)	(102,904)
Net interest income		225,060	206,966
Fee and commission income		144,395	128,019
Other operating income	4	26,565	97,539
Operating income		396,020	432,524
Operating expenses	5	(251,946)	(206,838)
Charge for bad and doubtful debts	14	(62,728)	(103,145)
Operating profit		81,346	122,541
Other income	7	7,026	20,439
Other expenses		(7,648)	(20,127)
Profit before Reconstruction Levy		80,724	122,853
National Reconstruction Levy		(6,054)	(12,286)
Profit after levy transferred to Income Surplus		74,670	110,567

Income Surplus Account for the year ended 31 December 2005

	2005 ¢'m	2004 ¢'m
Balance at 1 January	237,747	389,252
Transfer from profit and loss account	74,670	110,567
Transfer to Statutory Reserve Fund	(18,668)	(55,285)
Transfer to Stated Capital	-	(192,304)
Proposed dividend -	(14,934)	(14,483)
Balance at 31 December	278,815	237,747

Cashflow Statement for the year ended 31 December 2005

	2005 ¢'m	2004 ¢'m
Operating Activities		
Operating Profit	80,724	122,853
Reconciliation between operating and net cash inflow from operating activities:		
Depreciation and amortization	16,741	16,420
Change in provision	40,706	(101,615)
Profit on sale of fixed assets	(1,115)	(255)
	56,332	(85,450)
Net cash provided by operating activities before changes in operating assets and liabilities	137,056	37,403
Changes in operating assets and liabilities net of effects from acquisitions of companies:		
Decrease/(Increase) in loans and advances	(458,003)	19,983
Increase in other assets accounts	(116,471)	(196,438)
Increase in customer deposits	210,856	85,510
(Decrease)/increase in interest payable and other liabilities	201,815	(55,495)
Reconstruction Levy Paid	(6,643)	(9,700)
Net change in operating assets and liabilities	(168,446)	(156,140)
Net cash provided by operating activities	(31,390)	(118,737)
Dividend paid	(14,133)	(11,192)
Investing activities		
Purchase of property and equipment	(20,752)	(19,673)
Increase in Trade Investments	(4,001)	(10,317)
Proceeds from sale of fixed assets	1,247	465
Investments in equity shares	19,824	(81,012)
Net cash provided by investing activities	(3,682)	(110,537)
Financing activities		
Payments to banks and other Financial Institutions	(156,258)	33,450
Net cash used in financing activities	(156,258)	33,450
Net increase in cash and cash equivalents	(205,463)	(207,016)
Cash and cash equivalents at the beginning of the year (net of bank overdrafts)	1,536,076	1,743,092
Cash and cash equivalents at the end of the year (Note 23)	1,330,613	1,536,076

Notes to the financial statements for the year ended 31 December 2008 (cont'd)

6. Interest income	2008 GH¢	2007 GH¢
Loans and advances	49,060,634	28,156,101
Government securities - (Held to Maturity Investments)	9,547,042	12,893,333
Cash and short term funds	1,081,224	1,277,933
	59,688,900	42,327,367

7. Interest expense	2008 GH¢	2007 GH¢
(a) On deposits:		
Fixed /Time deposits	8,041,769	5,011,316
Savings Deposits	3,077,635	1,373,955
Demand & Call deposits	5,067,660	1,687,334
	16,187,064	8,072,605
(b) On borrowed funds:		
Inter-Bank Borrowing	269,815	411,718
Long-Term Borrowings	4,017,982	2,814,458
	4,287,797	3,226,176
	20,474,861	11,298,781

8. Fees and commission (a) Income	2008 GH¢	2007 GH¢
Commission on Turnover	4,281,362	3,866,936
Fees and Charges	8,645,827	2,880,294
Foreign Trade Income	7,121,094	2,660,501
Sale of Cheque Book Charges	634,632	2,522,133
Loan Fee Incomes	4,927,198	4,593,637
Guarantees Charges & Commission	455,179	897,257
	26,065,292	17,420,758

9. Gains on foreign exchange dealings

Gains on foreign currency dealings arose from dealings in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

Notes to the financial statements for the year ended 31 December 2006

		2006 ¢'m	2005 ¢'m
2	**Interest Income**		
	Cash and Short Term Funds	17,491	9,127
	Investment Securities	168,423	127,229
	Loans and Advances	234,636	194,204
		420,550	330,560
3	**Interest Expense**		
	Savings Accounts	12,866	16,134
	Current Accounts	14,061	11,525
	Time and Other Deposits	41,986	39,205
	Long Term Liabilities	41,753	38,636
		110,666	105,500
4	**Other Income**		
	Dividend from Investments	4,926	4,075
	Agricultural Input Income	1,516	2,584
	Bad Debt Recovered	55,158	8,888
	Interest on Staff Loans	2,450	2,143
	Capital Gains - GGILB	-	8,875
		64,050	26,565
5	**Operating Expenses**		
	Staff Costs (Note 6)	207,380	171,315
	Depreciation (Note 15)	14,036	16,478
	Audit Remuneration	450	400
	Administrative Expenses	37,584	28,082
	Motor Vehicle Expenses & Insurance	9,343	8,452
	Occupancy Cost	34,741	25,694
	Donations	7,683	1,507
	Others	75	18
		311,292	251,946

Included in the above staff cost is Directors' fees of ¢221,960,000 (2005-¢205,400,000)

Notes to the financial statements for the year ended 31 December 2005 (cont'd)

		2005 ¢'m	2004 ¢'m
2	**Interest Income**		
	Cash and Short Term Funds	9,127	19,776
	Investment Securities	127,229	124,063
	Loans and Advances	194,204	166,031
		330,560	309,870
3	**Interest Expense**		
	Savings Accounts	16,134	14,419
	Current Accounts	11,525	12,648
	Time and Other Deposits	39,205	34,110
	Long Term Liabilities	38,636	41,727
		105,500	102,904
4	**Other Income**		
	Dividend from Investments	4,075	4,993
	Agricultural Input Income	2,584	2,033
	Bad Debt Recovered	8,888	3,378
	Interest on Staff Loans	2,143	1,347
	Capital Gains - GGILB	8,875	85,788
		26,565	97,539
5	**Operating Expenses**		
	Staff Costs (Note 6)	171,315	136,748
	Depreciation (Note 15)	16,478	16,420
	Audit Remuneration	400	300
	Administrative Expenses	28,082	24,633
	Motor Vehicle Expenses & Insurance	8,452	5,474
	Occupancy Cost	25,694	21,647
	Donations	1,507	1,595
	Others	18	21
		251,946	206,838

Included in the above staff cost is Directors' fees of ¢221,960,000 (2004-¢205,400,000)