EFFECTS OF CASH MANAGEMENT ON THE PERFORMANCE OF BUSINESS ORGANISATIONS IN UGANDA: A CASE STUDY OF JODA TRADERS UGANDA LTD, KAMPALA-UGANDA

BY

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A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (HUMAN RESOURCE MANAGEMENT) OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I, **Turyabahirwa Alice,** herby declare that this research work is original and has been achieved through my own personal reading and insight. This has never been submitted for any academic award of a degree in this University or any other University.

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APPROVAL

This is to certify that this Thesis, "The effects of cash management on the performance of business organizations in Uganda", a case study of JODA Traders Uganda Limited has been submitted with my approval as a supervisor.

Signed..................................

Dr. Stanley Kinyata (Ph.D)

Date....23/09/09....

DEDICATION

This piece of work is dedicated to my husband Mr. Byaruhanga David who has always helped me financially throughout all struggles I have passed through during my studies, and my lovely sons Niwamanya B. Davis and Niwagaba Elvis David who have supported me in one way or the other.

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ABSTRACT

This study analyzed the effect of cash management within an organization, towards the organization's success. Cash management involves the planning and controlling of cash to ensure that cash is available when required and that it is used efficiently. Cash are held by companies for transaction motive, precautionary motive as well as speculative motive. Effective cash management activities cover the planning and controlling of cash level by continuously reviewing the organization's liquidity policy and the working capital position of the organization. It assist organization to consider the efficient allocation of surplus cash holding to profitable use, ensuring that cash is available to meet all running costs, taxation, payments and dividends. Cash management identifies the cash balance which allows for the business to meet day to day expenses, but reduces cash holding costs. Organizations involve large financial transactions therefore, effectively managing operating funds and projecting future cash flow requirements is a MUST for organizations and finance managers. In order to do that, managers must understand specific cash flow movements within the business organization arising from their day-to-day decisions on investment, operations and financing. Interviews, observation and questionnaires were methods used to collect the data in this thesis which includes data concerning the progress of JODA, its sales, cash management system used, customer satisfaction status, and debt management from which conclusions and recommendations were made.

CHAPTER ONE

1.0 Introduction

This chapter introduces the background to the study which is about cash management in organisations, and the background to the case study which talks about the background of JODA Traders Uganda Limited.

1.1 Background to the study

According to Porter; Norton (2001), cash flows refer to the flow of cash into and out of a business over a period of time. The outflow of cash is measured by the money one pays every month to salaries, suppliers, and creditors while inflows include the cash one receives from customers, lenders and investors (Libby; Libby; Short 2004).

Cash management is the planning, controlling and accounting for cash transactions, and cash balances (cash flows). Good cash management means knowing when, where, and how your cash needs will occur, and knowing what the best sources are for meeting additional cash needs, being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors (Libby; Libby; Short 2004).

The objective of cash management is to maintain adequate cash balances to meet present and future disbursements. The management of JODA needs to plan ahead so that they will know whether or not they will have enough cash available when they need it. Business analysts report that poor management is the major reason why most businesses fail therefore there should be measures for managing the business cash adequately.

Internal control is the system of checks and balances, a system that serves to minimize errors in the accounting records and to prevent fraud, embezzlement and theft by the parties concerned. Implementing internal controls is important in the area of cash management because of the diverse nature of the processes involved like billings, collections, deposits and disbursement processes. Internal controls over cash management are needed at all levels of the organization that handle cash (Dechow and Schrand 2004).

Cash management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of business assets. Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced consistently; therefore the integrity of any cash management activity depends on the application of internal control principles and standards.

1.2 Background to the case study

JODA Traders Uganda Limited is a privately owned family business located in Boost House Arcade, Ben Kiwanuka Street, Kampala. This business deals with the selling of clothes to different categories of people. These clothes are imported from different countries like Kenya, Dubai, Hongkong, China and Thailand.

According to the Manager of JODA Traders Uganda Limited, the business started in 1995, and the name JODA came into existence from two brothers who are the owners that is, Joseph and David who started the business as a small retail shop selling clothes. The business used to buy goods within the country from other importers however, in 2002 the owners of the business started importing the goods themselves from abroad.

The major reasons why there is a need for improving the cash management in JODA Traders Uganda Limited are:

a) Volume of business as the business has grown since the owners became importers for themselves.
b) To provide accurate accounting for cash receipts, cash disbursements and cash balances.
c) To prevent losses, fraud and theft of cash.
d) Assurance of adequate cash for business operations.
e) To prevent excessive cash balances that produces no revenue.
f) Adopting the latest technology for management of cash using computers that is, Computerized Accounting System.
g) To have an effective flow of information between customers, suppliers and all other business agents.

1.3 Statement of the Problem

In financial management, internal controls for cash, debt and credit management are fundamental for the smooth running of the business. Poor management is the major reason why businesses fail, therefore, it is more prudent to state that business failure is due to poor cash management. Liquidity and profitability play a leading role in management of the business because creditors are more interested in the liquidity of the business. Unfortunately businesses find themselves short of liquidity and consequently not profitable, therefore, the study investigated the effect of debt, credit and internal controls on the liquidity and profitability of JODA Traders Uganda Limited. Many organisations have wound up because of the problems associated with cash management for example, Greenland Bank collapsed due to cash management problems. Business design and implement cash controls at all levels of management for the various functions undertaken but despite all controls instituted, cash management still seems to be a hindrance to the effective success of a business, therefore, it was not known to what extent cash management affects the performance of a business thus the need for the research on the above matter.

1.4 Purpose of the study

This study may help to analyse the importance of cash management in every business organisation and the impact of cash management in the success of every organisation and lack of cash management resulting in the failure of such a business as well as elaborating that cash management requires that all monies, be productively invested at the highest possible rate reasonably available, taking account of safety, liquidity, and yield.

1.5 Objectives of the Study

The objectives of the study were;

a) To examine the effect of cash management system towards the success of JODA Traders Uganda Ltd so that a better system can be developed.

b) To find out whether a computerized cash management system could be adopted by JODA.

c) To establish the effectiveness of cash management system used by JODA.

1.6 Research Questions

a) What type of cash management system is used by JODA?

b) How effective is the cash management system used by JODA?

c) What measures should be taken to improve on cash management system in JODA?

1.7 Scope of the Study

This addresses the subject, area and time/period of the study.

1.7.1 Subject Scope

The study was on the analysis of cash management systems on the performance of business organizations in Uganda.

1.7.2 Geographical Scope

The study area was JODA Traders Uganda Limited situated in Boost House Arcade on Ben Kiwanuka Street, Kampala.

1.7.3 Time Scope

The study took the researcher three months to make a proposal, two months collecting data, two months analysing the data, and one month to make the final report and submitting.

1.8 Significance of the Study

The study was meant to:

a) Help management of JODA as well as other organisations to understand the effect of cash management.

b) Help the business and other organisations to realise the importance of effective system of cash management (manual/computerized) which would make work easier for JODA.

c) Help future researchers to find out what the study may have not been able to access.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review helps a researcher to understand what others have found out about the problem under the study.

2.2 Cash management

Cash management consists of taking the necessary actions to maintain adequate levels of cash to meet operational and capital requirements and to obtain the maximum yield on short-term investments of pooled and idle cash. A good cash management program is a very significant component of the overall financial management of a company. Such a program benefits the company by increasing revenues, improving the control and superintendence of cash, increasing contacts with members of the financial community and lowering borrowing costs, while at the same time maintaining the safety of the company's funds (Libby; Libby; Short 2004).

Cash according to Libby, Libby & Short (2001), is defined as money or any instrument that banks will accept for deposit and immediate credit to the company's account, such as a check, money order, or bank draft. Cash excludes such items as notes receivables, I Owe You(s) (I.O.Us), and postage stamps (a prepaid expense). Cash usually is divided into three categories: cash on hand, cash deposited in banks, and other instruments that meet the definition of cash.

2.2.1 Guidelines for Managing Cash

Solomon (2004) defines, Cash Management as being referred to as planning, control, and accounting for cash transactions and cash balances. Because cash moves so readily between bank account other financial assets, cash management really means the management of all financial resources. Efficient management of these resources is essential to the success, even to the survival of every business organisation and gives the following guidelines;

a) ***Before you make any decision, ask yourself*** "How will this decision affect cash?" Cash is a critical determinant of success, how much you have, when you have it, how you manage it. If you run out of cash, you are out of business. But also keep in mind, that all cash in the world will not make you successful, if you don't make profit.

b) ***Plan your use of cash with cash budget.*** Plan conservatively for how much you will need and when you will need it. Don't forget to plan for new equipment and other growth. A cash plan like this called a cash budget helps you determine how much cash you need to follow your business plan and whether you can afford to do more. It's also sometime a good idea to have another plan for the worst case scenario, so you can see what cash you absolutely must available for the business to survive.

c) ***Use your cash budget.*** Analyze your cash position frequently. As you conduct business, monitor how close your actual results are to your cash budget so you can make better decisions. If you consult your budget regularly, you will often be able to anticipate cash problems before they occur and identify possible solutions. Or if you want to change your business plan and require more cash, you can plug these new cash requirement into your cash budget and see its impact.

d) ***Spend cash only when you must.*** Obtain as much as you can, as soon as you can, and pay out as little as you can and as late as you can. This might seem obvious and oversimplified, but many people commit to leases and other investments and long-term expenses that are unnecessary and, in so doing, tie up their cash.

e) ***Expect cash to flow into the business very slowly.*** Cash flows into a business much slower than you might think. Even if you have good ideas and a good product, your business will fail if cash inflows don't enter your company fast enough.

2.2.2 Objectives of Cash Management

Solomon (2004) further analyse the basic objectives of cash management as follows:

a) ***Provide accurate accounting for cash receipts, cash disbursements, and cash balances.*** Many of the total transactions of a business involve the receipt or disbursement of cash. Also, cash transactions affect every classification within the financial statements – assets, liabilities, owners' equity, revenue and expenses. If financial statements are to be reliable, it is absolutely essential that cash transactions be recorded correctly.

b) ***Prevent or minimize losses from theft or fraud.*** Cash is more susceptible to theft than any other asset and therefore, requires physical protection.

c) ***Anticipate the need for borrowing and assure the availability of adequate amounts of cash for conducting business operations.*** Every business organisation must have sufficient cash to meet its financial obligations as they come due. Otherwise, its creditors may force the business into bankruptcy.

d) ***Prevent unnecessary large amounts of cash from sitting idle in the bank accounts that produce no revenue.*** Well-managed companies frequently review their bank balances for the purpose of transferring any excess cash into cash equivalents or other investments that generate revenue.

2.2.3 Goals of Cash Management

The primary goals of a good cash management system are:

a) To maintain adequate monies at hand to meet the daily cash requirements of the company while maximizing the amount available for investment.

b) To obtain the maximum earnings on invested funds while ensuring their safety.

In order to reach these primary goals, a company should strive to:

a) Develop strong, internal control of cash receipts and disbursements.

b) Establish improved procedures for collecting outstanding balances.

c) Establish clear lines of communication between the cashier and department heads.

d) Develop solid professional relationships with local bankers and other members of the investment community.

2.2.3.1 Elements of an Effective Cash Management Program

2.2.3.1.1 Bank Relations

The company should strive to be constantly aware of the range of services available from area banks. Since banks' service charges and investment rates vary, the company should regularly evaluate the charges and rates of the banks used by the company to make certain that continuing to utilize these banks best serves the interests of the organisation. Whether borrowing or investing monies, the finance officer should solicit bids from at least 3 area banks.

The finance officer should critically review bank statements for cash checking accounts and should funnel all activity into one account when possible. Also, the finance officer should utilize a uniform system of forms and procedures for all collection, deposit, and disbursement activities.

2.2.3.1.2 Cash Flow Statements

As a component of implementing an effective cash management program, the finance officer must prepare a cash flow statement, also called a cash budget. Cash budgeting involves the estimation of cash receipts and cash disbursements to determine cash availability. A finance officer can best identify the company's major cash items by examining an annual budget, payment and collection records and past cash flow patterns.

2.2.3.1. 3 Estimating Collection Receipts

Selling of goods and services to customers by an organisation constitute the primary sources of company's funds. By reviewing a company's cashbook and accounting records, a finance officer can determine the pattern of receipts of that company based on past records examined. To assist in determining this pattern, the finance officer should develop a table that displays: (1) the type of each receipt, (2) the total amount of the receipt and (3) the month when each portion of the receipt was received. If the finance officer traces the cash flow back 2 or 3 years, a recognizable pattern should become apparent.

The finance officer should assess the historical patterns of these cash flows in light of current estimates and events. Although making adjustments for changing time environments is uncertain in business, attempting to make such adjustments should improve a collections forecast.

2.2.3.1.4 Forecasting Disbursements

The expenditures that tend to be relatively constant can easily be forecasted such as the payroll, rents, rates etc, accordingly, they can be reliably predicted therefore a finance officer should use prior records, together with the next fiscal year's budget, to calculate the amount of the annual monthly and annual expenditure.

The gross payroll, however, is not the amount disbursed. Rather, the amount disbursed is the gross payroll amount less deductions for federal and state income taxes and for fringe benefits, such as workers compensation and retirement. The payroll disbursement forecast, should also include adjustments for seasonal or temporary workers and for seasonal payments, such as vacation advances in the summer months.

Disbursement of monies previously withheld for income taxes and for employee benefits constitutes a significant payment by an organisation. To forecast the amount of this disbursement for some discrete period, such as from July 1 through January 1, the finance officer must add all of the deductions from a weekly or biweekly payroll and multiply the sum by the number of pay periods falling within the designated time period.

As part of forecasting disbursements for personnel costs, the finance officer should attempt to estimate the actual cash disbursement if that disbursement deviates from the budgeted or authorized amount. Budgeted amounts can change only with supplemental appropriations, while authorized amounts can change with the increase or decrease of actual employees.

After completing the payroll disbursement forecast, the finance officer should develop forecasts for other kinds of payments. The finance officer might begin by analyzing each departmental budget for non-payroll items and then focusing on the more expensive items first. For each item, the treasurer should converse with the departmental officials familiar with expenditures to discover the pattern of past cash disbursements with respect to that item and the anticipated pattern and amount of expenditure for the item for the upcoming year. The finance officer, based upon a greater familiarity with the timing and volume of cash outflows, should ensure that these patterns and expenditure projections are reasonable.

2.2.3.1.5 Analyzing Cash Flow and Preparing a Budget

At a minimum, a finance officer should prepare cash flow data on a monthly basis for the current year. In larger organisations, the treasurer should compile cash flow information more frequently, on a daily, weekly, or biweekly basis, depending on the size of the organisation.

The finance officer should prepare cash flow summaries using two basic categories of inflows and outflows of cash, recurring and extraordinary. Recurring payments and receipts, such as payroll expenses, general office expenses and property taxes payments, can be anticipated regularly, month after month; extraordinary payments and receipts, on the other hand, result from nonrecurring programs or items, such as taking advantage of a low cost of production which could be as result of sales promotion or introduction of new products or services into the market which could lead to a reduction in the cost of production for the organisation's expenditures.

The finance officer should use the history of major collections and disbursements for the previous 3 to 5 years to identify recurring expense and disbursement patterns. The treasurer should then extrapolate these past trends into the future, being careful, at the same time, to make adjustments for anticipated changes in timing and payment patterns and to recognize when particular historical data is not representative.

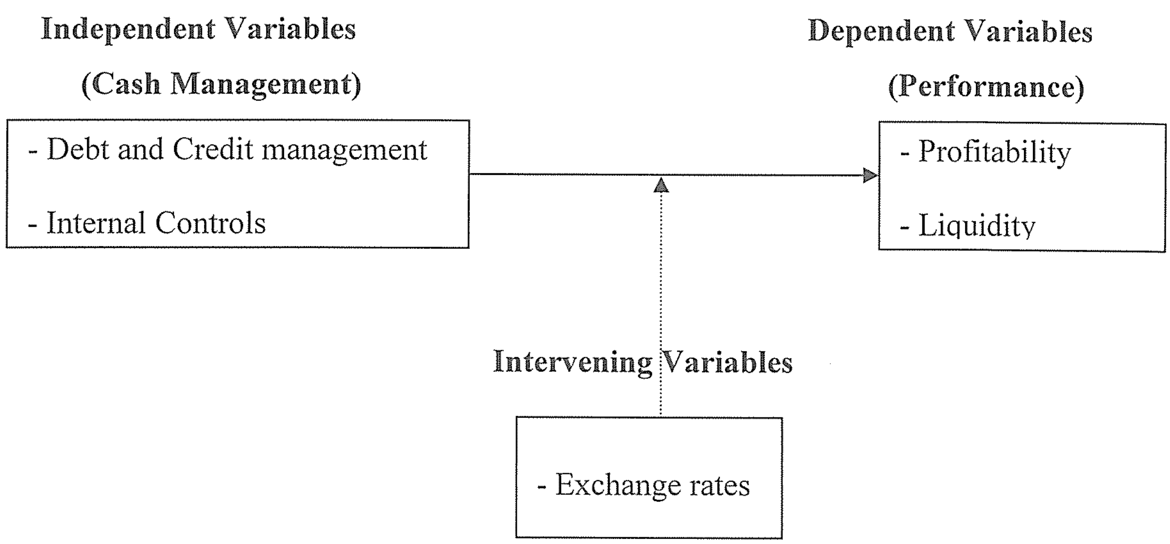
Analyzing the company's current operating budget, looking particularly for the percentage increase in payroll and in other expenditures, for changes in seasonal spending patterns and for adjustments caused by the addition or deletion of programs, will provide crucial information for preparing a cash flow analysis. Also, examining the capital budget and communicating with department heads will assist in making projections concerning special cash flow items. Of course, analyzing historical information is of little assistance in projecting special revenues and expenditures in a cash flow analysis.

Because cash availability is the fundamental concern of cash management, some finance officers are very conservative in estimating receipts of funds and liberal in estimating disbursements when they prepare a cash budget. For instance, they might budget a receipt expected to be taken in at the end of a month as being received the following month. Certainly, it is better to err on the conservative side. Notwithstanding, accuracy is critical in estimating and managing a municipality's cash.

Historical projections and estimates of special receipts and disbursements could be adjusted, based on the finance officer's knowledge of significant operational changes and unusual items.

2.3 Conceptual framework

Schematic Diagram of the Conceptual Framework



Source: Adopted from Godwin & Koonce, 1992; Godwin & Carroll, 1986.

Dependent variable is a variable of primary interest to the researcher, which the researcher intends to understand and describe the independent variable, through the analysis of the dependent variable the researcher will find out what factors influence it.

Independent variable is one that influences the dependent variable in either positive or negative way that is the variance in the dependent variable is accounted for by the independent variable. The relationship between dependent variable and independent variables under the study was that, the way cash is managed in the business will tend to lead to the business performance for example if the management of cash is poor the performance of the business will be poor.

The dependent variable under the study was Business Performance while the independent variable was the Cash Management System and there were also intervening variables (exchange rates).

2.3.1 Independent variables

a) Debt and credit management

Spending more money than what the business is in possession, making partial payments, getting into more debts each year, obtaining cash advances in order to pay other credit balances and not comparing monthly statements can lead to winding up of the business.

b) Internal controls

Implementing internal controls is important in the area of cash management because of the diverse nature of the processes involved like billings, collections, deposits and disbursement processes as well as the fragmented oversight responsibilities generally associated with these processes. The prevalence of a high turnover rate of operating personnel and supervisors in cash management, the assignment of cash handling responsibilities to personnel with limited fiscal experience or understanding, the fragmentation of billing and cash handling functions which makes monitoring the whole process difficult and the inherent risk of loss, or opportunity for personal gain, created by the nature of cash transactions are other factors that raise needs for a consistent application of sound internal controls.

2.3.2 Intervening variables

a) Exchange rates

The exchange rates come in at the time when changing currencies of different countries and transferring certain amounts of money for the suppliers. The exchange rates must be moderate if the business is to benefit from its imports as the rates might be high in that, goods arrive at higher prices than the on going price at the market in Uganda. Therefore the higher the exchange rates, the higher the prices of goods imported which will affect the business.

2.3.3 Dependent variables

a) Profitability

Profitability of a business depends on the cash management as well as other factors such as the management team, the creditors and debtors, availability of funds; and the starting point for avoiding a cash crisis is to develop a cash flow projection to help develop the necessary capital strategy to meet the business needs. Business proprietors look at profitability as the main objective therefore, they know how to develop both short-term like weekly, monthly cash flow projections to help them manage daily cash, and long-term like annual, three to five years cash flow projections to help them develop the necessary capital strategy to meet their business needs. This helps the business proprietors to understand the situation their businesses are operating in as far as profitability is concerned.

b) Liquidity

Liquidity may be explained as the situation where one judges whether a business is able to continue operating. Liquidity deals with the ability of a business to generate enough cash to meet financial obligations as they come due without disrupting the normal operation of the business. In order to make sure that the performance of the business is good, cash management procedures must be followed. Internal cash controls must be put in place to avoid the prevalence fraudulent transactions by operating personnel and supervisors in cash management functions.

Variables related to cash management include debt and credit management, only a few studies have investigated on such variables (Godwin, 1994; Godwin & Carroll, 1986; Godwin & Koonce, 1992; Wilhelm, Varcoe, & Fridrich, 1993). The studies reviewed, only Godwin (1994) examined attitudes as an independent variable, thereby testing the impact of financial attitudes on cash management.

Mugenda et al. (1990) measured financial management on various aspects of managment including cash and credit management, asset growth, insurance, retirement, and estate planning, path analysis revealed that of the input variables, financial knowledge was the only one to influence whether people used recommended cash management practices.

According to Titus et al. (1989) financial knowledge is one of the largest predictor of cash management. The greater the knowledge, the greater the likelihood of using recommended cash management practices thus better performance of the business.

2.4 Follow up of cash management in JODA

Cash management in JODA has always been handled by only one person who is the proprietor at the same time the manager of the business. How a person manages his/her personal finances has been shown to be a major factor contributing to satisfaction or dissatisfaction with a business financial status (Godwin,1989; Hira, Fanslow, & Vogelsang, 1992; Porter & Garman, 1993; Scannell, 1990; Titus, Fanslow, & Hira, 1989; Walson & Fitzsimmons, 1993).

People who use more of the financial management practices recommended by experts generally report being more satisfied with their financial status than people who employ fewer of the recommended strategies. Factors that are related to financial management practices are therefore important areas for research (Eugene F. Brigham; Joel F. Houston 2001).

2.4.1 Computerized Accounting System

This is the system where data is collected, processed and analyzed by use of computers and data is kept in the computer with the advantages of, it makes work easier and faster, mostly in production of financial statements and reports, redundancy can be reduced, employees get a chance of improving their skills in computer use especially in accounting packages, the system can be networked with internet, which will make it easier for he owners of the business to communicate with their suppliers abroad. Even orders can easily be made through internet, the system keeps the business updated with the technological changes in the world, and it is safe as security passwords can be used to keep information.

Michael R. Tyran (1977) advocated for the essentials of Computerized Financial Controls. He emphasized that internet networked enterprises have an advantage of easy communication between customers and suppliers through internet and they can advertise their businesses world wide very quickly and cheaply by use of supply chain event management which has the ability to send alerts via e-mail to the customer, speeding up supply chain, reducing lead-time and meeting their customers' responsiveness goals. Fraud and errors approaches or exceeds the margin of error in cash transactions therefore one of the most important issues underlying cash management is the need to establish a system that is accurate and secure (fraud-proof).

JODA Traders Uganda Limited has not yet established the computerized system but has developed an interest in the system after the researcher sensitized the business members on the system's advantages.

2.4.2 Internal Controls

These are rules set by management in order for the business to function smoothly. Internal controls provide guidelines for employees' behaviour and define how duties should be performed. To meet the objectives of cash management, management of the business needs a strong internal cash control structure.

According to Millichamp (2000), internal cash control is a process designed by, or under the supervision of the company's principal financial officers, or persons performing similar functions, and effected by the company's board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Dechow and Schrand (2004) examine the presence of weak internal cash controls over the revenue-recognition process provides managers with the flexibility to manage earnings in this fashion. According to John A. Christensen; Joel S. Demski (2003), internal control is strong in a voucher system because each expenditure must be verified and approved before a cheque issued. The function of signing cheques is separated from the functions of approving expenditures and recording cash transactions because this helps when reconciling with the bank statement.

According to Libby; Libby; Short, (2004), internal control is strong in a voucher system because each expenditure must be verified and approved before a cheque is issued. These authors emphasized that internal controls in cash are designed to help, provide for accurate accounting data, ensure that daily reconciliation is done both for cash and stock, segregation of duties is adhered to, that is paying and receiving cashiers, protect the business assets from fraud and waste, promote efficient operations, and ensure that management policies are followed.

Cash offers the greatest temptation to theft, and this makes the problem of internal control especially important therefore, a well-designed process with appropriate internal controls should meet most if not all of the system's control objectives.

Emphasis is also on the basic rules to achieve strong internal control over cash that is, separating the handling of cash from the maintenance of accounting records, preparing a cash budget for each department of planned cash receipts, cash payments, and cash balances for each month of the coming year, preparing an immediate control listing of cash receipts at the time and place the money is received, depositing all cash receipts in the bank daily, making all significant cash disbursements by cheque, requiring that every expenditure be verified and approved before payment is made, and promptly reconciling bank statements with the accounting record.

From the analysis of events, the researcher found out that daily reconciliation of stock against sales is done. At the end of the months a cumulative reconciliation is summed up in regard to sales, stocks, purchases and cash at hand.

2.4.2.1 Supporting Documentation for Cash Book

Finance officer should retain all documentation that relates to particular receipts in a file or loose-leaf book, indexing this material to the cash book. This documentation is of especial importance in the case of receipts from debtors and customers and certain miscellaneous sources. Some types of documentation include:

a) ***Schedule of Turnovers to the Treasurer***. Departments that collect revenues must use schedules in making turnovers. The finance officer should verify the amounts listed on a turnover schedule and return a receipted copy to the department.

b) ***Check stubs***. The finance officer should maintain reconciled bank statements, outstanding check lists, and cancelled (and voided) checks, either in numerical sequence or on compact disks using checks imaging.

c) ***Letters of transmittal***. The finance officer should attach or keep records of letters that were used in transmitting cash from one account to the other, indicating the purpose for which it was meant, and who authorized it.

d) ***Deposit slips***. Deposit slips disclose in detail amounts deposited and provide a trail to the total deposit and individual recorded receipts in the cash book. The detail on a deposit slip may consist of an actual listing of payees with the amount of the check to each payee. In larger organisations, the detail may consist of an adding machine tape that verifies the deposit total. Such tapes should be made directly traceable to cash book entries.

e) ***Warrants***. The finance officer should retain all debit notes separately.

f) ***Receipt books***. Receipt books are generally bound and contain pre-numbered receipts. The finance officer may utilize a receipt book to record miscellaneous receipts collected over the counter for which no other documentation existed to explain the receipt. As an alternative to using a receipt book, a finance officer could utilize computer generated receipt forms or forms individually formatted and printed on paper.

Documentation is essential for a good audit trail, not only for the finance officer, but also for anyone who might audit a company. A poor audit trail in any department could be very costly to a company when an audit is performed because of the additional time required to verify transactions and perform the audit work.

2.4.2.2 The check Register

A check register, lists checks paid in numerical sequence, identifying for each check the payee, date drawn, and amount paid. A separate check register should be maintained for each checking account. Check registers may be produced as part of an Electronic Data Processing (EDP) of warrants.

The check register is the primary record for preparing the outstanding check list necessary to reconcile bank statements at the end of each month. The check register may also serve as a control for the use of checks since they are accounted for in numerical sequence.

2.4.2.3 Bank reconciliation

This is one of the internal controls for management of cash in the Bank. Bank reconciliation is defined as the analysis that explains the difference in the balance of cash shown on the bank statement and the balance of cash shown on the cash account in the depositor's book.

The bank reconciliation identifies the items which cause the balance of cash in the books to differ from the balance of cash shown on the bank statement, and it will show the adjusted or correct amount of cash. This helps those reconciling items which have not yet been recorded by the depositor or which reflect errors on the depositor's part to be entered on the books to make the accounting records correct and up-to-date at the end of the period (Libby; Libby; Short, 2004).

The reconciliation exercise helps to determine the differences that exist between the bank statement and the organizations bank cash book; as some items may be included in the bank statement but not in the organization's bank cash book and vice versa, such as un-credited lodgement in the bank statement, direct deposit in the bank statement but not in the cash book records, dishonoured cheques still in the record of the cash book but not in the bank statement.

According to Christensen; Demski (2003), all cash payments should be made by cheque, however, in every business some small expenditures are necessary for which it is not practicable to issue cheques. Postage, taxi fares, and small purchases of office supplies are common examples. To control these small payments almost every business establishes a petty cash fund.

A receipt or petty cash voucher should be obtained and placed in the fund to replace each cash payment, therefore the fund always contains constant amount of cash and vouchers. The expenses are recorded in the accounts when the fund is replenished, perhaps every two or three weeks. The entry for the replenishment cheque will consist of debits to the proper expense accounts and a credit to cash. Each month the bank will provide the depositor with a statement of his or her account, showing the beginning balance, dates and amounts of deposits, deductions for cheques paid, other charges, and the ending balance. All paid cheques are returned to the depositor with the bank statement when numerous cheques are being deposited daily.

According to the Manager of JODA Traders Uganda Limited, the greatest part of the sales proceeds is banked on the suppliers' local accounts directly. The remaining part is left for operational purposes and taxes.

2.4.2.4 Reconciliation of Bank Statement

The ensuing list relates a series of steps a finance office should take upon receiving a bank statement. The finance officer should:

a) Compare bank charges with debit memos, and bank credits with deposit tickets and credit memos.

b) Arrange the cancelled checks by warrant in numerical order.

c) Check off the cancelled checks that appear on a previous bank reconciliation sheet.

d) Check off in the check book or register the cancelled checks issued since the last reconciliation. (Generally, a finance officer makes a check mark to denote those checks paid by the bank and an "O" to denote the check(s) still outstanding.) In the process of reviewing checks, the finance officer should heed all voided checks. Any check replaced with a new check must be removed from the outstanding list to prevent double counting. Conversely, any check not replaced must be added back to the accountant's or auditor's books as cash.

e) Calculate the aggregate amount of all outstanding checks. In performing this calculation, the finance officer should subtract the amount of the checks paid by the bank since the previous statement from the amount of the checks outstanding at the time of the issuance of that statement.

f) Subtract the current total of outstanding checks from the figure shown on the bank statement as the current balance. The resultant number should equal the treasurer's balance for that account.

2.4.2.5 Reconciling the Cashbook to the Ledger

After reconciling a bank statement to the finance officer's cash book, that cash book total should be reconciled to the accountant's or auditor's ledger. If these records do not agree, the finance officer should undertake the following procedures to reconcile them:

a) The finance officer should verify that transfers between accounts have been entered in both the finance officer's and the accountant's or auditor's books.
b) Also, the finance officer should compare the total amount of monies actually received with the amount recorded in the ledger(s) for the month. If these amounts do not agree, the finance officer should verify that the *Treasurer's Schedule of Receipts* (end-of-month report to accountant or auditor) agrees by detailed amount and classification with the cash book. If not, the finance officer has made a reporting error and must correct that error.
c) In addition, the finance officer should compare the total amount of the debts paid during the month with the total debts amount recorded in the ledger(s) for the same period. The last debt paid should be the last debt recorded. Otherwise, a timing problem probably accounts for the discrepancy.

The accountant's or auditor's cash accounts in the ledger should reflect only those cash transactions provided by the finance officer. Therefore, undertaking the above steps should resolve any discrepancies between the cashbook and the ledger. If they do not, the finance officer and accountant or auditor should go through each entry to the ledger until they ascertain the reason for any variance.

2.5 Profitability and Liquidity

According to Schreibfeder (1997), the achievement of adequate profitability is specific to each situation and outside the scope of this digest. The problem of liquidity is less dependent on particular circumstance and it is easier to make useful generalization. “In my opinion there are two distinct requirements for liquidity that is, profitability and care and thoroughness in administration” (Jon Schreibfeder 1997). It is important for businesses to have a good liquidity position because if people that the business owes money press for payment, it is essential to have the liquidity to pay up.

Schreibfeder (1997) says that measuring profitability and liquidity is the matter for business personnel and accountants. Large organizations may employ accountants or, like smaller firms, hire the services from independent professionals like auditors whose function is to validate the work of the accountant through an independent evaluation of the accounts. Such expressions and such measurement require care, routine and administration as well as an understanding of the principles involved and this is part of the internal cash controls.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This section puts forward and describes the research methods that were used in the study. These methods were used to collect data upon which findings, interpretations and conclusions were made. There is primary source and secondary source where, primary source refers to the information obtained first hand by the researcher on the variables of interest for the specific purpose and secondary data is collected from sources already existing. Some examples of primary sources are individuals, focus groups while secondary data include records, government publications, media, websites and internet. Documents like accounting records such as sales ledger, debtors' daybook, import records, purchases daybook, cashbook, cheque stubs, creditors' daybook were also used to get information related to cash management.

The source of data in this research project was from primary source, for most of the information was collected directly from the people managing and concerned with the business transactions. This section therefore, covered the research design, study population, sample selection design, size and data analysis techniques and research instruments which were used.

3.2 Research Design

This describes the nature and pattern the research intends to follow, that is, qualitative and quantitative.

3.2.1 Quantitative/Qualitative

Quantitative research approach is based on methodological principles of positivism and adheres to the standards of strict research design, developed before the research begins. It employs quantitative measurements and the use of statistical analysis. Qualitative research approach on the other hand, refers to a number of methodological approaches based on diverse theoretical principles, employment of methods of data collection and analysis that are non-quantitative and aim towards exploration of social relationships and describing reality as experienced by the respondent. In this case quantitative was used.

Analysis and development was undertaken on the following:

a) Stock

Inventory analysis was done, where the researcher investigated on the terms of purchases, stock turnover and control in JODA.

$$\text{STOCK TURNOVER} = \frac{\text{SALES}}{\text{AVERAGE STOCK}}$$

A longer stock turnover period increases the investment in stock tying up more cash in working capital. A task for the financial mangers is to maintain the length of the operating cycle at a level where the investment in the working capital is not excessive but at the same time liquidity is sufficient.

b) Sales

The researcher focused on the mode of sales, that is, whether the business sells on credit or cash basis. The business should depend on cash sales more than credit sales if it is to run smoothly. An organization need to involve items which are liquid, that means, items which can be sold easily. Most observers are concerned that many investors do not realize just how risky the stock market is, there is no guarantee that the market will continue to rise and even in bull markets, some stocks crash and burn (Eugene F. Brigham; Joel F. Houston 2001).

c) Debtors

The researcher was interested to know how debtors of the business affect the business, for example, the payment period of the debtors (ageing of the debtors). This is so important because when debtors delay payments cash management is adversely affected.

The formula for obtaining the debtors days is as follows:

$$\text{DEBTORS DAYS} = \frac{\text{DEBTORS}}{\text{SALES}} \times 365 \text{ DAYS}$$

In order a company to do well, the debtors should be able to pay back in fewer days.

d) Disbursements of cash

The researcher's interest was on cash disbursements especially when purchasing. Does the company follow the purchasing cycle? Local Purchasing Order, Invoice, Delivery Notes, Goods Received Note? Also exchange rates, money transfer, bills of lading, applicable currencies, were the concern to the researcher. How cash is disbursed was also another factor that can lead to either better or poor performance as cash disbursement planning is more difficult to achieve than collections planning because of the greater detail of cost accruals and other liability commitment items and the varying degree and disparity in the accrual/disbursement time lags (Michael R. Tyran 1977).

e) Competition

The researcher wanted to know how JODA evaluates her competitors in this competitive world. Was the business using promotions, discounts or advertisements to outweigh its competitors? It does not mean that businesses with a lot of cash are doing well, it is just a matter of managing cash properly that even businesses with less cash can use better strategies of cash management that such businesses succeed therefore when it comes to competition it is not just a matter of competing without tactic characteristics of a good competitor.

f) Financing Aspects

What were the major sources of funding for JODA? This could be loans from Banks or other Financial Institutions like Microfinance or the owners could be using their own generated income. If the business depends on loans, does it consider the interest rates because if the interests are higher than expected profits, that is bad management of cash which will lead to poor performance of the business and vice versa.

g) Taxes

Taxes like Value Added Tax (VAT), Import Duty cannot be avoided in business. The researcher's interest was whether such taxes are paid in full, at the source or in instalments and how such taxes affect the continuity of the business.

h) Agency

On this, point the researcher was interested to know whether the owners of the business are established local suppliers of the products they are dealing in.

3.3 Study Population

The study population comprised of employees of JODA Limited that manages the cash system, as well as customers to understand the effect of the cash management system that is adopted and in use towards profitability of the organisation.

3.4 Sample and Sampling procedure

The purchase and accounts departments of the organisation were the main samples used by the study, and a number of customers. The study employed simple random technique on the customers selected without bias from an accessible population and the members of staff that were involved in the study had independence of response to the study without being guided towards a desired response. Six people from the purchases, four from the accounts department, and fifty randomly selected customers on different days during the research, the manager, and six of the sales clerks were involved in the research work.

3.5 Methods of Data collection

This section deals with the ways how the required data was collected.

3.5.1 Interviews

The problem associated to this project can be investigated primarily using the interviewing technique, this can be face-to-face interview, telephone where the researcher can call the respondent and talk on phone, and interviews through electronic media like on internet where researcher sends questions on internet and the respondent replies through the internet.

The researcher adopted a face-to-face interview technique where she got in touch with the manager and a number of questions were raised. Fortunately, the manager provided information to all the issues raised.

After the face-to-face discussion, the researcher and the manager agreed on using telephone for any further clarification should the need arise. This method was chosen because it made work easier and saved time.

3.5.2 Observation

Information was got through observation to gain a general understanding of the business functions and it is possible to gather data without asking any questions. One can observe people in their natural work environment. One can play a role as a non-participant or participant in the business, in this case the researcher made the observations as a non-participant whereby she visited the business and made observations on people dealing with cash but this was after the researcher consulted the owners of the business about the visit.

As a non-participant observer, the researcher can collect data in the role of pure researcher without trying to become part of the organization system, for example the researcher can sit in the corner of the office and record how the manager spends his or her time and take note of relevant information which will be used to make conclusions at the end of the research.

The participant researcher enters the organization research setting, becoming part of the work team. For example, the researcher enters the organization as an employee, and then observes dynamics in groups while being part of the workforce of the organization.

The researcher was a non-participant observer whereby she visited the business and made observations on employees, and how cash transactions take place.

3.5.3 Questionnaires

A questionnaire is a brief formulated written set of questions to which respondents record their answers. Questionnaire is an efficient data collection method when the researcher knows what is required out of the research he or she is carrying on. Questionnaires can be administered to a sample and completed within a short period of time and all doubts regarding understanding the questions, are made clear on the spot. Alternatively they can be mailed to respondents who complete them at their own convenience time and pace, but in a time framework.

The questionnaire was designed in such a way that it could determine the size of the firm, the number of employees at the firm, the type of cash transaction being used, as well as understanding how effective the system is to the firm and towards the profitability of the firm, and also established how often the firm carries out its bank reconciliation. The questionnaires were designed and distributed among employees, completed within a short period of time. (A copy of the questionnaire is Appended at I).

3.6 Validity and Reliability

The validity and reliability of the information and data obtained was improved upon by pre-testing of the sample data collected during the study.

3.7 Data Analysis

Having collected the data from the field, analysis was quantitatively done by use of figures in their respective units. Data was assessed and statistically analyzed using tables, graphs and charts as shown in Chapter 4. The results from the analyses were interpreted into meaningful information understood for further use.

3.8 Ethical Consideration

The study was clearly explained to the respondents, that all information collected was confidential and the purpose of cash management in the running of an organisation towards success. Respondents consent and approval were requested before commencing the study in order to be able to obtain the necessary information and data that would be of help during the course of the study.

3.9 Limitations

This refers to the constraints associated with research methods.

a) Disclosing information

It is quite difficult for business organizations to disclose information relating to their activities, mostly cash related transactions. Initially, the researcher had resistance from management, because they thought she was from the tax revenue authority. It was not easy to persuade them that the information was for study purposes.

b) Limited skills.

The respondents had limited knowledge on the researcher's areas of study, and in light of this even the questionnaire was relatively hard to read and interpret the finance and accounting aspects.

c) Timing.

Scheduling appointments was a big problem as members of the company were quite busy all the time the researcher was willing meet them.

d) Costs.

There were a number of costs incurred while carrying out the research including transport to and from when even sometimes the researcher found the business members busy and could not get any information. Stationary, typing, printing, photocopying and binding were also other costs incurred.

However, the above limitations were handled in such a way that, disclosing information was through kind persuasion as the researcher convinced the respondents about the information that it was for study purposes; on limited skills, the researcher would interpret for the respondents; timing was handled by communication on phone before the researcher visited the business to be sure that the people she was to interact with were not busy at the time; and the costs obviously had to be incurred.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION, PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

Having collected data from the field, analysis of the field data was quantitatively done by use of figures in their respective units. Data was statistically analyzed by use of graphs, tables, pie-charts, depending on the data collected. The analysis was made using Microsoft office programmes that is; Excel and word. The data has been presented using tables to enhance simpler understanding and interpretation of the data collection, and narrative notes have been used to describe the findings.

4.2 Results, Interpretations and Analysis

This is what the researcher was interested in, in order to draw final conclusion. Having collected data from project research, the following were the analysis made.

4.2.1 Analysis

Table 4.1.1: Showing the progress of the business for the last five years in terms of capital (in Uganda Shillings).

Year	2004	2005	2006	2007	2008
Capital	100,000,000	200,000,000	350,000,000	500,000,000	800,000,000

Source: Primary Source

Table 4.1.1 above shows that the capital of the business was increasing steadily every year. According to the owners of the business, JODA Traders started as a small retail shop in the mid 1990s which later expanded to wholesale business and now importers.

Table 4.1.2: Showing sales in percentages

Sales	Percentage (%)
Cash sales	80
Credit sales	20
Total sales	**100**

Source: Primary Source

The researcher found out that the business relies more on cash sales to the tune of 80% than credit sales of 20%.

Table 4.1.3: Showing imports for last five years (in tones)

Months	Years				
	2004	**2005**	**2006**	**2007**	**2008**
January	100	500	350	400	500
February	-	-	200	-	150
March	250	650	400	200	400
April	100	200	150	300	200
May	300	-	-	350	150
June	-	300	350	400	300
July	-	-	200	100	250
August	100	150	300	200	100
September	50	100	200	300	400
November	400	300	300	250	250
December	150	300	250	350	300
Total	**1,450**	**2,500**	**2,700**	**2,800**	**3,000**

Source: From the Manager JODA Traders Uganda Limited

According to the Manager JODA Traders Limited, the importation is at an increase which shows the progress of the business as shown in the table above.

However, it can be seen in some months, that there were no importation at all because of the production cycle, (that is; closure of factories abroad, stock-taking, economic depression, recycling and re-branding products), lack of enough capital, and over-stocking in the previous months.

Table 4.1.4: Showing sales for the last three years (in Uganda Shillings)

Months	**Years**		
	2008	**2007**	**2006**
January	13,458,300.00	11,439,555.00	11,439,555.00
February	12,500,550.00	10,625,467.50	7,500,330.00
March	12,356,450.00	11,738,627.50	8,031,692.50
April	13,592,095.00	11,553,280.75	8,834,861.75
May	10,000,550.00	8,500,467.50	7,000,385.00
June	9,850,450.00	9,357,927.50	7,880,360.00
July	9,990,500.00	8,491,925.00	8,491,925.00
August	9,658,550.00	8,209,767.50	8,692,695.00
September	8,950,150.00	8,055,135.00	8,055,135.00
October	9,845,165.00	8,860,648.50	7,383,873.75
November	9,500,550.00	8,550,495.00	7,600,440.00
December	15,345,950.00	13,811,355.00	13,044,057.50
Total	**135,049,260**	**119,194,651.75**	**103,955,310.50**

Source: Primary Source

Table 4.1.5: Showing cash sales and credit sales for the last three years (in Uganda Shillings

Months	2008		2007		2006	
	CASH	CREDIT	CASH	CREDIT	CASH	CREDIT
January	10,766,640	2,691,660	10,181,203	1,258,351	9,151,644	2,287,911
February	11,250,495	1,250,055	8,500,374	2,125,093	6,750,297	750,033
March	9,267,337	3,089,112	10,564,764	1,173,862	6,023,769	2,007,923
April	11,281,438	2,310,656	8,664,960	2,888,320	7,067,889	1,766,972
May	8,500,467	1,500,082	6,800,374	1,700,093	5,950,327	1,050,057
June	8,372,882	1,477,567	7,954,238	1,403,689	5,122,234	2,758,126
July	7,892,495	2,098,005	6,708,620	1,783,304	5,944,347	2,547,577
August	8,209,767	1,448,782	6,157,325	2,052,441	7,388,790	1,303,904
September	8,055,135	895,015	6,846,864	1,208,270	7,249,621	805,513
October	8,663,745	1,181,419	7,974,583	886,064	5,907,099	1,476,774
November	8,550,495	950,055	7,438,930	1,111,564	6,840,396	760,044
December	13,504,436	1,841,514	10,358,516	3,452,838	8,478,637	4,565,420
Total	**114,315,335**	**20,733,925**	**98,150,757**	**21,043,894**	**81,875,053**	**22,080,257**

Source: Primary Source

Table 4.1.6 Showing Cash Management system in Percentage

Cash Management system	Percentage (%)
Manual	100
Computerized	-
Total	100

Source: Primary Source

The researcher found out that the company uses a manual system throughout because the company had not adopted the use of computerized system. But according to the manager of the business, they are in the process of introducing the computerized system which is expected to start soon.

Table 4.1.7 showing rate at which cash requisition is used.

Departments	No. Respondents	Yes	No	**Total**
Purchases	6	4	2	6
Accounts	4	4	-	4
Total	**10**	**8**	**2**	**10**

Source: Primary Source

The researcher was able to find out that there is a requisition format or method which is used to request for cash that would be used for various transactions.

Table 4.1.8 showing customer satisfaction of the company's goods and services

	Respondents	Percentage (%)
Excellent	15	30
Good	20	40
Fair	10	20
Poor	5	10
Total	50	**100**

Source: Primary Source

It was observed that 30% of the customer sampled, enjoys the service and products as being excellently rendered by the company, while 40 % says it also has good services and products, both of which sums up to be 70% of the total observation. This shows that the company is offering a good quality of service and products to its customers, although 20% sees it as offering fair only, 10% says it is bad. Therefore, it can be concluded that the company has goodwill amongst its customers.

Tables 4.1.9 Showing Cash sales and credit sales per year

Table 4.1.9 (a) Year 2008

Period	2008	CASH	CREDIT	%
January	13,458,300.00	10,766,640.00	2,691,660.00	80.00
February	12,500,550.00	11,250,495.00	1,250,055.00	90.00
March	12,356,450.00	9,267,337.50	3,089,112.50	75.00
April	13,592,095.00	11,281,438.85	2,310,656.15	83.00
May	10,000,550.00	8,500,467.50	1,500,082.50	85.00
June	9,850,450.00	8,372,882.50	1,477,567.50	85.00
July	9,990,500.00	7,892,495.00	2,098,005.00	79.00
August	9,658,550.00	8,209,767.50	1,448,782.50	85.00
September	8,950,150.00	8,055,135.00	895,015.00	90.00
October	9,845,165.00	8,663,745.20	1,181,419.80	88.00
November	9,500,550.00	8,550,495.00	950,055.00	90.00
December	15,345,950.00	13,504,436.00	1,841,514.00	88.00
Total	**135,049,260.00**	**114,315,335.05**	**20,733,924.95**	84.65

Source: Primary Source

The company's credit policy is to maintain an average of 80% as cash sales during its trading period, the researcher observed that during the year 2008, there were some months like the months of March and July, in which the company went below it policy, and this could be attributed to a way of increasing it s customer due to demand from a new customer who wish to enjoy the credit facility of the company.

Table 4.1.9 (b) Year 2007

Period	2007	CASH	CREDIT	%
January	11,439,555.00	10,181,203.95	1,258,351.05	89.00
February	10,625,467.50	8,500,374.00	2,125,093.50	80.00
March	11,738,627.50	10,564,764.75	1,173,862.75	90.00
April	11,553,280.75	8,664,960.56	2,888,320.19	75.00
May	8,500,467.50	6,800,374.00	1,700,093.50	80.00
June	9,357,927.50	7,954,238.38	1,403,689.13	85.00
July	8,491,925.00	6,708,620.75	1,783,304.25	79.00
August	8,209,767.50	6,157,325.63	2,052,441.88	75.00
September	8,055,135.00	6,846,864.75	1,208,270.25	85.00
October	8,860,648.50	7,974,583.65	886,064.85	90.00
November	8,550,495.00	7,438,930.65	1,111,564.35	87.00
December	13,811,355.00	10,358,516.25	3,452,838.75	75.00
Total	**119,194,651.75**	**98,150,757.31**	**21,043,894.44**	82.34

Source: Primary Source

Likewise in the year 2007 the researcher discovered that they were able to maintain an average of 80%, although in the months of April, July, August and December, which was as result of the high request of its products by two different existing regular customers who asked for an increase on there credit facility, in order for them to be able to meet up with the demand in the market as well as increase confidentiality of its customers for reliability.

Table 4.1.9 (c) Year 2006

	2006	CASH	CREDIT	%
January	11,439,555.00	9,151,644.00	2,287,911.00	80.00
February	7,500,330.00	6,750,297.00	750,033.00	90.00
March	8,031,692.50	6,023,769.38	2,007,923.13	75.00
April	8,834,861.75	7,067,889.40	1,766,972.35	80.00
May	7,000,385.00	5,950,327.25	1,050,057.75	85.00
June	7,880,360.00	5,122,234.00	2,758,126.00	65.00
July	8,491,925.00	5,944,347.50	2,547,577.50	70.00
August	8,692,695.00	7,388,790.75	1,303,904.25	85.00
September	8,055,135.00	7,249,621.50	805,513.50	90.00
October	7,383,873.75	5,907,099.00	1,476,774.75	80.00
November	7,600,440.00	6,840,396.00	760,044.00	90.00
December	13,044,057.50	8,478,637.38	4,565,420.13	65.00
	103,955,310.50	**81,875,053.15**	**22,080,257.35**	78.76

Source: Primary Source

The year 2006 shows a little weakness in the company's policy as it could maintain its credit policy of 80% per annum although, it had a rate very close to it, the company had to make sure that such did not repeat itself in the future and was able to maintain a positive credit policy in the remain parts of the trading years.

Table 4.1.10 showing duration in which debts remain outstanding as at 2008

DEBTORS DURATION	No. of debtors	Percentage (%)
Less than 1 month	10	67
More than 2 months	2	13
More than 6 months	2	13
More than 1 year	1	7
Total	**15**	**100**

Source: Primary Source

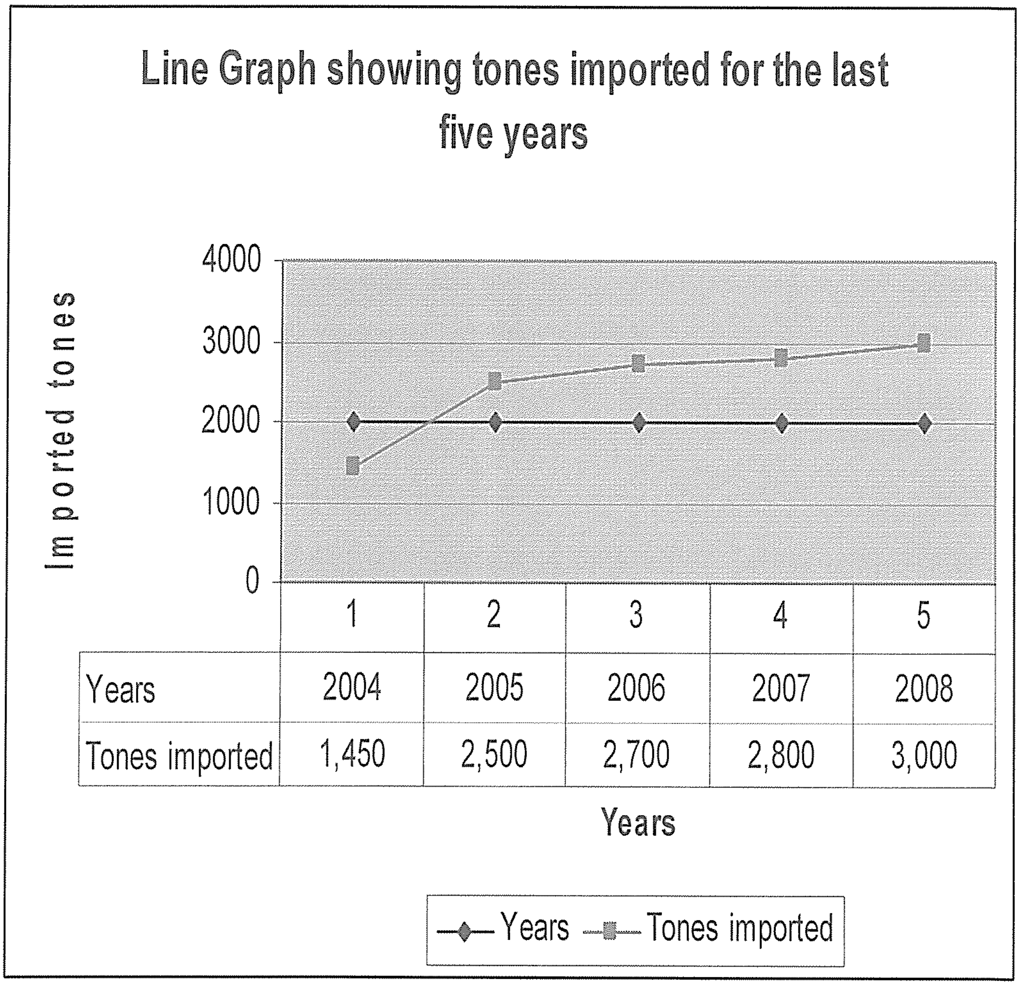
From the table above, the researcher found out that JODA a few debtors are given a maximum of 30 days to pay for the goods purchased, as result of this the company has been able to minimize the number of debtors it has and as such, only about 33% of its debtors are having outstanding balances that are over a period of one month.

4.3 Improvements JODA has made since the owners became importers

The researcher found out that JODA Traders Uganda Limited has come up with many developments like opening up a branch increasing on the number of employees.

- **Imports**

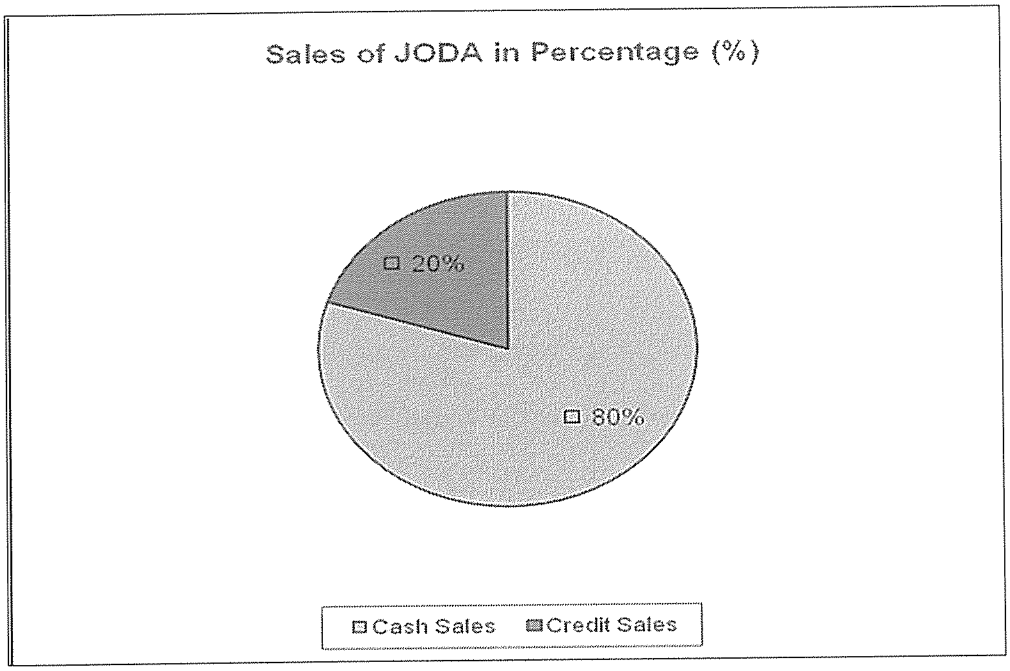
The importation of goods showed some improvement as there is an increase in tones imported every year for the last five years as shown in the graph below.

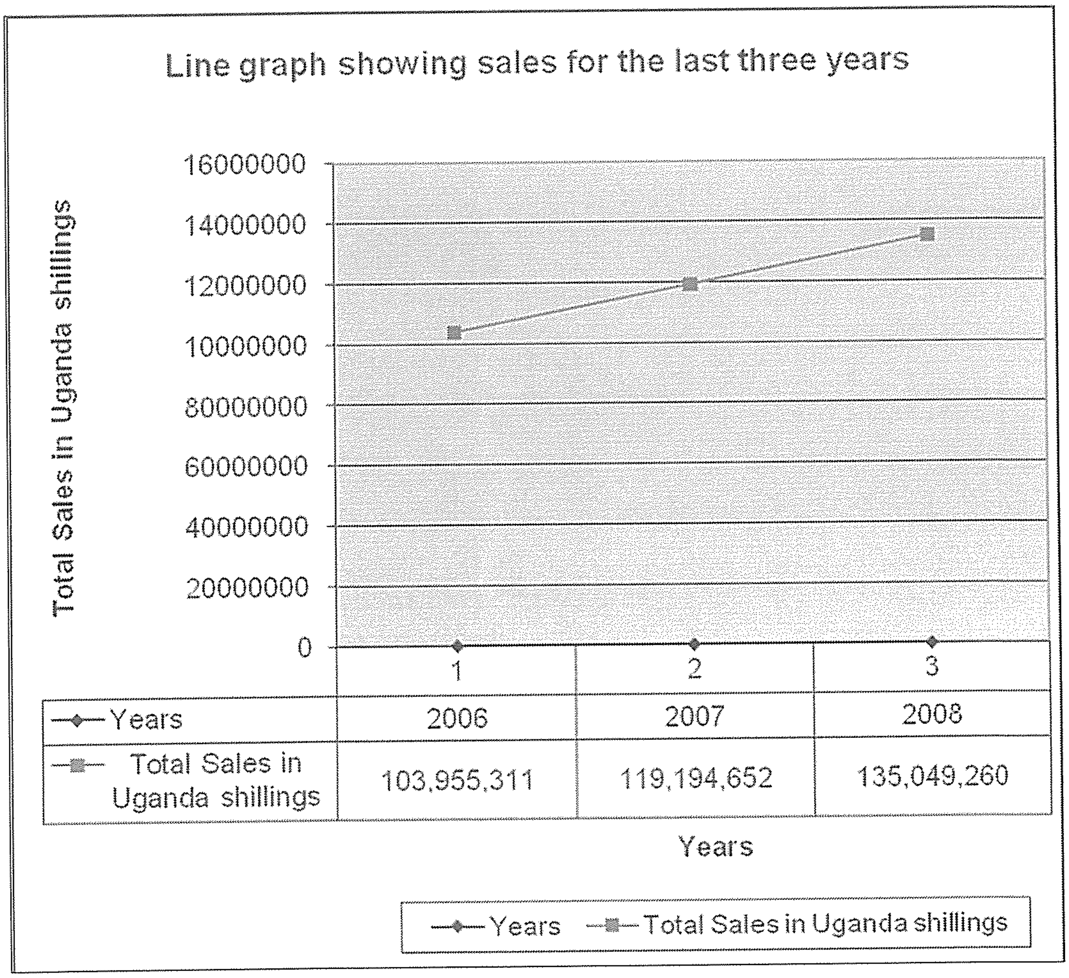


The graph shows that there is an improvement in the importation for the last five years as every after a year there is an increase in tones of goods imported.

- **Sales**

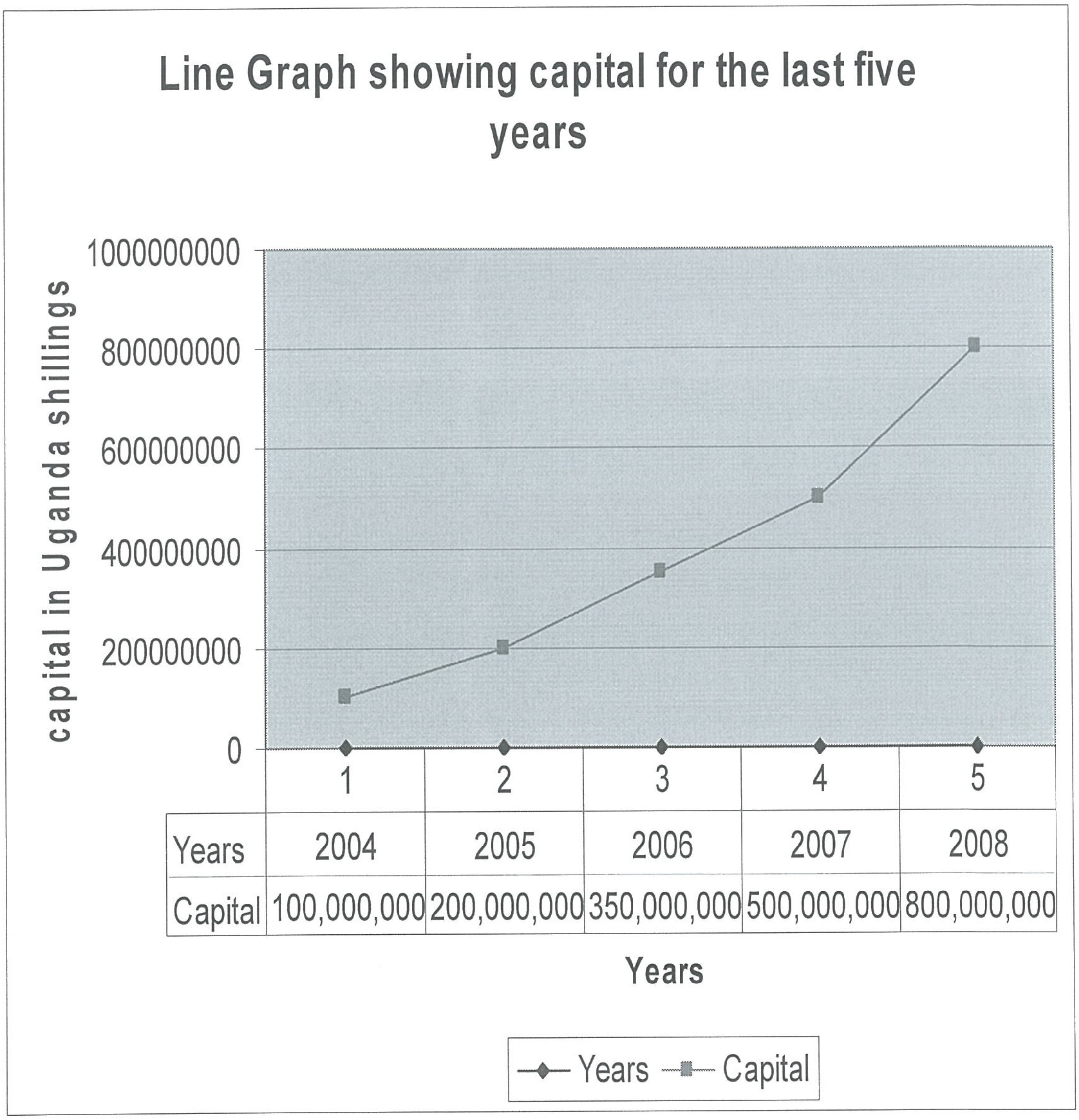
JODA Traders depends largely on cash sales than credit sales and a bigger percentage of the debtors pay back within only one month, and a smaller percentage within six months which is a good strategy for the success of the business. Below is a graph illustrating the mode of sales in JODA.


Sales of JODA in Percentage (%)
20%
80%
Cash Sales
Credit Sales


Line graph showing sales for the last three years
Total Sales in Uganda shillings
16000000
14000000
12000000
10000000
80000000
60000000
40000000
20000000
0
1
2
3
Years
2006
2007
2008
Total Sales in Uganda shillings
103,955,311
119,194,652
135,049,260
Years
Years
Total Sales in Uganda shillings

- **Capital**

The researcher managed to get the capital variation with in the years of its operation as shown on the graph below;



Capital is at an increase every year for the last five years which is a great achievement and which can help one to understand the liquidity state of JODA. Creditors are more interested in the liquidity of the business therefore, from the graph above it is obvious that JODA is not doing badly.

4.4 Discussions

Analysis and development was undertaken, and the researcher found out the following to discuss.

a) Stock

From the research made at JODA Traders Uganda Limited, stock is balanced against sales on a daily basis. The store keeper maintains records of goods collected from the store, while the cashiers keep the receipts of the sales and at the end of the day they balance the stock in store against the sales proceeds which is fine as far as stock control is concerned.

b) Sales

From the cashiers of JODA Traders Uganda Limited, the business depends largely on cash sales. Credit sales are minimal and they account for only 20%.

c) Debtors

In order a company to do well, the debtors should be able to pay back in fewer days. The researcher found out that a bigger percentage of the debtors pay back within only one month and a smaller percentage with in six month and one year.

d) Disbursements of cash

How cash is disbursed was also another factor that could lead to either better or poor performance, as cash disbursement planning is more difficult to achieve than collections planning, because of the greater detail of cost accruals and other liability commitment items, and the varying degree and disparity in the accrual/disbursement time lags (Michael R. Tyran 1977).

e) Competition

On the competitors of JODA, the researcher was assured by the sales representative that the quality of goods and customer care they offer to the customers has led the company to gain the competitive advantage. JODA has achieved customer creation and customer retention because of supplying quality goods and the improved customer care.

According to the General Manager, employees of the Company are paid on a monthly basis, except the casual labourers who are paid on a daily basis accordingly, and are motivated through paying allowances, overtime and other benefits like housing and meals, which boosts their morale at wok.

f) Financing Aspects

According to the General Manager, a bigger percentage of JODA Traders' funds are the business' own generated income and a smaller percentage is Loan from the Bank.

g) Taxes

The researcher found out that the business pays taxes and these taxes are some how high that they reduce on the business profits but however, the business continues because it is not only JODA that is affected, it is a system in Uganda's business environment.

h) Agency

The researcher found out that JODA imports the products from abroad on its own and sells here in Uganda therefore there is nothing like being an agent of any other company.

4.5 How cash is managed in JODA Traders Uganda Limited

The researcher found out that cash from sales is balanced after every end of the day. According to the manager of JODA Traders Uganda Limited, at the end of the month a cumulative reconciliation is summed up in regard to sales, stocks, purchases and cash at hand.

The greatest part of the money collected from sales is banked on the suppliers' local accounts directly to pay for the orders. Orders are placed in advance whenever current purchases are made, however, the times of purchases in a month depends on the sales made, if sales are high in a month there are many purchases and if low there are low purchases so it depends upon the sales of the month, for example during Christmas periods there are a lot of sales that means purchases are also high during the season. JODA Traders Uganda Limited follows the purchasing cycle and it pays taxes promptly as required by law and pays these taxes in full.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

This is the stage where the researcher came to summarize all the findings and made conclusions and recommendations of cash management in JODA Traders Uganda Limited.

5.2 Achievements and failures of JODA traders Uganda Limited

From the data collected by the researcher, JODA has achieved a lot for example the business' expansion from retail to wholesale, then finally to importers was a great achievement. However, the researcher noted that lack of a computerized system is weakness in the business, for, the large volumes of importations and sales cannot be handled expeditionary manually. This caused a larger problem in the internal control system of the business as one might not be able to remember all the transactions made by the end of the day, if it is a computerized system one can easily retrieve data at any time.

5.3 Summary of main findings

5.3.1 Cash management system used

JODA Traders Uganda Limited is currently using a manual cash management system which is effective according to the respondents though they lack the use of a faster computerized system.

5.3.2 Relevancy of cash management for decisions in relation to sales

Respondents agreed that cash management is relevant as far as sales are concerned as it helps to plan ahead for future existence of the business, and the day-to-day operations of the business.

5.3.3 Relevance of cash management for decisions in relation to purchases.

Cash Management is the master of all that takes place in a business; poor cash management will lead to failure of the business. According to the respondents, cash management is so relevant as far as purchases are concerned as one has to know, what, where, how and when to purchase goods.

5.3.4 Effectively Investing Available Cash

The finance officer is expected to invest all monies not required for current operations so as to receive the highest rate of return reasonably available taking into account safety, liquidity and yield. To maximize interest income, the finance officer must determine how much money is available to invest by answering the following questions:

a) How much cash is on hand?

b) How much money is needed to meet weekly or monthly warrants?

c) How much money will be deposited weekly or monthly?

The finance officer should use the answers to these questions as a basis for planning investments. By maintaining a chart of deposit accounts, such as the bank ledger, adding the daily deposits to these accounts, and subtracting amounts transferred, the finance officer can determine exactly how much cash is available to invest. Furthermore, the cash flow budget will permit the finance officer to determine the length of time for which particular funds can remain in investments.

5.3.4.1 The Yield Curve

The cost of money varies according to the length of time for which it is borrowed or loaned. Generally, longer time periods are deemed to have a greater risk associated with them and thus command higher interest rates. This phenomenon, of course, favours a company when making long-term investments and disfavours the company when making long-term borrowings. Accordingly, finance officers should use cash flow budgets to design investments for the longest reasonable periods in order to obtain the highest yields on these investments.

Finance officer should attempt to be constantly aware of the various interest rates offered by area banks. They should regularly communicate with these banks and ask to be on their mailing lists for publications about bank services and about interest rates on different types of investments over varying time periods. Finance officer should also visit the websites of area banks to review information about interest rates and bank products.

5.4 Conclusions

Cash and cash management are critical factors in the success of a business. The resources unit measured in a statement of cash flows includes not only cash but also cash equivalents, an aspect of accounting for cash is cash management. Cash management also includes the use of a bank reconciliation to control cash.

Cash management requires that all monies, except those required to be kept liquid for purposes of distribution, be productively invested at the "highest possible rate reasonably available, taking account of safety, liquidity, and yield." Accordingly, each organisation possesses a legal obligation to invest wisely, prudently, and effectively. This goal can be achieved through the implementation of an effective cash management program.

Generally, all respondents agreed that the cash management system used in the business is effective as already discussed, only that it lacks a computerized system to work hand in hand with manual system to meet the fundamental objectives of overcoming the major disadvantages of the current system (manual) used in management of cash activities of the business.

Cash Management internal controls represent an application of common sense and prudent conduct to the use and proper safeguarding of business assets. Proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced consistently, therefore, the integrity of any cash management activity depends on the application of internal control principles and standards where by the attainment of these principles and standards in the cash management area can be achieved by pursuing the following suggestions and recommendations.

The following suggestions and recommendations are by no means all-inclusive, cash handling techniques and methods change as programs change and as new collection and disbursement technologies evolve over time. However, similar economically feasible standards should be established to fit these new collection and payment processes.

5.5 Suggestions and Recommendations

5.5.1 Suggestions

The finance officer can maximize the amount of a company's available cash by accelerating cash receipts. A finance officer can increase the available cash amount by:

a) Making daily deposits.
b) Using a lock box.
c) Receiving wire transfers of state aid.
d) Applying promptly for reimbursement of state/federal grants.
e) Utilizing, direct deposits, Automated Clearing House payments, and other electronic means of transferring funds, whenever possible, making sure that the appropriate safeguards are in effect.

The finance officer should induce departments with large cash receipts to make deposits directly into an account specified by the finance officer, providing the finance officer with a written notice of each deposit, together with the deposit receipt provided by the bank. This practice will result not only in an earlier deposit of the funds, but also in a more accurate deposit record since the bank will check the accuracy of the deposit slip.

The finance officer should ensure that checks for large amounts are deposited immediately. In this way, money will be available for investment right away, and the collector can process the payment information whenever convenient.

The finance officer can also improve cash flow by working with department heads to schedule certain cash disbursements. For example, if an organisation has appropriated money to the purchases department for the purchase of new trucks, the finance officer should encourage the department head to arrange for delivery of the trucks earlier in order to meet the purpose for which it was acquired, when funds will be on hand to pay for those trucks. Such planning minimizes the need for revenue anticipation borrowing.

When possible, the finance officer should first pay bills that offer discounts, postponing the payments of other bills until the due date. Also, when market conditions permit, the finance officer should schedule the payment of debts to make the payment due dates coincide with times when the company's cash revenues are at their maximums. The finance officer should require all capital project managers to provide regular reports of project payment schedules, permitting the finance officer to obtain maximum earnings on project funds.

5.5.2 Recommendations

The volume of the business is increasing on rapid rate therefore, there is need for the management to study and understand the timing of making importation, so as to have adequate cash required for the quantity of goods at the right time by not having excess stock of goods which could be tying down cash that could have been channelled to other investment use for the benefit of the company.

To provide accurate accounting for cash receipts, cash disbursements and cash balances made during the course of the business, should be regularly updated and reconciled to the various books of accounting records such as the debtors' ledger and creditors' ledger in order to ascertain the availability of cash, as well as outstanding cash balances with customers in order to determine the credit policy to be adopted so as to accelerate the rate at which inflows come from debtors.

To prevent losses, fraud and theft of cash, source documents like invoices, receipts, vouchers, local purchase orders and others should be collected as soon as possible from where they are, such that reconciliation is done in time. Cash related transactions be fully documented so that an undisputable audit trail exists. Cash related transactions be recorded promptly during each step of the cash handling function. Serially numbered forms should be used to document cash related transactions to enhance reconciliation and accountability.

To assure adequacy of cash for business, the firm should plough back as much as possible from its profit in order to have adequate cash for operations, and possible source of low interest rate on borrowings as at when necessary.

To prevent excessive cash balances that produce no revenue, the firm should take into account all relevant information concerning cash that will enable management make right and timely decisions that seem to affect cash management. The time-value-of-money should be recognized as a part of each cash management decision.

The firm should adopt a computerised accounting system such as the Peachtree Accounting Package or the QuickBooks Accounting in order to determine the performance of the business on a daily business, as well as knowing the stock level and debtors' outstanding balances so as to ascertain what line of action to undertake with regards to decision making on cash. A computerized system should be put in place as soon as possible to enable the business reduce on errors, make work easier and faster, and ensure employees develop their computer skills.

In order to have an effective flow of information between the firm and its customers and vendors, the firm should create a channel or medium in which information could be passed across from both customer and vendors to the firm and feedback sent back to them, whereby information received and sent will enable the firm to have a better understanding of its business operations and improve on the areas that its lacking behind.

As regards effectiveness and efficiency of cash management, the following should be done;

a) There are loopholes in the current control system and thus, an effective strong control system (adopting a computerized system alongside the manual) is required to ensure minimal losses.

b) Processed data should always be distributed to the people responsible for the check up of any error, for example, errors of omission.

c) Regular auditing of the books of accounts should be done to enable the company plan, control and account for cash transactions and cash balances.

d) Cash related transactions should occur only after the approval of an individual with delegated authority to make approvals.

e) Documents used in cash related transactions should be safeguarded against re-use, tampering, or unauthorized disposal.

f) Provisions should be made for the regular review and comparison of transaction documentation to detect errors and duplicate payments.

g) The approval of adjustments to cash related transactions be administratively controlled.

h) Supervision of cash management activities should be strictly and continually administered.

i) Cash related accounts should be frequently reviewed and reconciled with subsidiary records.

j) The accessibility to funds and fund records should be restricted and administratively controlled.

k) Only properly designated employees should handle imprest funds, disbursement certifications, and collection duties.

l) Employees assigned cash related duties be trained and must accept their responsibilities.

m) Unnecessary clerical routines and handling of cash or cash related documentation should be eliminated to lessen the risk of loss and exposure to errors.

n) Electronic funds transfer and direct deposit should be used where feasible and advantageous.

o) Computer edit programs should be used to the maximum extent possible to disclose or reduce the incidence of error in cash related transactions.

p) Cash derived from collections and cash used for disbursements should not be commingled.

q) Cash transactions should not be used to substitute or circumvent prescribed procurement approvals and procedures.

r) Cheques received in collections should be endorsed upon receipt and collections should be safeguarded until deposit is accomplished.

s) Deposits should be processed within prescribed intervals and reconciled against records of funds received.

t) Cash disbursement transactions should be processed promptly, and cash should be reconciled daily.

u) Credit should be extended only when authorized by a designated employee who is aware of the business debt management policies.

v) Approved price lists should be published to ensure a control over income for goods and services.

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APENDICES

Appendix I: QUESTIONNAIRE

1. When did JODA Traders Uganda Limited start its operation?

....

2. How big is the business?

Retail ☐

Wholesale ☐

Supply ☐

3. How Many employees does the business have?

Between 1-5 ☐

Between 5-10 ☐

Between 10-15 ☐

4. Who authorizes Cash Transactions?

Manager ☐

Accountant ☐

Cashier ☐

5. Is the Accounting System Computerized?

Yes ☐

No ☐

6. If yes, how often do you post the entries?

....

7. If no to question 5, what system do you use to keep records of transactions made?...

....

8. Are the employees happy with the system?

Yes ☐

No ☐

9. Is the system effective?

Yes ☐

No ☐

10. How are the customers handled in the business?

Fair ☐

Good ☐

Best ☐

11. How do you conduct the sales?

Cash sales ☐

Credit sales ☐

12. If credit sales what are the credit terms?

....

....

13. When do you do Bank reconciliation?

Per day ☐

Per week ☐

Per month ☐

14. When do you do stock reconciliation and verification?

Weekly ☐

Monthly ☐

Annually ☐

15. What is the stock turn over in a year?

....

....

16. How often do you replenish the stock?

....

....

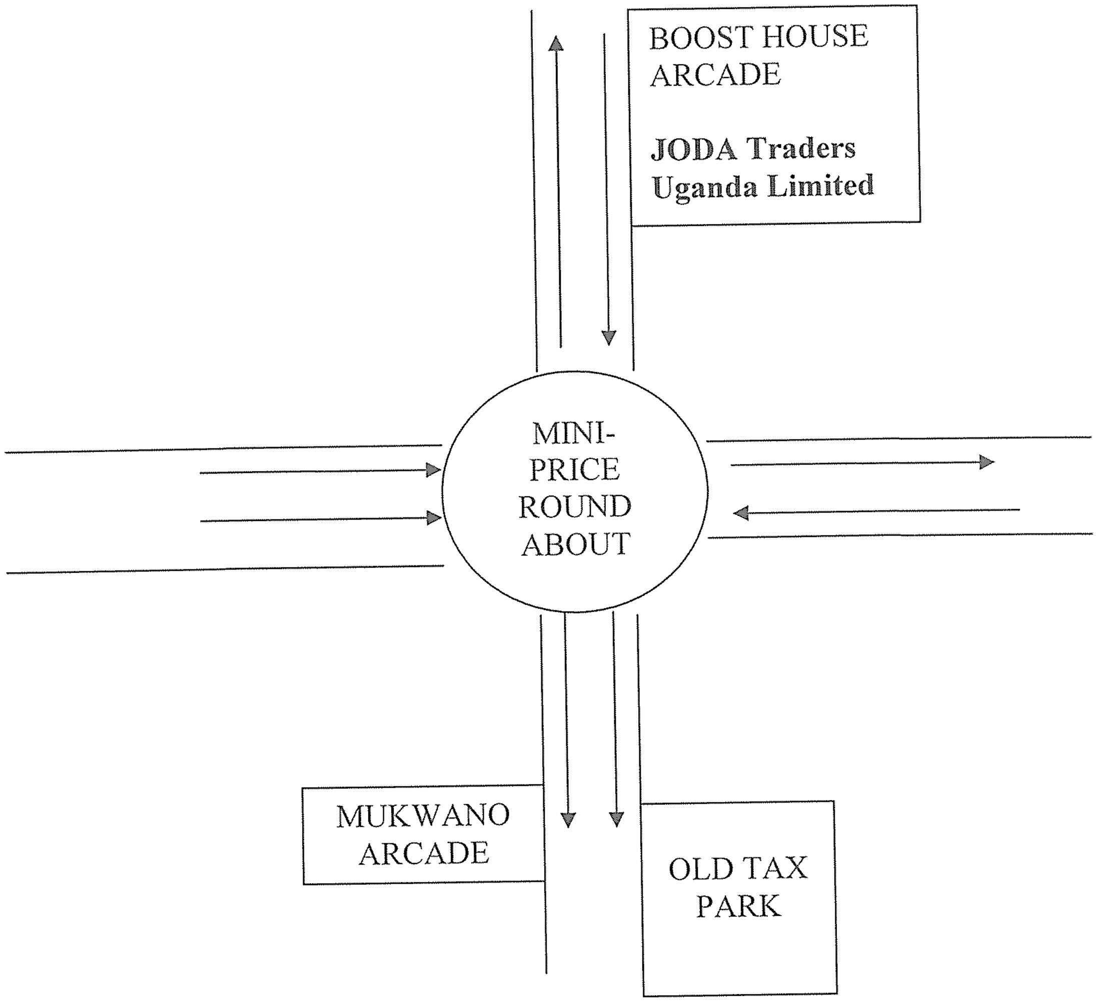
Appendix II: BUDGET

Period	**Costs per unit in Uganda shillings**		**Total costs**
Between April and May 2009	**Transport to and from JODA**	**Lunch**	
1^{st} Week	2 visits x 2 x 1500 = 6,000/=	3,000 x 2 = 6000/=	12,000/=
2^{nd} Week	2 visits x 2 x 1500 = 6,000/=	3,000 x 2 = 6000/=	12,000/=
3^{rd} Week	2 visits x 2 x 1500 = 6,000/=	3,000 x 2 = 6000/=	12,000/=
4^{th} Week	2 visits x 2 x 1500 = 6,000/=	3,000 x 2 = 6000/=	12,000/=
Sub-Total	**24,000**	**24,000**	**48,000/=**
Compiling data			
Item	**Units**	**Cost per unit**	**Total cost**
Typing	70 pages	500	35,000/=
Printing	70 pages	300	21,000/=
Photocopying	5 copies of 80 pages	50 per page	20,000/=
Binding	5 copies	2,000	10,000/=
Stationary	1 Ream	10,000	10,000/=
Airtime		50,000	50,000/=
Sub-Total			**143,500/=**
Grand Total			**194,000**

Appendix III: TIME FRAME WORK

Item	January	February	March	April	May	June	July	August
Proposal								
Data Collection								
Data Analysis								
Submission								
Report								

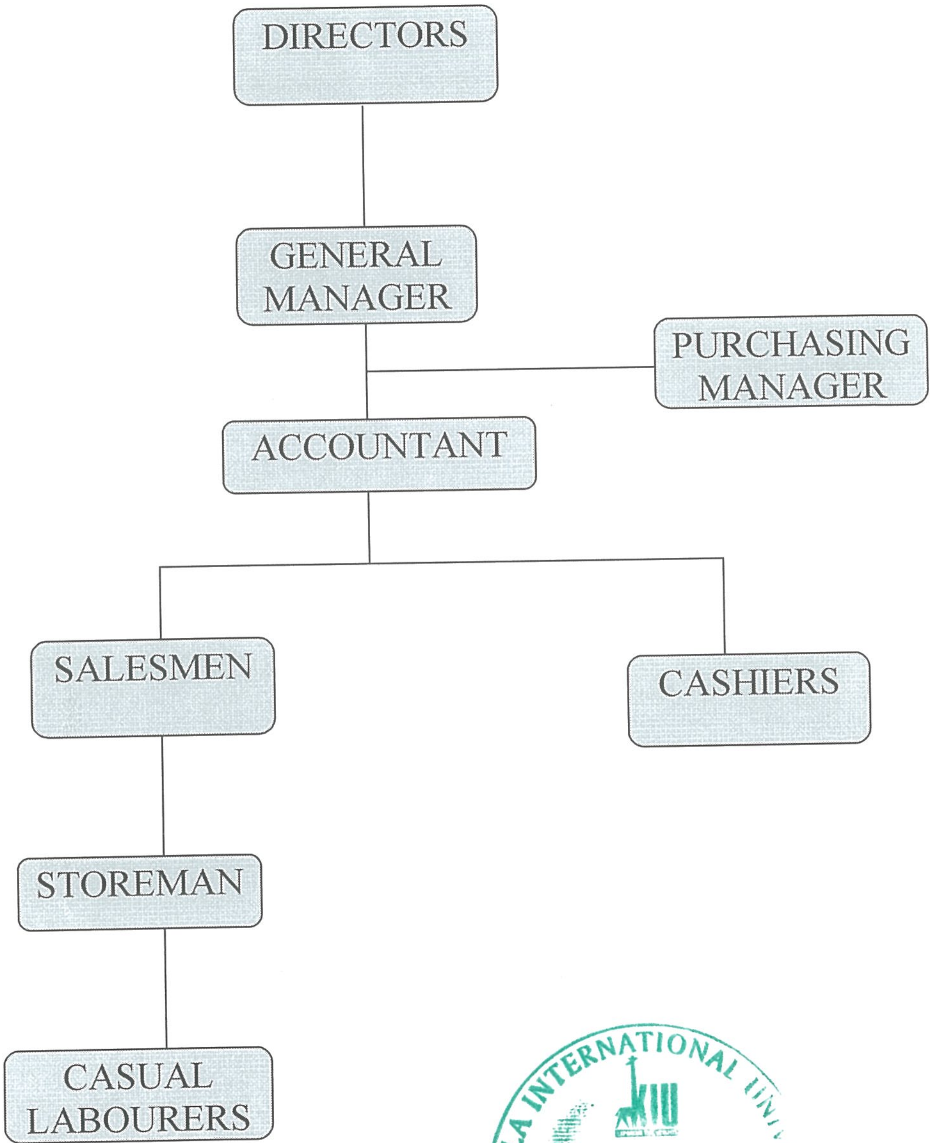
Appendix IV: SKETCH MAP SHOWING JODA TRADERS UGANDA LIMITED AT BOOST HOUSE ARCADE, BEN KIWANUKA STREET KAMPALA CITY CENTRE



Key:

Movement of vehicles from various streets

Appendix V: ORGANIZATIONAL STRUCTURE OF JODA TRADERS UGANDA LTD



Source: Primary Source