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Effective Application of Circulating Capital (Current Assets) in Public Limited Liability Companies as an option For the Corporate Survival

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ABSTRACT

This work titled effective application of circulating capital (current assets) in public limited liability companies as an option for the corporate survival aimed at identifying the challenges of current assets management in a public limited liability companies using Nigeria bottling company as an area of study. The study shows how the company can manage those assets which can be converted into cash in a period of one year. Some companies go into bankruptcy because of poor management of such assets. A survey approach was used as the research design using two research questions, the sample size was 30. The researcher collected data through the primary means. Hypotheses were formulated and tested using the regression analysis method and the students to t-test. Results and discursions were made thereafter. Conclusion and recommendations were appropriately stated.

INTRODUCTION

Finance in business is like blood in the body, just as the body needs blood to function well so does business need finance or funds to run successfully and to stand prosperously. Enyi (2017) hold that recent global economic discusses have fingered excessive profiteering for the inability to match bloated paper value of global money reserves with the actual value of goods and services produced, thereby causing unnecessary global inflationary spiral.

It can rightly be said that providing funds to the business as at when needed is the key to successful business. To this Farseed (2012) defines current assets as those items or materials that can be converted to cash in twelve (12) months period.

While Mpamugo (2008) holds that "current asset management are concerned with the management of cash, marketable securities, accounts receivables and inventory". This shows that current assets management is the handling of cash, marketable securities, account receivable, inventories and prepayment of a company.

Cash management is particularly important for new and growing business. Cash flow can be a problem even when a small business has numerous clients, offers a product superior that of its competitors and enjoys a sterling reputation in its industry.

The first major component of the statement of financial position of any company is the current asset. This is because they can easily be converted into cash within one year, and are often referred to as circulating capital.

Companies need current assets to find their day to day operations. If current assets fall short, the company will have to scramble for other sources of short term funds either by taking a debt interest payments or issuing more stock to shareholders. Contributing to this, Okoye (2000) see current assets as the assets that their useful life expires within one financial year, where as stock, debtors, repayments, money in bank and cash may serve as example.

REVIEW OF RELATED LITERATURE

Current asset management is the proper channeling of current assets, circulating capital of a company, in other to ensure adequate returning to the company. Any assets that a company or business has that is equivalent to cash or that is liquidated into cash in the period of a year is considered a current asset.

Riley (2012) in his paper said that current assets are very important to cash flow management and forecasting because they are the assets that the business uses to pay its bills, repays borrowings, pay dividends and so on.

Current assets is essentially an extension of working capital management, it is concerned with the current assets of a firm (Cash, Account receivable, marketable securities and inventory). A financial managers needs to remember that the less liquid an assets is the higher the required return (Block and Hirt, 2005).

The main principles in current asset management are to keep the proper flow of income and liability in balance. Managing current assets also takes into account the long-term investments of a company. Short term assets are another name for current assets. It is important to determine the liquidity of the company. The measure of liquidity is really the measure of how well and how fast a company can pay off its debts.

Calculating the current ratio is a key figuring out the proper balance for current asset management. The current ratio is the current assets of a company divided by its current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

Current liability can be seen as debts that need to be paid off by the business in a financial year cycle of time particular to a business.

The current assets of a company include the following:

- Cash and equivalent
- Account receivable
- Marketable securities
- Inventories (stock)

Prepayment or Prepaid Expenses Problems Faced In Management of Current Assets Cash and Equivalent

The financial manager wants to keep cash balances to a minimum. There are two reasons for holding cash, for everyday transaction (Main reason), and compensating balances for precautionary needs (Block and Hirt, 2005).

It becomes a problem for the company if their cash balance is not managed in such a way as to minimize the availability of cash not invested in fixed assets or inventories.

The company is likely to run into insolvency or bankruptcy. It can also be a problem when a company offers a product superior to that of its competitors and if it has numerous clients. There is the problem of finding funds for innovation or expansion of the company and for retailing and hiring of good employees, (Cycle, 2004).

Accounts Receivable

A trade debtor is usually the main part of this category. A trade debtor is created when a customer is allowed to buy goods and services on credit.

The problem with this is that most business or organizations operate with a significant amount owned by trade debtors any one point in time. If the trade debtor exceeds the average payment period, it becomes a problem for the company. The company may end up writing off those (Riley, 2012).

Another problem with the management of accounts receivables is that some trade debtors have a history of slow payments or their business is unprofitable or they are untrustworthy. All these attribute to the challenges of managing these current assets.

Marketable Securities

When an organization reaches optimal cash level, it tends to invest the rest in interest yielding assets which is known as marketable securities. The items come after cash and equivalent. It comes into play when a company has so much cash on hard. It can afford to tie them in bonds or short term deposits.

The problem associated with managing marketable securities is that they might be invested in a business that will yield low profit or a business that will yield low profit or a business that does not meet the same rate of return or the problem of converting it back to cash when there is need for it.

Inventories (Stock)

This are often called "stock" they are the least liquid kind of current assets. Inventories include holding of materials components, finished products ready to sell and also the cost of work in progress.

An organization finds it hard to manage this. This is because of the problem of 'obsolete stock where inventories have to be sold for less their cost or thrown away perhaps because of they are damaged or customers no longer need them (Riley 2012).Inventory can tie up a firm's business capital or cash by piling up goods or raw materials in the ware house without using them for production. This can create problem to the company.

Payment or Prepaid Expenses

Prepayment is payments made by a company to its suppliers in advance. They can be amount paid for raw materials which are yet to be delivered, advertising agency or credit used for bad merchandize issued by a supplier.The challenges with this are that the company may face the problem of having goods or services paid in advance not delivered to them.

Methodology

This work concentrated on Nigeria bottling company, Owerri. The population of the study was made up of 300 employees spread across five department of the company.

Using the system random sampling techniques at an interval of 10.The total number of respondents selected as sample size of the study was derived as follows:

$$\frac{I}{K} x \frac{N}{n}$$

N = population of the study (300)

K = Interval (10)

n = Sample Size

Therefore, $\frac{I}{K} x \frac{N}{n} = \frac{1}{10} x \frac{300}{n}$

N = 30

The 30 respondents selected comprises of top and lower managers of the company from the different departments.

Information was collected using the primary and secondary method of data collection. The hypotheses were formulated as follows:

H_1: Business managers of the company must ensure that current assets of the company are properly managed.

H_{01}: Business managers of the company must ensure that the current assets of the firm are not properly managed.

H_1: The Company faces problems in managing currents assets

H_{01}: The Company does not face any problems in managing its current assets.

Research Question 1

To what extent are the current assets of the company managed?

Option	Top management	Lower management	Total
	Level	level	
Very high extent	10	5	15
High extent	8	3	11
Very low extent	1	1	2
Low extent	1	1	2
Not at all			
Total	20	10	30

Testing of Hypothesis I

Regression Analysis Method

X	Y	Xy	X_2	Y^2
10	5	50	100	25
8	3	24	64	9
1	1	1	1	1
1	1	1	1	1
20	10	76	166	36

Result/Discussion

Hypothesis 1

H_1: Business managers of the company must ensure that current assets of the firm are properly managed.

H_{01}: Business managers of the company must ensure that the current assets of the firm are not properly managed.

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$$

$$b = \frac{4(76) - 20(10)}{4(166) - (20)^2} = \frac{304 - 200}{664 - 400}$$

$$b = \frac{104}{264} = 0.394$$

$$a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

$$a = \frac{20}{4} - \frac{0.394(20)}{4}$$

$$\therefore \quad 5 - 1.97$$

$$= 3.03$$

Hence, regression line Y = 3.03 + 0.394x

To find the correlation coefficient

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{76}{\sqrt{166x36}}$$

$$r = \frac{76}{\sqrt{5976}} = \frac{76}{\sqrt{77.3}}$$

$$r = 0.99$$

TEST OF SIGNIFICANCE

Using the student t-test

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

$$t = 0.98\frac{\sqrt{4-2}}{\sqrt{1-0.98^2}}$$

$$t = 0.98\frac{\sqrt{2}}{\sqrt{1-0.9604}}$$

$$t = 0.98\frac{\sqrt{2}}{\sqrt{1-0.90396}}$$

$$t = 0.98\frac{(1.414)}{0.189}$$

$$t = 7.3$$

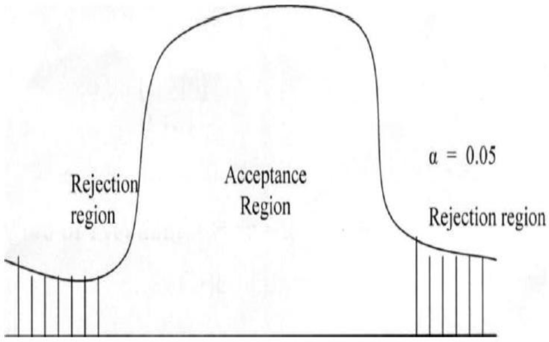
Degree of Freedom = n - 2 = 4-2= 2

The critical value of t for a 0.05 and 2 degree of freedom is

4.303, thus, tc = 7.3 and t 0.05(2) = 4.303

Decision Rule

Since the tc (7.3) is greater than the t critical table (4.303), the null hypothesis is rejected and so establishing that business managers of the firm manage the current assets of the company.



Hypothesis II

H_1: The Company does not face challenges in managing currents assets

H_{01}: The Company faces challenges in managing its current assets.

Research Question II

Which of these current assets does the firm have challenges in managing?

Observed Frequency Table

Option	Top management level	Lower management level	Total
Cash/equivalent	6	4	10
Inventories	8	6	14
Prepayments	1	1	2
Account receivables	2	1	3
Marketable securities	1	0	1
Total	18	12	30

Testing of Hypothesis II

REGRESSION ANALYSIS METHOD

X	Y	Xy	X^2	Y^2
6	4	24	36	16
8	6	48	64	36
1	1	1	1	1
2	1	2	4	1
1	0	0	1	0
18	12	75	108	54

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$$

$$b = \frac{4(75)-18(12)}{5(10)-(18)^2} = \frac{375-218}{530-424}$$

$$b = \frac{157}{208} = 0.755$$

$$a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

$$a = \frac{12}{5} - \frac{0.755(18)}{5}$$

$$\therefore \quad 2.4 - 2.72 = -0.317$$

Regression line Y = 3.03 + 0.755x

To find the coefficient of correlation r

$$r = \frac{\sum xy}{\sqrt{\sum x_2 \sum y^2}} -$$

$$r = \frac{75}{\sqrt{106x54}} -$$

$$r = \frac{75}{\sqrt{5724}} -$$

$$r = \frac{75}{\sqrt{75.66}} -$$

$$r = 0.99$$

Test of Significance

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}} -$$

$$t = 0.99\frac{\sqrt{5-2}}{\sqrt{1-0.99^2}} -$$

$$t = 0.99\frac{\sqrt{3}}{\sqrt{1-0.980}} -$$

$$t = 0.99\frac{\sqrt{3}}{\sqrt{1-0.0999}} -$$

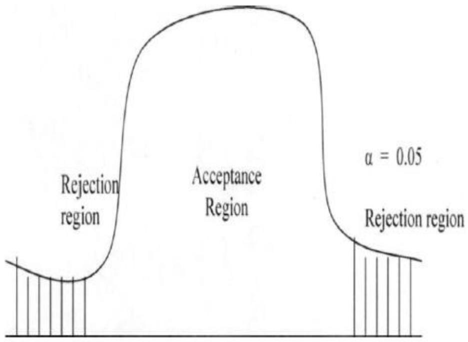
$$t = 0.99\frac{(1.732)}{0.141} -$$

$$t = 12.16$$

Thus: tc = 12.16 and t == 0.05(3) = 3.182

Decision Rule

Since tc (12.16) is greater than t = 0.05(3) 3.182 the null hypothesis is rejected and so accepting the alternative which says that the company faces challenges in managing its current assets.



Summary of the t-test table

Source	df	L.S	R	t-cal	t-table	Decision
Hypothesis I	2	0.05	0.98	7.3	4.303	T-Cal < T-Table Reject Null hypothesis
Hypothesis 2	3	0.05	0.99	12.16	3.182	T-Cal < T-Table Reject Null hypothesis

Result/Discussion

The result of this study shows that there is a significant positive relationship between variables.

This means that from the result of the two hypotheses that were tested, the null hypotheses were rejected.

This complies that the company faces problems and challenges in managing its current assets but to an extent the business managers of the firm were able to manage them.

Conclusion

Having critically carried out a research on the problems and challenges of current asset management in public limited liability company, the researcher was able to conclude that to an extent the company is managing its assets.

There seems to be a problem with the management of inventories in which the company will look into to make sure that they avoid obsolete stock. The company also has a problem with the management of cash/equivalent. The firm must ensure that it always have cash at hand in which will give them the ability to pay their bills as at when due.

Recommendations

Based on the findings of the research, the following recommendations were made:

- The firm should have a credit policy measures that shows a set of guidelines for determining when to extend credits, establish credit terms (repayment terms) and debt collection as procedures for its customers in order not to face the problem of account receivables.
- Purchasing department of the firm should ensure that they make use of economic order quantity (EOQ) which determines the optimal order quantity for a particular material that will minimize cost of holding inventory given forecast, usage rate, ordering cost and carrying cost.

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