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# Assessment of Financial Management Practices on Private Manufacturing Companies in the Case of Mekelle City

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**Abstract**
The objective of this study was to evaluate whether financial management was applicable in the selected organizations or not. Data were collected from primary sources. The analytical tool was used to analyze the data by describing the basic features of the data in the study, and to provide summaries of the variables and measures. Most of the manufacturing companies have applied financial reporting and analysis management; working capital management; and accounting information system management practices. Even if there was an existing accounting information management practices, there was a difference among the companies in using different package of software to fasten and incorporate all activities in one system. On the other hand, the companies did not apply financial management practices related to the capital structure and capital budgeting management practices. The companies should exercise to maintain suitable ratio between debt and total capital; use effective financial leverage and should review the debt level in order to use it for making finance decisions. Moreover, the companies should evaluate their future projects and fixed assets after acquisition using different capital budgeting techniques rather than a simple determination of accounting profit. The variables used in the study were not exhaustive. Thus, future research may incorporate other financial management practices such as budgeting and CVP analysis and the potential researchers may also assess the practices in different sectors.
**Keywords:** Financial Management Practices, Financial Management, Accounting Information System, Capital Budgeting, Capital Structure, Financial Reporting and Analysis & Working Capital

## 1. INTRODUCTION

During the period of depressions i.e. 1930s its emphasis shifted to bankruptcy and reorganization, to liquidity of corporations, and to the security market regulation. During the 1940s and early 1950s the finance continued to be taught as a meaningful, institutional subject, viewed more from the standpoint of an outsider rather than only from manager (Uwadiae&Akintola, 2008). Beyond this, Uwadiae and Akintola (2008) stated that, in the late 1950s the focus shifted to managerial decisions regarding the choice of assets and liabilities with the goal of maximizing the value of the firm. From 1990s to date the financial management focus on value maximization continued but two trends have become increasingly important: the globalization of business and the increased use of information technology.

For this financial management is an essential part of the economic activities which leads to decide in order to efficiently utilize the available finance in profitable manner as Paramasivan & Subramanian (2009) stated. Therefore, assessing the relationships between financial management practice and profitability in manufacturing companies will have an idea in the usefulness of financial management and be helpful in identifying the efficient financial management practices of the companies. Thus, financial management is an integral part of overall management. Because, it concerned with the duties of the financial managers in the business firm and deals with effective utilization of funds in the business as stated Paramasivan and Subramanian (2009).

In general, McMahon (1991) concluded that financial management is part of total management which is concerned primarily with the financial affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. It contains some functions such as budgeting, accounting, reporting, and the analysis and interpretation of the financial significance of past events and future plans. On the other hand, Paramasivan and Subramanian (2009) stated that financial management is not primarily concerned with the technical procedures and methodology of those individual functions states. Rather, stated that they are characterized by the coordination and correlation of those functions into an effective and broad system of financial control that will assure that they, collectively more than individually, become an integral part of the management of the organization. Even if the concept of financial management broad in nature, this study would be focus on the five major practices of financial management that commonly used by many researchers to assess the existence of the financial management practices. These practices were: the capital structure management practices, working capital management practices, financial reporting and analysis management practices, capital budgeting management practices and the accounting information system management practices.

Beyond this, previous studies dealt with the existence of the selected financial management practices in different sectors with different findings. From the previous studies, based on their objectives, researchers emphasize different aspects of the existing financial management practices. According to the study of Asuquo ,

Effiong, Tapang and Arzizeh (2004), Kieu (2001), Mcmahon (1991), McMahon (1998), McMahon,Holmes, Hutchinson and Forsaith (1993) and pham(2010), summarized the existence of the above selected financial management practices in different countries. Logically financial management focuses on business decisions that add value to the firm. Because of this, the study focus would be also necessary and appropriate to the financial management practices of the private manufacturing companies, with available information for research.

Thus, focus of the study is to explore the existing financial management practices on the selected private manufacturing companies.

## 2. STATEMENT OF THE PROBLEM

Understanding financial management practices are key ingredients in the success of any business organization by focusing on business decisions that add value to the firm. Further to proceed with this idea, the practice of financial management and its relationship with performance was pointed out in the previous studies. Mcmahon and Holmes (1991) that pointed out the financial management are crucial to the profitability, existences and well performed their activities of small enterprises. Consistent with this, a study by Asuquo et al. (2004), Bank of England (2001& 2002) and Kieu (2001) concluded, financial management has an important role in small firms for their successful survival, development and profitability. The attitude and characteristics of an owner/manager in investing time and money in a better financial control system would allow a secured growth of the company. The reason for SMEs failure is inevitably the poor application of financial management as Poutziousris, Michaelas, & Chittenden (1998&1999) concluded. Because, lack of knowledge in financial management combined with the uncertainty of the business environment often lead organizations to serious problems regarding financial performances. So it is important for the development of enterprises to take a dynamic view of efficient financial management practices (Deakins et al., 2002). From this point, financial management is an essential part of the economic system in order to evaluate the financial activity of the companies with a profitable manner. In general Davies (1994) scrutinized the significant associations between these practices and that leads to achieve the growth rate and financial performance.

Specifically, Studies by Rausch (1982), McMahon (1986), Meredith (1986), Walker and Petty (1986) and Barrow (1988) were also give prominence to the importance of developing skills in reading and interpreting historical financial statements to monitor financial health and progress through an upgrading of financial reporting and analysis systems as concluded by Hutchinson and Ray (1986). This was reliable with the study of McMahon (2001) and Marriot and Marriot (2000) that put forward the SMEs have little management information and poor control, financial awareness among managers of SMEs varies considerably and that the use of computers for the preparation of management accounting information is not at its full potential. Therefore companies can improve their return by raising the efficiency of the existing of financial management practices.

So that concerned with the basic financial management practices, most previous researchers have concentrated on examining and investigating the actions of the organizations in practicing financial management with a consideration of the five specific areas of efficient financial management practices. Based on this idea, this study was also conduct to assess the existence of financial management practice by extends existing research into these companies.

## 3. OBJECTIVE OF THE STUDY

The main objective of the study is to assess the existence of financial management practices on the selected private manufacturing companies functioned in Mekelle City.

## 4. SCOPE OF THE STUDY

The study will be done under the umbrella of the most important practice of the organization, which is financial management. Even if the concept of financial management broad in nature, this study would be focus on the five major practices of financial management that commonly used by many researchers to assess the existence of the financial management practices. These practices were: the capital structure management practices, working capital management practices, financial reporting and analysis management practices, capital budgeting management practices and the accounting information system management practices.

Secondly, in conducting this study only manufacturing companies operating privately by investors in Mekelle City with provision of full data for the study was selected purposefully for the assessment. Since, it is limited on these companies; the findings cannot be generalized to all manufacturing companies of Ethiopia.

## 5. ETHICAL CONSIDERATIONS

All information the researcher would get from the companies and respondents were treated with confidentiality without disclosure of the respondents' identity. Moreover, no information would modified or changed, hence available information would presented as collected and all the literatures collected for the purpose of this study were appreciated in the reference list.

## 6. LITERATURE REVIEW

### 6.1. THEORETICAL LITERATURE

#### 6.1.1. THE CONEPT OF FINANCIAL MANAGEMENT

Financial management is recent in origin and has been changing at a rapid rate. Seven decades ago (pre-1930s), the scope of financial management was circumscribed (confined) to the raising of funds (i.e., financing function or capital mix decision) and the financial markets in which the securities are traded in). In the mid fifties (about 1955), the emphasis was shifted to the wise utilization of funds (investment & liquidity or long term asset mix decision and short term asset mix decision) (Uwadiae & Akintola, 2008).

Financial management is the one from the different areas of management but it is central to the success of any business as Meredith (1986) studied in small business. It is the broadest areas, and the one with the most job opportunities range from making decisions regarding plant expansions to choosing what types of securities to issue when financing expansion. Not only this, it is also important in governmental operations that provide social services to the public. It is also important in all types of businesses, including banks and other financial organizations including industries and retail firms as Brigham and Houston (1981) described. In addition to this, Paramasivan and Subramanian (2009) reported that financial management is an integral part of overall management. It applies to every organization, regardless of its nature of ownership and control (whether it is a manufacturing or service organization). It is the management of finances of a business in order to achieve the financial objectives of the business.

#### 6.1.2. THE PURPOSES OF FINANCIAL MANAGEMENT

Biki (2006) stated that the main financial objective of the managers of a business is to maximize the value of owners. To ensure for their right balance, managers set objectives in different activities of the organization, which affect the value of the business such as liquidity, profitability, efficiency, growth and return on capital. Effective procurement and efficient use of finance lead to proper utilization of the finance by the business concern. Financial manager considered this part and determine the basic objectives that are broadly divided into two parts such as: profit maximization and wealth maximization as stated by Paramasivan & Subramanian (2009).

Financial management is administration of finances of an organization in order to achieve the financial objectives of the organization Such as Profitability, Liquidity and Safety or security – to overcome undue risk (William, 2007). Anderson (1967) stated that the main aim of any kind of economic activity is to generate profit. A business concern is also functioning mainly generate profit. Profit is the measuring techniques to understand the business efficiency of the concern. However, Paramasivan and Subramanian (2009) said profit maximization is the traditional approach, which aims at maximizing the profit of the concern even if there are significant features.

Based on this goal, the ultimate aim of the business concern is to generate profit; thus, considers all the possible ways to increase the profitability of the organization. It is the parameter of measuring the efficiency of the business concern. Hence, it shows the entire position of the business concern. Profit maximization objectives help to reduce the risk of the business as Paramasivan & Subramanian (2009) concluded.

On the other side, wealth maximization (value maximization/ net present worth maximization) is not a traditional approaches, involves latest innovations and improvements in the field of the business aspects. The term considers shareholder wealth or the wealth of the persons those who are involved in the business aspects as avowed by Paramasivan and Subramanian (2009).

#### 6.1.3. THE IMPORTANCE OF FINANCIAL MANAGEMENT

Finance considered as the lifeblood of business organization because meets the requirement of the business aspects. Each and every business concern must maintain adequate amount of finance for their smooth running of the business concern and also maintain the business carefully to achieve the goal of the business concern. Paramasivan and Subramanian (2009) stated that to achieve the goals it should have effective management of finances. The danger of business failure due to lack of sound financial management practices is real.

Gaskill and Van Auken (1993) have been reported the most internal problems identified by small US firms relate to provision of inadequate capital, poor cash flow management and inventory control. For that matter, we can't neglect the importance of finance at any time. Thus, some of the importance of the financial management that stated by was Paramasivan and Subramanian (2009) was as follows: financial planning, proper use of fund acquisition, improved profitability and maximize the wealth of investors. After all, the financial management helps in order to make sound financial decision in the business concern and purely depends on the end result and proper utilization of funds by the business concern.

#### 6.1.4. FINANCIAL MANAGEMENT PRACTICES

These five contexts of financial management practices that were considered and supported by different researcher such as Mcmahon(1991), Kieu(2001), Pham(2010), and Asuquo et al.(2004) were used as follows: capital structure management, working capital management, capital budgeting management, financial reporting and analysis and accounting information.

**i. Capital Structure Management practices**

This specific part reviews the capital structure management or financial management practices related to the

decisions of sources of financing. These are among the most important and crucial decisions for any business because of their effect on the value and cost of the company (Amanuel, 2011**).**

The word capital structure refers to the company finance, which includes both debt and equity. Whether there is an existence of optimal capital structure or not, it is the most important and complex issues in cooperate finance (Kieu, 2001). It refers to the composition or make up of its capitalization and it includes all long-term capital resources. It is also defined by Paramasivan & Subramanian (2009) as the mix of a firm's permanent long-term financing that considers debt, preferred stock, and common stock equity.

**ii. Working Capital management practices**

Firm's efficient financial management practices compose of very important decisions like working capital management. Working Capital of a firm comprises of current assets and current liability. Current assets are cash and cash related, accounts receivable, and inventory items of a firm as explained by Ali and Atif(2012). On the other hand, the firm's investment in short-term assets like account receivable, account payable, inventory and others including cash or cash equivalent and marketable security is called working capital. Kesimli & Gunay(2011) also stated that it is the investment in current assets and current liabilities which are liquidated in a year or less and is very crucial for a firm's day-to-day operations.

This practice involves in planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet short term obligations on the one hand and avoid excessive investment in these assets on the other hand, as Eljelly(2004) avowed. Efficient management of working capital plays an important role of overall corporate strategy in order to create shareholder value. Management of working capital is important to the financial health of businesses of all sizes.

**iii. Financial Reporting and analysis management practices**

Fabozzi and Petersen (2003) defined financial reporting and analysis as a tool of financial management. This practice includes an evaluation of the financial condition and operating performance of a business firm, an industry, the economy as whole, and the forecasting of its future condition and performance. In other words, it is a means for examining risk and expected return. It is one of the most important practices of financial management that is applied by utilization of financial statements and associated information to make possible the management decisions, financial statements in use, statements useful to particular forms of business, techniques of financial analysis used, as McMahon (1991).

Because, a mere recording and organizing the accounting information systems will not meet the objectives of users unless reports from systems are analyzed and used for making managerial decisions (Kieu,2001) concluded. Thus, any users of the information rely on the integrity of a company's financial reports. Therefore, the company's managers and accountants should have a responsibility to act decently in the reporting process. Not only this, the users of financial reports also have a responsibility to recognize and understand the types of judgments and estimates that underlie these reports, as Kieu(2001) concluded.

Beyond this the Financial Accounting Standards Board (FASB) emphasizes the needs of users in financial reporting with a consideration in its objectives was defined here.

**iv. Capital Budgeting management practices**

Fabozzi and Petersen (2003) defined capital budgeting as a process of identifying and selecting investments in long-lived assets/ assets that are expected to produce profit over a year. Capital budgeting consists in planning, development of available capital for in order to maximizing the long-term profitability of the concern.

Michelle (2013) also defined capital budgeting as the process of choosing investments and assets for long-term financial development. It consist both old and new projects and products. The connection between the cash flow of the company and capital budgeting typically begins with the business's reliance on capital budgeting to supply it with cash inflow. The most significant connection exists when some measures the profitability of items in a capital budget, because business financers use cash inflows and out flows instead of accounting profits in the calculations.

Financial managers often use incremental after-tax cash flows to organize the funds when figuring the cash flow and capital budgeting for projects that newly operated. This method looks at cash flows distinguishing only the changes to cash flow that the new project would earn. This allows to managers to assess how much new projects cost and how much cash each project earns. Determining cash flow amounts can be difficult because the system lacks the structure of accrual accounting (Michelle, 2013).

**v. Accounting Information System management practices**

Kharuddin et al. (2010) stated that in normal circumstance the major purpose of any organization either manufacturing or service business is to increase its profit through maximizing its business efficiency. In order to achieve its objective the businesses require struggling with environmental fluctuations, especially with the globalization of information technology.

The study of Kieu (2001) defined accounting information system as the nature and purpose of financial records, book keeping, cost accounting, and use of computers in financial record keeping and financial management.

### 6.2. EMPIRICAL FINDINGS ON FINANCIAL MANAGEMENT PRACTICES

Hunjra et al. (2011) concluded from their study that quite beneficial for capital providers – lenders and shareholders are when they would think their funds are being utilized in proper financial practices. On one side, capital providers will be hesitant to provide the capital to those firms which are not using appropriate financial practices and have poor disclosure.

Bent (2003) concluded farmers who conducted detailed financial analyses were substantially more return than those farmers who performed the calculations "in their head" or did not make the calculations at all—a finding which demonstrates there are positive returns to conducting detailed financial analyses.The study of Hutchinson and Ray (1986) also concluded that financial problems create a critical need for improved financial control which can come about through an upgrading of financial reporting and analysis systems. In addition to this, Thomas and Evanson (1987) examined possible associations between financial reporting and analysis practices and performance characteristics. Bek (2007) stated that sound financial management is essential to the success of a business. This implies, managing financial resources successfully is important for both new as well as expanding businesses. So that if the entity taken only time to develop and implement financial plans it will ensure the success of small firms.

The study of Harif et al. (2010) also showed that the range of financial management tools used by SMEs in Malaysia still low and use only predictable and often used components such as financial accounting and working capital management. This resulted in a negative effect on the performance of the SMEs in that county. Butt et al. (2010) concluded the positive consequences of financial structure practices, dividend policy, techniques of investment appraisals, working capital management and financial performance assessment on organization performance. The results reveal that the decision makers and practitioners should be well aware of and agreed on the positive contribution of financial management practices in the corporate sector.

As Bent(2003) concluded that the producers who used some form of investment analysis—whether it be the payback period, cash flow analysis to assess repayment, or discounted cash flow analysis—were substantially more profitable than their peers. So that, who wish to improve performance may benefit from applying appropriate investment analysis techniques.

Elena et al. (2011) concluded that the average returns generated by the company indicates that, firms which use AIS for the whole of their management obtain a higher and more positive result with regard to the other groups of firms which show a negative average. This implies that, the effort made by firms to apply, invest more and advance their AIS is related to their economic and financial results, since firms not using AIS obtain losses. Additionally, the study of Tourna and Germanos (2000) suggested that the use of accounting information is the most significant factors that facilitated them during the design and implementation of their strategic plans. Mitchell et al. (2000) also added that accounting information could help SMEs to manage short term problems by providing information to support monitoring and control easily.

In general, Davies (1994) scrutinized significant associations between these practices and achieved growth rate and financial performance. In addition to this Asuquo et al. (2004) entailed that factors of financial management of SMEs were good tools of improving enterprise's performance. Their finding also leads to the conclusion that the efficiency of financial management practices can bring about a higher preturn for these entities. Therefore, these entities can improve their performance by raising the efficiency of efficient financial management practices.

## 7. MATERIALS AND RESEARCH METHODOLOGY

### 7.1. RESEARCH DESIGN AND STRATEGY

In accordance with the purpose and objective of this study, the research design of this study was used survey study. The data was collected from different directors and officers of the organization. Survey research provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. It includes cross-sectional and longitudinal studies using questionnaires or structured interviews for data collection, with the intent of generalizing from a sample to a population (Babbie, 1990). Thus, this study used a cross-sectional survey that is used to gather information on a population at a single point in time.

### 7.2. DATA TYPE AND SOURCE

The types and sources of data were primary data. Data was collected to the extent of the questionnaire that was prepared as open ended question to the directors and officers.

### 7.3. SAMPLING DESIGN

The target population of the study was the selected private manufacturing companies in Mekelle city. From the total thirteen populations of private manufacturing companies that operating in Mekelle city before six years, the researcher selected eleven of these companies that fulfill the criteria for availability of full data. Since the main purpose of the study was to examine the existence of financial management practice; choosing the right and

appropriate sample for the problem identified may augment the output of the study and help achieve its objective. Thus, the decision to select these organizations was based on the following two facets that enhance the soundness of the study. First, these companies represent an appropriate sample in order to assess the overall existing financial management practices. The reason is, all the selected components of financial management practices may not set in motion in all sectors.

To investigate and examine the existence of financial management practice, the researcher considered total respondents of 116 directors and officers in these organizations. Unlike census, the researcher selected purposefully 96 of the total respondent because there was more than two assignments for a single individual in some organizations and it was based the assumption of (50+1) percent would be representative. In addition to this the researcher was used the stratified random sampling techniques to assign the respondents in to different strata. Procedures were used to determine the sample size from the strata. The researcher classified the related respondents in to different strata's based on the majority of the selected companies classification on their tasks as financial manager, head of divisions and officers in each division. After placing the elements in appropriate strata, the researcher used disproportionate stratified and selected the required elements from each stratum.

**TABLE 7.1: DETERMINATION OF SAMPLE SIZE**

| S/no | Strata | Population | Sample- disproportionate stratified $= \frac{\frac{Sample\ Size(n)}{Number\ of\ strata(k)}}{\frac{Sample\ Size(n)}{Number\ of\ strata(k)}}$ |
|---|---|---|---|
| 1. | Finance managers | 11 | 11 |
| 2. | Financial account head | 11 | 11 |
| 3. | Cost and budget head | 11 | 11 |
| 4. | Management account head | 11 | 11 |
| 5. | officers in financial account | 25 | 13 |
| 6. | Officers in cost and budget | 24 | 13 |
| 7. | Officers in management account | 23 | 13 |
| Total | | 116 | 96 |

**Sources:** own survey, 2013

### 7.4. DATA COLLECTION INSTRUMENT

Primary data was collected through survey from directors and officers (concerning to the efficient financial management practices) who was responsible for financial function in the companies using a structured questionnaire. The questionnaire was structured in such a way that the first part covers the socio-economic variables such as the age of the respondents, position, gender, education qualification, name and age of the company.

From the total 96 questionnaires only 77 were collected from the respondents. From this, the researcher had collected around 80.21 %( response rate**)** from total sampled respondents. In addition to this, secondary data was necessary to see the profitability of the selected companies and was collected from the companies directly and from the Ethiopia Revenue Custom Authority (ERCA).

### 7.5. DATA PROCESSING AND ANALYSIS TECHNIQUES

The purpose of using this type of analytical tool is to summarize the data by describing the basic features of the data in the study, and to provide simple summaries of the variables and measures.

## 8. DATA ANALYSIS AND DISCUSSION

### 8.1. CHARACTERISTICS OF RESPONDENTS

This section identified and discussed demographic characteristics of the respondents answer made on behalf of the organizations. Aspects related to the respondents such as educational status, gender, age and educational qualifications, academic profession, experience and position of the respondents in the business organization will be discussed in this section.

Proctor (2000) defined demographic data as a data needed to obtain basic information about the respondent. It provides discovery of matter about the respondent such as age, educational level, and gender. In addition to this, helps through the analysis of subgroups to provide a method for identifying differences in key results in responses by subgroups such as on age and gender. So that the following information will provide a detail about the characteristics of the respondents that may directly or indirectly affect the study.

**TABLE 8.1: CHARACTERISTICS OF RESPONDENTS**

| S /n | Demography | | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **1.** | Gender | Male | 60 | 77.9 | 77.9 |
| | | Female | 17 | 22.1 | 100.0 |
| | | **Total** | **77** | **100.0** | |
| **2.** | Age of respondents | Below 30 years | 27 | 35.1 | 35.1 |
| | | 31– 40 | 36 | 46.8 | 81.8 |
| | | 41-50 | 11 | 14.3 | 96.1 |
| | | 51-60 | 3 | 3.9 | 100.0 |
| | | **Total** | **77** | **100.0** | |
| **3.** | Academic qualification | Diploma | 6 | 7.8 | 7.8 |
| | | First degree | 65 | 84.4 | 92.2 |
| | | Second degree | 6 | 7.8 | 100.0 |
| | | **Total** | **77** | **100.0** | |
| **4.** | Work Experience | 0-4 | 35 | 45.5 | 45.5 |
| | | 5-9 | 39 | 50.6 | 96.1 |
| | | 10-14 | 3 | 3.9 | 100.0 |
| | | **Total** | **77** | **100.0** | |
| **5.** | Academic profession | Public Administration | 3 | 3.9 | 3.9 |
| | | Management | 3 | 3.9 | 7.8 |
| | | Economics | 10 | 13.0 | 20.8 |
| | | Banking And Finance | 17 | 22.1 | 42.9 |
| | | Accounting And Finance | 43 | 55.8 | 98.7 |
| | | Economics and Accounting and Finance | 1 | 1.3 | 100.0 |
| | | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

Of the total sample size respondents (77) from the selected private manufacturing companies 66(77.9%) of them are males while 17(22.1 %) are female directors and officers. From the total directors and officers, 27(35.1%) of them are within the age group of below 30 years, 36 (46.8%) of them are found in the age group b/n 31 and 40 years, 11(14.3%) of the total are lies in the age group of 41 to 50 and the remaining 3(3.9%) of the total found in the age group of 51 to 60. In addition to this the above table academic profession and level of qualification that is, 84.4% of the totals are degree holders and more than half i.e.55.8% of the total respondents is certified in accounting and finance.

## 8.2. FINANCIAL MANAGEMENT PRACTICES

### 1. Financial Reporting and Analysis Management Practice

The accounting records and information that is generated from financial reports of the organization can describe its financial condition. Because the analysis of an organization's financial statements, whether it is for credit, investment, or any number of other future purposes, relies closely on the accounting data provided by the organization in its financial reports.

Logically the merely arrangement and recording accounting information will not provide a clear understanding about the overall performance of the business organization. As previous researchers concluded only recording information systems will not meet objectives unless reports from systems are analyzed and used for making managerial decisions. To get better understanding about the business organization, the responsible body should analyze the financial reports and interprets the value. Financial statements periodically present to the users of the business information that has been gathered and processed in the accounting system.

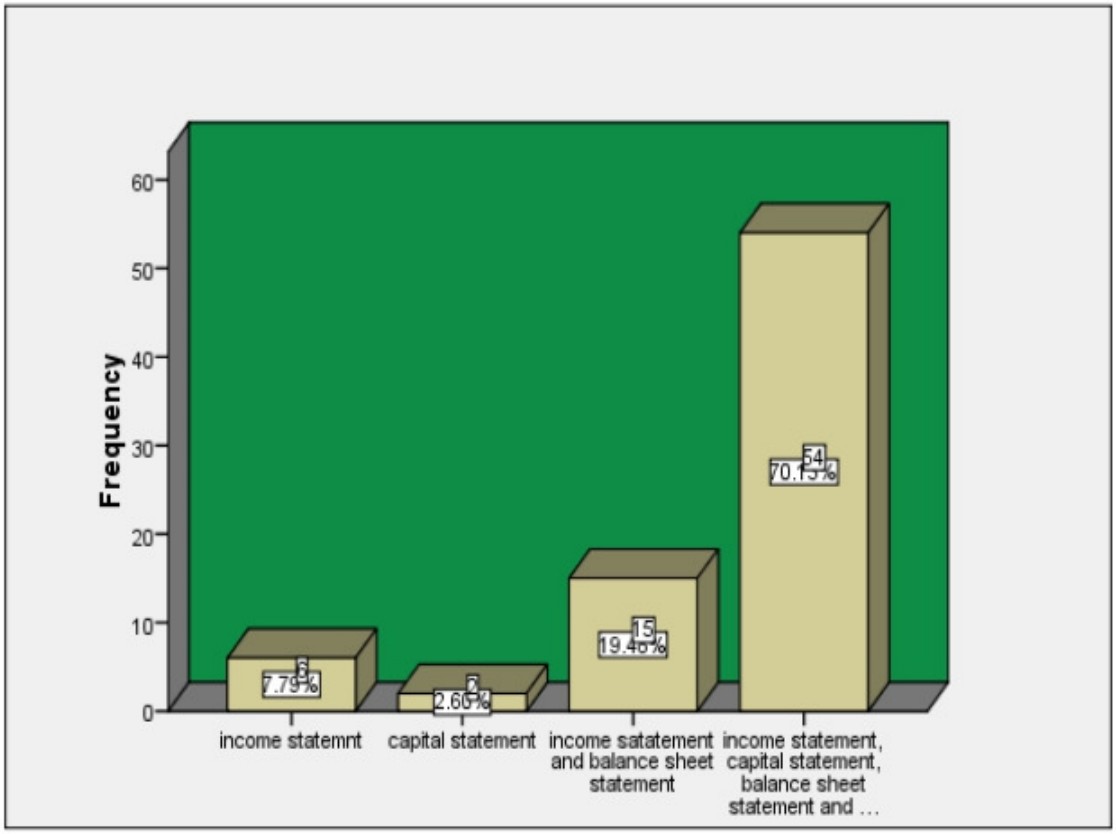
These statements—the balance sheet, the income statement, the statement of retained earnings, and the statement of cash flows—are the most important output of the accounting system. They are "general purpose" because of their wide audience.

In general in this study, the practice may be applicable in the sampled organizations in order to know their financial position and performance over time or/and compared to other similar organizations; but the difference is which statement is always applicable and when will be prepared.

This part also provides information from survey of the respondents regarding the overall financial reporting and analysis applied by the manufacturing organizations.

**FIGURE 8.1: KINDS OF FINANCIAL STATEMENT PREPARED BY THE ORGANIZATION**




**Sources:** own survey, 2013

Of the total respondent (77) from the different companies 6(7.8%) of the respondents and 2(2.60 %) of the total respondents reply the income statement and capital statement respectively is prepared by the sampled organizations. From the total respondents (77) the 15(19.5%) reply that these companies currently prepared both income statement and balance sheet statement. Even if the small number of respondents reply separately, the massive responses 54 (70.15%) of the total replied the sampled companies are engaging in preparing the four basic financial statements i.e. income statement, capital statement, balance sheet statement in the given period. Even if they have their own specific evaluation purpose in each prepared financial statements of the manufacturing companies, they are interrelated and prepared in consecutive manner. Thus, it is difficult to prepare the capital statement or the balance sheet of the company without preparing the income statement of the company first. Other things remain constant; this result demonstrates the manufacturing companies strongly favor financial information systems, which produce reports to help users in order to control financial position and performance of the business.

**TABLE 8.2: RESPONSIBILITY FOR FINANCIAL STATEMENT PREPARING AND ANALYZING**

| Activates | | Financial Manager | Financial Accounting Division Head | Cost And Budget Division Head | Management Accounting Division Head | Officer In Financial Accounting Division | Officer In Cost And Budget Division | Officer In Management Accounting Division | Total |
|---|---|---|---|---|---|---|---|---|---|
| Preparing the financial statements of the organization | Freq | 17 | 24 | 7 | 1 | 28 | 0 | 0 | 77 |
| | %ge | 22.1 | 31.2 | 9.1 | 1.3 | 36.4 | 0 | 0 | 100 |
| Analyzing financial statements | Freq | 33 | 43 | 0 | 1 | 0 | 0 | 0 | 77 |
| | %ge | 42.9 | 55.8 | 0 | 1.3 | 0 | 0 | 0 | 100 |

**Sources:** own survey, 2013

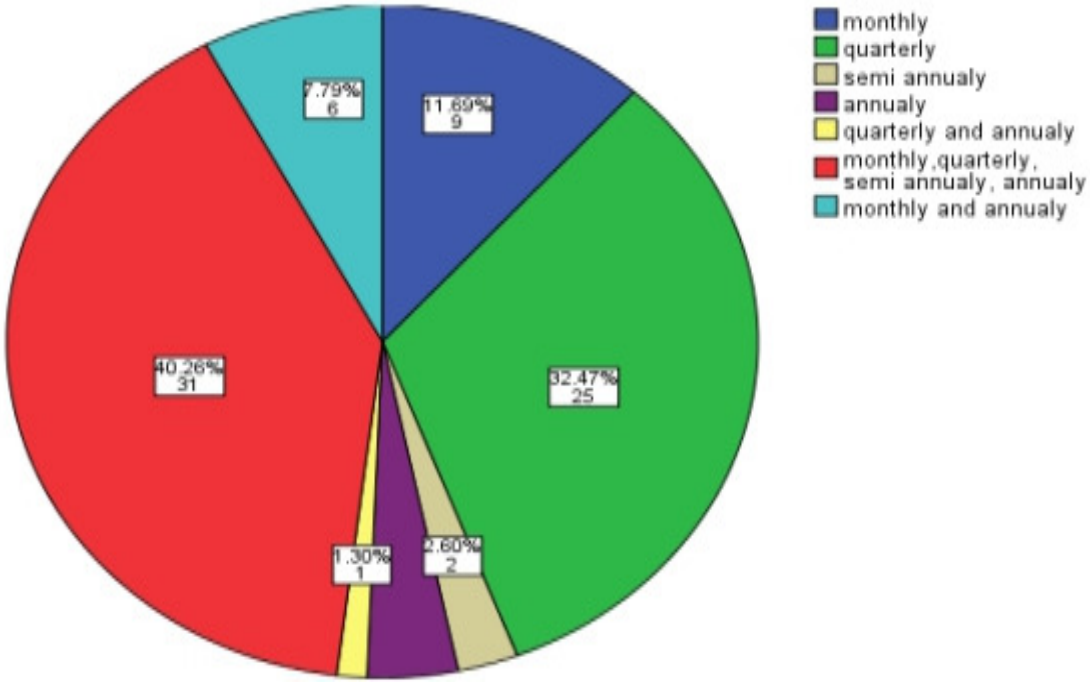
As in fig 4.1 indicated for the actual existence of financial statement preparation, this table (4.2) also assess the responsible body for preparing and analyzing financial statements in the organizations. The recording practices in the organizations are often left to the officers in the financial account division (i.e.28 (36.4%) of the total respondent)-some of them call it senior accountant, accountant-II). Similarly in this divisions the financial account head is responsible for preparing the financial statement of the organization as twenty four (31.2%) of the total respondents replied. Of the respondents Seventeen (22.1%) reported that the financial manager is in charge of

preparing financial statements.

From the above table, the second activity (after recording) i.e. the responsibility of analyzing the financial statement, is taken by the financial account head as 43(55.8%) of the respondents replied. In addition to this 33(42.9%) of the total respondents replied that the financial manager is in charge of analyzing the financial reports of the companies. To conclude based on the above idea, the financial account division is responsible to take the recording and analyzing of the financial reports of the company with some meddling by the financial manager.

**FIGURE 8.2: FREQUENCY OF PREPARING FINANCIAL STATEMENT**




**Sources:** own survey data, 2013

As indicate from the above graph (8.2) the majority of the respondents 31 (40%) of the total replied that the manufacturing companies continually prepare the basic financial reports of the organizations. Reasonably the continuous preparation of the financial statement is necessary to evaluate the suitable condition and position the firm; either to continue with current position and performance of the business or to change its direction unlike evaluating a business organization at the end of the accounting period. In the information disclosed in the open ended questions some of the organizations are mainly interested on continuous preparation to assess their receivables and online transactions in order to minimize uncollectible as one of the sampled financial manager states.

**TABLE 8.3: FREQUENCY OF FINANCIAL STATEMENTS ANALYSIS**

| s/n | Alternatives | Frequency | Percent (%) | Cumulative Percent |
|---|---|---|---|---|
| | Monthly | 6 | 7.8 | 7.8 |
| | Quarterly | 16 | 20.8 | 28.6 |
| | Annually | 11 | 14.3 | 42.9 |
| | quarterly and annually | 1 | 1.3 | 45.5 |
| | semiannually and annually | 6 | 7.8 | 46.8 |
| | monthly, quarterly, semiannually and annually | 34 | 44.2 | 54.5 |
| | monthly and annual | 1 | 1.3 | 98.7 |
| | never analyzed | 42 | 2.6 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey data, 2013

As the frequency of the respondents indicated in the fig 8.2 the companies prepare their financial statements almost continuously throughout the year. In addition to this, financial reports will have a meaning when they are analyzed and interpreted as replied by 34(44.2%) of the total respondent replied in the table (8.3). Even if the 16(20.8%) respondents and 11(14.3%) respondents of the total respondents answers the existence of financial analysis during the quarter and annual time respectively, these companies are always responsible to analyze for different purposes as the respondents reply in the open ended questions.

**TABLE 8.4: KINDS OF FINANCIAL ANALYSIS CURRENTLY USED IN THE ORGANIZATION**

| Activates | | Frequency | Percent (%) | Cumulative Percent |
|---|---|---|---|---|
| **Valid** | Ratio analysis | 38 | 49.4 | 49.4 |
| | Trend analysis | 1 | 1.3 | 50.6 |
| | Both ratio and trend analysis | 8 | 10.4 | 61.0 |
| | Never used | 25 | 32.5 | 93.5 |
| | I don't know | 5 | 6.5 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey data, 2013

As the respondent replied in the Table (8.4) above, for the existence of financial analysis, 38(49.4%) of the total respondents were using the ratio analysis technique when conducting the financial statement analysis, and 8 (10.4%) of the respondents states that the companies were applied both the ratio and trend analysis, while only 25 (32.5%) percent answered that they have never applying any analysis technique. In contrast the above total positive responses of 47 out of 77. Thus, the companies more or less tried to analyze their report using the ratio analysis techniques. From this, we can conclude the analysis techniques are not usually applied by the sampled companies. Most of the sampled companies interpret their report based on the end result from each statement.

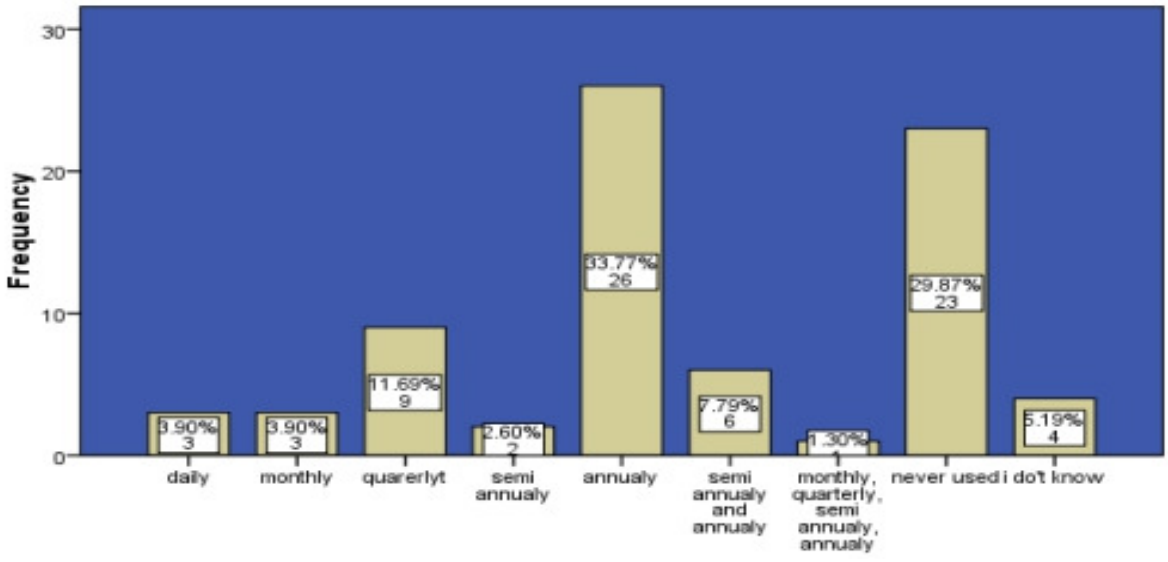
**TABLE 8.5: KINDS OF FINANCIAL RATIOS THAT ARE CURRENTLY USED FOR FINANCIAL ANALYSIS**

| | Activities | Frequency | Percent |
|---|---|---|---|
| Valid | liquidity ratio | 7 | 9.1 |
| | efficiency ratio | 1 | 1.3 |
| | debt management ratio | 1 | 1.3 |
| | coverage ratio | 1 | 1.3 |
| | profitability ratio | 8 | 10.4 |
| | efficiency and profitability | 1 | 1.3 |
| | liquidity, efficiency and profitability | 22 | 28.6 |
| | liquidity ratio, profitability ratio, efficiency/activity and debt management ratio | 7 | 9.1 |
| | not at all | 24 | 31.2 |
| | I don't know | 5 | 6.5 |
| | Total | 77 | 100 |

**Sources:** own survey data, 2013

As the respondents reply a positive answer in the table (8.5), the most common ratio used by the organization, replied by 22 (28.6%) are the liquidity, activity and profitability ratios. In contrast this idea 24 (31.2%) of the total respondents were replied for not applied the different types of ratio in the analysis of the financial reports of the companies. From this the companies are trying in analyzing the financial reports with help of some techniques even if not in highest level by relate the items of financial statement with the same and different reports.

**FIGURE 8.3: FREQUENCY OF USING RATIO ANALYSIS**




**Sources**: own survey data, 2013

From the above fig 8.2 the result indicates when the company needs to prepare the ratio annually as33.77%

of the total replied. But 29.87% of the total respondents are replied for not applying the ratio at any time.

To sum up the above idea from the survey regarding the financial reporting and analysis practice in the sampled manufacturing company can be stated shortly as follows:

- 54 (70.1%) of the respondents have replied for preparing the basic financial reports and preparing and analyzing frequently (as 40.3% and 44.2% of the total respondent respectively responds) using different types of techniques ( as 49.15% of the total replied) used after preparing the financial reporting of the company. Ratios of liquidity, activity, and profitability (such as current ratio and quick ratio, receivable turnover, inventory turnover, and total asset and return on sales , return on equity are mainly used respectively).

**2. Working Capital Management**

Working capital means the funds (i.e. capital) available and used for day to day operations of an enterprise. It consist that portion of assets of a business which are used in or related to its current operations. Further, it refers to funds which are used during an accounting period to generate a current income of a type which is consistent with major purpose of a firm existence. In consideration of this, this section will provide the general overview of the working capital management with a consideration of the inventory management and receivables management in these companies that are always usual even if there are different items in this context.

**I. Receivable Management Practices**

On this practice, directors and officers were asked questions related to credit sales, reviewing stages of receivables and bad debts, and percentage of bad debts existing compared with sales. The following descriptive findings are considered the receivable management practices in the sampled manufacturing companies.

**TABLE 8.6: COMPANIES' PRODUCT SELL OR SERVICE ON CREDIT BASIS TO CUSTOMER**

| | on credit | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| Valid | Never | 3 | 3.9 | 3.9 |
| | Rarely | 48 | 62.3 | 66.2 |
| | Sometimes | 26 | 33.8 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

As the above table (8.6) reveals the majority responses 48 (62.3%) of the total are reply as the companies provide product/service to customers on rarely credit basis. In addition to this the 26 (33.8%) of the total respond as the company provide the product/service to customer on credit basis sometimes, in contrast to the remaining responses 3(3.9%) of the total respond as the company never provide any credit activity. From this, the companies are infrequently providing a product /service to customer on credit basis.

**TABLE 8.7: EXISTENCE OF THE CREDIT POLICY**

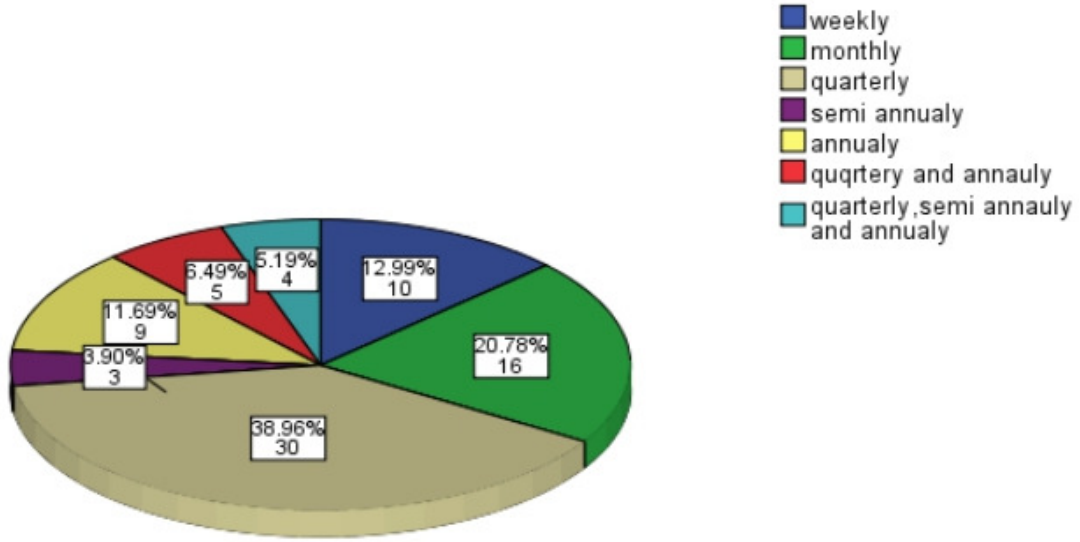
| Alternatives | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **Valid** | yes, there is credit policy | 32 | 41.6 | 41.6 | 41.6 |
| | there is no credit policy | 31 | 40.3 | 40.3 | 81.8 |
| | I don't know | 14 | 18.2 | 18.2 | 100.0 |
| | Total | 77 | 100.0 | 100.0 | |

**Sources:** own survey, 2013

As Table (8.6) exhibits 96.1% of respondents "rarely or sometimes" sell the companies their products or services on credit to their customer, only 3 % of the total responds "never" use any credit sales. On the other hand, out of the 91.6% the 41.6% were providing a response that the company has a credit policy in which the manufacturing company sells a product rarely/ sometimes. The remaining 54.5% were reply as the company has no fixed credit policy even they sell their product or service on credit basis. However, a few respondents14 (18.2%) of the total answered that they did not know whether the company has any credit policy or not even if the company may provide a credit.

**FIGURE 8.4: FREQUENCY OF REVIEWING THE COMPANIES' RECEIVABLE**




**Sources:** own survey, 2013

As the above fig 8.4 reveals 30 (39%) of the total response states the manufacturing companies are engaged quarterly to review their receivable to minimize the uncollectible. The second larger percentage (20.8%) of the total also replies as the companies' review their receivable monthly. Based on their credit policy their receivable also reviewed on weekly basis as 13% of the total respondents reply. From this, we can conclude that the sampled private companies review their receivable based on their sales agreement.

**TABLE 8.8: FREQUENCY OF REVIEWING OF BAD DEBTS OF COMPANIES**

| | Time periods | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| **Valid** | Never | 17 | 22.1 | 22.1 |
| | Weekly | 5 | 6.5 | 28.6 |
| | Quarterly | 20 | 26.0 | 54.5 |
| | Annually | 33 | 42.9 | 97.4 |
| | quarterly, semiannually and annually | 2 | 2.6 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

Similarly this table also disclose about examination of the bad debt of the manufacturing companies. Under this 33 (42.9%) of the total respondent agree with the companies that reviews their bad debt annually. The near percentage to this response is the companies were reviewing their bad debt quarterly. In contrast to this response, 17 (22.1%) of the total reply for the companies that never review their bad debts.

**TABLE 8.9: THE AVERAGE INDICATOR IN PERCENTAGE OF BAD DEBT TO SALES**

| | In terms of sales | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| **Valid** | Less than 2% of sales | 42 | 54.5 | 54.5 |
| | 2 – 8% of sales | 8 | 10.4 | 64.9 |
| | I don't know | 27 | 35.1 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

As the companies sell their product to their customer, it is difficult to collect all receivables with certainty; there may exist as uncollectible (bad debts). Depending on this, majority of the companies have bad debt less than 2% of their sales. Other things remain constant; this may be as result of continuous evaluation/assessment of their bad debt account, poor credit selection, in adequate collection efforts. In contrast to this, some of the respondent answered that they did not know their percentage of bad debts to sales.

**II. Cash Management**

This activity is very essential to the companies in order to assess the liquidity position of the firm during the period. This section also assesses the activities of the company related to the cash management.

**TABLE 8.10: CASH RELATED ACTIVATES OF THE COMPANIES'**

| s/n | Item | | Never | Rarely | Sometimes | Often | Always | I don't know | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Preparing cash budget | Frq | 0 | 0 | 6 | 5 | 66 | 0 | **77** |
| | | %ge | 0 | 0 | 7.8 | 6.5 | 85.7 | 0 | **100.0** |
| 2 | Determining the target cash balance | Frq | 5 | 56 | 5 | 11 | 61 | 0 | **77** |
| | | %ge | 6.5 | 0 | 0 | 14.3 | 79.2 | 0 | **100.0** |
| 3 | Cash shortage | Frq | 5 | 56 | 5 | 11 | 0 | 0 | **77** |
| | | %ge | 6.5 | 72.7 | 6.5 | 14.3 | 0 | 0 | **100.0** |
| 4 | Cash surplus | Frq | 13 | 1 | 5 | 39 | 19 | 0 | **77** |
| | | **%ge** | **16.9** | **1.3** | **6.5** | **50.6** | **24.7** | **0** | **100.0** |

**Sources:** own survey, 2013

The above table 8.10 (1) indicates that the frequency of preparing cash budget, that 66(85.7%) of respondents states as the companies always prepare cash budgets, and 6(7.8%) and 5(6.5) of the total respondents replied the cash budget is prepared some times and often by the company respectively. whereas about 5 percent never prepare the budgets. On the other hand, Table 4.10 (2) reveals that 61(79.2%) of the manufacturing companies determine their cash balance always. In addition to this some of the respondents 11(14.3%) of the total answer as the companies often determine their cash balance. In contrast to this, the 5(6.5%) of the total reply as the company never determine the target cash balance. In addition to this, the above table (8.10) also considers both the occurrences of cash shortage and surplus of the sampled companies. As the table (8.10) reveals 56(72.7%) and 39(50.6%) of the total respondents states there is cash shortage and surplus in the manufacturing companies' respectively. In contrast to this idea these companies have never any shortage and surplus as the 5(6.5%) and 13(16.9%) respondents replied respectively.

**TABLE 8.11: FREQUENCY OF PREPARING CASH BUDGET COMPANY**

| Time periods | | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| **Valid** | Daily | 5 | 6.5 | 6.5 |
| | Weekly | 21 | 27.3 | 33.8 |
| | Monthly | 21 | 27.3 | 61.0 |
| | Quarterly | 3 | 3.9 | 64.9 |
| | Semi-annually | 11 | 14.3 | 79.2 |
| | Annually | 3 | 3.9 | 83.1 |
| | Weekly, monthly, quarterly, semi annually and annually | 10 | 13.0 | 96.1 |
| | monthly, quarterly, semi annually and annually | 3 | 3.9 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

As indicated in above table (8.11) 27.3 percent of respondents provided an answer that the companies prepare cash budgets weekly and monthly. The second and third large percentage (14.3% and 13.0%) provides as the company prepared a cash budget semi-annually and throughout the year respectively.

**TABLE 8.12: FREQUENCY OF REVIEWING CASH BUDGET OF THE COMPANY**

| Time periods | | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| **Valid** | Weekly | 21 | 27.3 | 27.3 |
| | Monthly | 37 | 48.1 | 75.3 |
| | Quarterly | 3 | 3.9 | 79.2 |
| | semi annually | 11 | 14.3 | 93.5 |
| | Annually | 2 | 2.6 | 96.1 |
| | Monthly, quarterly, semi-annually and annually | 3 | 3.9 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

37(48.1%) of the respondents reply as the companies review their cash budget monthly and 21(27.3%) and 11(14.3%) of the total says the companies review the cash budget weekly and semiannually respectively. From this as the company prepare review the cash budget the next step will be reviewing by the responsible body. In addition to this some respondents disclose as every Monday engaged in preparing and reviewing the cash budget of the company.

**TABLE 8.13: FREQUENCY OF PREPARING INVENTORY BUDGET COMPANIES**

| | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Weekly | 5 | 6.5 | 6.5 |
| Monthly | 2 | 2.6 | 9.1 |
| Quarterly | 22 | 28.6 | 37.7 |
| Annually | 32 | 41.6 | 79.2 |
| monthly, quarterly, semi -annually and annually | 10 | 13.0 | 92.2 |
| semi -annually and annually | 1 | 1.3 | 93.5 |
| quarterly, semiannually and annually | 5 | 6.5 | 100.0 |
| Total | 77 | 100.0 | |

**Sources:** own survey, 2013

As portrayed in the above table the majority of the respondents replied as the private manufacturing companies prepared their inventory budget in yearly basis as revealed by the 32(41.6%) of the total respondents. The 22(28.6%) of the total manufacturing companies prepared their inventory budget quarterly. The third large response 10(13%) of the total response stated that the companies were prepared their inventory budget monthly, quarterly, semi-annually and annually.

**TABLE 8.14: FREQUENCY OF REVIEWING THE LEVEL OF INVENTORY BUDGET OF THE COMPANIES**

| | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Weekly | 5 | 6.5 | 6.5 |
| Monthly | 4 | 5.2 | 11.7 |
| Quarterly | 2 | 2.6 | 14.3 |
| Annually | 42 | 54.5 | 68.8 |
| monthly, quarterly, semi-annually and annually | 15 | 19.5 | 88.3 |
| Semi- annually and annually | 9 | 11.7 | 100.0 |
| Total | 77 | 100.0 | |

**Sources:** own survey, 2013

The above table shows a relatively high number/percentage 42 (54.5%) of the manufacturing companies in the sample annually review the inventory levels and 15(19.5%) review the inventory level monthly, quarterly, semiannually and annually.

To sum up the above practices from majority of the respondents the researcher can conclude that, the sampled companies are selling a product/ service on credit, there is a credit policy for the credit sales. In addition to this, the companies receives their receivable and there is less percentage of bad debts (<2 percent of sales).

The second part under this practice is the cash management; the majority of the sampled companies always (weekly and monthly) prepared and reviews their cash budget, always determine the target cash balance. On the other hand, the companies have rarely cash shortage and often cash surplus. Lastly, most of the sampled companies are prepared and review their inventory budget on the yearly basis.

**3. Capital Budgeting Management Practices**

This part assesses how the sampled companies are currently used the practices of the capital budgeting management and applied the different techniques of capital budgeting.

**TABLE 8.15: TECHNIQUES OF CAPITAL BUDGETING USED IN EVALUATING A PROJECTBY COMPANIES IN THE MANUFACTURING**

| Alternatives | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| Yes | 32 | 41.6 | 41.6 |
| No | 45 | 58.4 | 58.4 |
| Total | 77 | 100.0 | 100.0 |

**Sources:** own survey, 2013

From the above table (4.15) the 45(58.4%) of the total sample didn't use the techniques of capital budgeting in evaluation the companies' project throughout a time, whereas the 32(41.6%) of the total companies used the techniques of capital budgeting in evaluating the existing projects. So that more than fifty percent of the total manufacturing companies didn't used the capital budgeting techniques to evaluate the performance of the projects but they simply evaluate the project's cost and profit by ignoring the time value of money.

**TABLE 4.16: FREQUENCY SPECIFIC TECHNIQUES OF CAPITAL BUDGETING USED IN EVALUATING PROJECTS**

| s/n | Items | | Never | Rarely | Sometimes | Often | Always | I don't know | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1 | The company uses payback period for evaluation. | Frq | 44 | 0 | 17 | 16 | 0 | 0 | 77 |
| | | %ge | 57.1 | 0 | 22.1 | 20.8 | 0 | 0 | 100.0 |
| 2 | The company uses accounting rate of return for evaluation. | Frq | 40 | 0 | 9 | 13 | 10 | 5 | 77 |
| | | %ge | 51.9 | 0 | 11.7 | 16.9 | 13.0 | 6.5 | 100.0 |
| 3 | The company uses profitability index for evaluation. | Frq | 39 | 0 | 7 | 20 | 11 | 0 | 77 |
| | | %ge | 50.6 | 0 | 9.1 | 26.0 | 14.3 | 0 | 100.0 |
| 4 | The company uses discounted payback period for evaluation. | Frq | 70 | 0 | 2 | 0 | 0 | 2 | 77 |
| | | %ge | 90.9 | 0 | 2.6 | 0 | 0 | 6.5 | 100.0 |
| 5 | The company uses net present value for evaluation. | Frq | 49 | 3 | 9 | 3 | 13 | 0 | 77 |
| | | %ge | 63.6 | 3.9 | 11.7 | 3.9 | 16.9 | 0 | 100.0 |
| 6 | The company use internal rate of return for evaluation | Frq | 77 | 0 | 0 | 0 | 0 | 0 | 77 |
| | | %ge | 100 | 0 | 0 | 0 | 0 | 0 | 100.0 |
| 7 | The company use modified internal rate of return for evaluation | Frq | 69 | 5 | 0 | 0 | 0 | 3 | 77 |
| | | %ge | 89.6 | 6.5 | 0 | 0 | 0 | 3.9 | 100.0 |

**Sources:** own survey, 2013

From the above table (8.16) the descriptive findings on the uses of capital budgeting techniques revealed that the companies never use the payback period (i.e. 57.1% of the total sampled), accounting rate of return (51.9% of the total), profitability index (50.6% of the total), discount payback period (90.9% of the total), net present value(63.6% of the total), modified internal rate of return(89.6% of the total) and never used 100% internal rate of return, Whereas the company uses the payback period (near 42.9% of the total sometimes and often), accounting rate of return (32.3% of the total used sometimes, often and always), profitability index (49.4% of the total sometimes ,often and always), discount payback period (2.6% of the total used sometimes ), net present value(36.4% of the total used rarely, sometimes, often and always) and modified internal rate of return(6.5% of the total used rarely). The implication of this finding is, average (71.9%) of the total sampled companies never used any techniques to evaluate the different types of project in the company. Because they are simply calculate the revenue and expenditure (accounting profit) of the projects throughout a time without considering the economic profit.

**TABLE 8.17: METHODS USED TO EVALUATE EXPANSION EXISTING OPERATIONS**

| | | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| Valid | payback period | 6 | 7.8 | 7.8 |
| | profitability index | 8 | 10.4 | 10.4 |
| | net present value | 11 | 14.3 | 14.3 |
| | not at all | 14 | 18.2 | 18.2 |
| | pay back, accounting rate of return and profitability | 20 | 26.0 | 26.0 |
| | net present value and profitability | 18 | 23.4 | 23.4 |
| | Total | 77 | 100.0 | 100.0 |

**Sources**: own survey, 2013

Near 26% of the total sampled companies used pay back, accounting rate of return and profitability index evaluation techniques in expansions an existing project. In addition to this the 23.4 percent of the total sampled companies are used both the net present value and profitability index, whereas the 18% of the total didn't apply any techniques to evaluate their project up on expansions.

**TABLE 8.18: METHODS USED TO EVALUATE CAPITAL INVESTMENT PROJECT**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **Valid** | Payback period | 1 | 1.3 | 1.3 | 1.3 |
| | Profitability index | 10 | 13.0 | 13.0 | 14.3 |
| | Net present value | 13 | 16.9 | 16.9 | 31.2 |
| | Internal rate of return | 5 | 6.5 | 6.5 | 37.7 |
| | pay back, accounting return and profitability | 3 | 3.9 | 3.9 | 74.0 |
| | pay back, accounting return profitability and present value | 4 | 5.2 | 5.2 | 90.9 |
| | Not at all | 28 | 36.4 | 36.4 | 94.8 |
| | I don't know | 13 | 16.9 | 16.9 | 100.0 |
| | Total | 77 | 100.0 | 100.0 | |

**Sources:** own survey, 2013

As depicted from the above table (8.18) the majority 36.4% of the total didn't use any evaluation techniques in evaluating the existing capital investment projects (if any). Whereas the 13 percent of the total sampled company apply the profitability index to evaluate capital investment project.

**TABLE 8.19: METHODS USED TO EVALUATE EXPANSION OF NEW OPERATION**

| | Items | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **Valid** | Payback period | 1 | 1.3 | 1.3 | 1.3 |
| | Accounting rate of return | 3 | 3.9 | 3.9 | 5.2 |
| | Profitability index | 23 | 29.9 | 29.9 | 35.1 |
| | Net present value | 13 | 16.9 | 16.9 | 51.9 |
| | not at all | 20 | 26.0 | 26.0 | 77.9 |
| | I don't know | 14 | 18.2 | 18.2 | 96.1 |
| | profitability and net present value | 2 | 2.6 | 2.6 | 98.7 |
| | pay back and profitability | 1 | 1.3 | 1.3 | 100.0 |
| | Total | 77 | 100.0 | 100.0 | |

**Source:** own survey, 2013

29.9 percent of the sampled stated that they use profitability index technique in capital budgeting for evaluating a new project operation in addition to the existing projects. The 16.9 percent of the total also use the net present value to evaluate the new operated project, whereas 26% of the total didn't apply any technique to evaluate the new operated project.

**TABLE 4.20: FREQUENCY OF REVIEWING THE CAPITAL PROJECTS AVAILABLE IN THE COMPANY**

| | | Frequency | Percent | Cumulative Percent |
|---|---|---|---|---|
| **Valid** | Daily | 2 | 2.6 | 2.6 |
| | Weekly | 7 | 9.1 | 11.7 |
| | bi weekly | 3 | 3.9 | 15.6 |
| | Monthly | 15 | 19.5 | 35.1 |
| | Semi-annually | 2 | 2.6 | 37.7 |
| | Annually | 35 | 45.5 | 83.1 |
| | Semi-annually and annually | 10 | 13.0 | 96.1 |
| | Quarterly, semi-annually and annually | 3 | 3.9 | 100.0 |
| | Total | 77 | 100.0 | |

**Sources:** own survey, 2013

The above table (8.20) indicates the 45.5percent of the companies review their project on yearly basis and 19.5% and13% of the total reviewing their project monthly **and** annually and semi annually respectively. But most of the respondent discloses in the open ended question, the projects were reviewed based on the length of time taken to finish the project.

**TABLE 8.21: THE EFFECT OF DIFFERENT FACTORS ON FIRM'S INVESTMENT FUNDING DECISION WITH A GIVEN CHOICE AVAILABLE**

| s/n | Items | | no effect at all=1 | Neutral=2 | some effect=3 | high effect=4 | Total |
|---|---|---|---|---|---|---|---|
| 1. | Maintain a long-term capacity μ =2.12, Std.=1.214 | Freq | 33 | 21 | 4 | 19 | 77 |
| | | %ge | 42.9 | 27.3 | 5.2 | 24.7 | 100.0 |
| 2. | Preservation of a high competitiveness towards rivals μ =3.39, Std.= 1.015 | Freq | 10 | 0 | 17 | 50 | 77 |
| | | %ge | 13.0 | 0 | 22.1 | 64.9 | 100.0 |
| 3. | Forecasted cash flows from the investment projects μ =3.29, Std.= .841 | Freq | 2 | 13 | 23 | 39 | 77 |
| | | %ge | 2.6 | 16.9 | 29.9 | 50.6 | 100.0 |
| 4. | Maintenance of a desirable credit rating μ = 2.27, Std.= 1.143 | Freq | 27 | 17 | 18 | 15 | 77 |
| | | %ge | 35.1 | 22.1 | 23.4 | 19.5 | 100.0 |
| 5. | Project risk μ = 2.77, Std.= 1.062 | Freq | 15 | 9 | 32 | 21 | 77 |
| | | %ge | 19.5 | 11.7 | 41.6 | 27.3 | 100.0 |
| 6. | Financial flexibility μ = 3.29 Std.=.582 | Freq | 0 | 5 | 45 | 27 | 77 |
| | | %ge | 0 | 6.5 | 58.4 | 35.1 | 100.0 |
| 7. 0 | Corporate tax rate =1.17, Std.= .377 | Freq | 64 | 13 | 0 | 0 | 77 |
| | | %ge | 83.1 | 16.9 | 0 | 0 | 100.0 |
| 8. | Depreciation level μ =1.56, Std.= .734 | Freq | 43 | 27 | 5 | 2 | 77 |
| | | %ge | 55.8 | 35.1 | 6.5 | 2.6 | 100.0 |
| 9. | Control consideration μ =1.55, Std.= .699 | Freq | 44 | 24 | 9 | 0 | 77 |
| | | %ge | 57.1 | 31.2 | 11.7 | 0 | 100.0 |
| 10. | Potential financial distress costs μ =1.70, Std.= .708 | Freq | 34 | 32 | 11 | 0 | 77 |
| | | %ge | 44.2 | 41.6 | 14.3 | 0 | 100.0 |
| 11. | Clental tax rates μ =1.31, Std.= .466 | Freq | 53 | 24 | 0 | 0 | 77 |
| | | %ge | 68.8 | 31.2 | 0 | 0 | 100.0 |

**Sources:** own survey, 2013

As indicated in the above table ( 8.21) the factor which highly affect firm's investment funding decision with a given choice available is for the matter of Preservation of a high competitiveness towards rivals with 50 (64.9%) of total response and a mean of 3.39 and Standard deviation of 1.015 among responses. In addition to this, the 39(50.6%) of the total response replied the Forecasted cash flows from the investment projects is a factor which is highly affect the firm's investment funding decision with a given choice available with a mean value of 3.29 and Std. deviation of 0.841.

The 35.1 percent of the total sampled reports, the third factor highly affect the firm's investment funding decision with a given choice available with a mean value of 3.29 and Std. deviation of 0.582) is financial flexibility. Whereas the corporate tax rate, depreciation level, control consideration, Potential financial distress costs and clental tax rates are the least affected factors on the firm's investment funding decision with a given choice available.

## 9. Capital Structure Management Practices

This part describes the overall capital structure management practices of the sampled manufacturing companies in Mekelle city.

**TABLE 8.22: TIME OF REVIEW COMPANIES' CAPITAL STRUCTURE**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Daily | 2 | 2.6 | 2.6 | 2.6 |
| | Weekly | 5 | 6.5 | 6.5 | 9.1 |
| | Monthly | 15 | 19.5 | 19.5 | 28.6 |
| | Quarterly | 33 | 42.9 | 42.9 | 71.4 |
| | semi –annually | 9 | 11.7 | 11.7 | 83.1 |
| | Annually | 13 | 16.9 | 16.9 | 100.0 |
| | Total | 77 | 100.0 | 100.0 | |

**Sources:** own survey, 2013

Most of the responses (42.9%) of the total replied that, the companies are engaged in reviewing their capital

structure quarterly. In addition to this, the 19.5 percent of the respondents reveal as the company reviews on the monthly basis.

**TABLE 8.23: THE EFFECT OF DIFFERENT FACTORS IN CHOOSING THE APPROPRIATE AMOUNT OF LONG-TERM DEBT**

| s/n | Items | | no effect at all=1 | Neutral=2 | some effect=3 | high effect=4 | Total |
|---|---|---|---|---|---|---|---|
| 1. | Tax shield advantages μ = 1.65, Std.= 1.109 | Freq | 54 | 7 | 5 | 11 | 77 |
| | | %ge | 70.1 | 9.1 | 6.5 | 14.3 | 100.0 |
| 2. | The potential costs of financial distress μ = 2.42, Std.= 1.239 | Freq | 31 | 1 | 27 | 18 | 77 |
| | | %ge | 40.3 | 1.3 | 35.1 | 23.4 | 100.0 |
| 3. | The debt levels of other firms in our industry μ = 1.86, Std.= 1.200 | Freq | 48 | 5 | 11 | 13 | 77 |
| | | %ge | 62.3 | 6.5 | 14.3 | 16.9 | 100.0 |
| 4. | Clientele tax cost μ = 1.14, Std.= .352 | Freq | 66 | 11 | 0 | 0 | 77 |
| | | %ge | 85.7 | 14.3 | 0 | 0 | 100.0 |
| 5. | Financial flexibility μ = 2.49, Std.= 1.131 | Freq | 26 | 0 | 38 | 13 | 77 |
| | | %ge | 33.8 | 0 | 49.4 | 16.9 | 100.0 |
| 6. | The volatility of present and forecasted earnings and cash flows μ = 2.90, Std.= 1.119 | Freq | 16 | 4 | 29 | 28 | 77 |
| | | %ge | 20.8 | 5.2 | 37.7 | 36.4 | 100.0 |
| 7. 0 | Maintenance of a competitiveness towards industry rivals μ = 3.32, Std.= .818 | Freq | 5 | 2 | 33 | 37 | 77 |
| | | %ge | 6.5 | 2.6 | 42.9 | 48.1 | 100.0 |
| 8. | Debt repayment capability μ = 3.27, Std.= .477 | Freq | 0 | 1 | 54 | 22 | 77 |
| | | %ge | 0 | 1.3 | 70.1 | 28.6 | 100.0 |
| 9. | Maintaining desirable crediting rating μ = 2.47, Std.= .954 | Freq | 18 | 12 | 40 | 7 | 77 |
| | | %ge | 23.4 | 15.6 | 51.9 | 9.1 | 100.0 |
| 10. | Maintaining a certain liquidity μ = 2.84, Std.= .608 | Freq | 0 | 21 | 47 | 9 | 77 |
| | | %ge | 0 | 27.3 | 61.0 | 11.7 | 100.0 |
| 11. | Maintaining a satisfactory borrowing reserve μ = 2.97, Std.= 1.100 | Freq | 10 | 17 | 15 | 35 | 77 |
| | | %ge | 13.0 | 22.1 | 19.5 | 45.5 | 100.0 |
| 12. | Corporation norms μ = 2.92, Std.= 1.133 | Freq | 8 | 28 | 3 | 38 | 77 |
| | | %ge | 10.4 | 36.4 | 3.9 | 49.4 | 100.0 |

**Sources:** own survey, 2013

The above table(8.23) indicates, the factor factors which high effect in choosing the appropriate amount of long-term debt to fulfill its requirement with the given choice available is for Maintenance of a competitiveness towards industry rivals as replied by 48.1 percent of the total with a mean value of 3.32, and std. deviation of 0 .818. In addition to this there are factors that highly affect the choice in selecting the appropriate amount of long-term debt to fulfill its requirement with the given choice available such as Debt repayment capability with 28.6 percent response from the total and mean and standard deviation of (3.27and 0 .477), corporation norms with 49.4 percent response and mean 2.92 and Std. deviation 1.133. In consideration of this factor, even if there is a high percentage in response, there is a low mean and high standard deviation among the responses because the companies that are included under the corporation are mainly affected their choice by the corporation norms unlike others. In addition to this volatility of present and forecasted earnings and cash flows is highly affected the choice of selection as 36.4 percent (with a mean value of 2.90 and std. deviation of 1.119) of the total responds.

**TABLE 8.24: STAKEHOLDERS OF THE COMPANIES THAT MAY AFFECT THE CAPITAL STRUCTURE OF THE COMPANY**

| s/n | Items | | no effect at all=1 | Neutral=2 | some effect=3 | high effect=4 | Total |
|---|---|---|---|---|---|---|---|
| 1. | Opinions of commercial bankers μ= 2.99, Std.= .786 | Freq | 5 | 9 | 45 | 18 | 77 |
| | | %ge | 6.5 | 11.7 | 58.4 | 23.4 | 100.0 |
| 2. | Opinions of the corporation μ = 3.10, Std.= 3.390 | Freq | 9 | 28 | 14 | 26 | 77 |
| | | %ge | 11.7 | 36.4 | 18.2 | 33.8 | 100.0 |
| 3. | Opinions of investment bankers μ = 3.44, Std.= .639 | Freq | 0 | 6 | 31 | 40 | 77 |
| | | %ge | 0 | 7.8 | 40.3 | 51.9 | 100.0 |
| 4. | Comparative industry ratios μ = 1.75, Std.= .934 | Freq | 40 | 21 | 11 | 5 | 77 |
| | | %ge | 51.9 | 27.3 | 14.3 | 6.5 | 100.0 |
| 5. | Other opinions of the company's employees and analysts μ = 1.26, Std.= .677 | Freq | 67 | 0 | 10 | 0 | 77 |
| | | %ge | 87.0 | 0 | 13.0 | 0 | 100.0 |
| 6. | Opinions of suppliers μ = 2.92, Std.= .821 | Freq | 16 | 8 | 53 | 0 | 77 |
| | | %ge | 20.8 | 10.4 | 68.8 | 0 | 100.0 |

**Sources:** own survey, 2013

The above table (8.24) depicts the stake holder Opinion of investment banker highly affect the capital structure of the company with 51.9% response of the total and mean value of 3.44 and Std. deviation of 0.639 among the responses. In addition to this the opinion of commercial banks also highly affect the composition of capital structure as replied by 23.4% of the respondents (with a mean value and standard deviation of 2.99 and 0 .786 respectively).Even if the response for the opinion of the corporation (33.8% of the total) replied the high effect on capital structure, there is high deviation among the respondents that imply it is specific to some of the organizations under the corporation.

**TABLE 8.25: FACTORS CONSIDERED BY COMPANIES IN DETERMINING THE CAPITAL STRUCTURE OF THE COMPANIES**

| s/n | Items | | no consideration at all | Neutral | some consideration | high consideration | Total |
|---|---|---|---|---|---|---|---|
| 1. | Compare the debt ratio of the firm over time μ = 2.91, Std.= 1.258 | Freq | 21 | 1 | 19 | 36 | 77 |
| | | %ge | 27.3 | 1.3 | 24.7 | 46.8 | 100.0 |
| 2. | Compare the debt ratio of the firm with the corporation debt ratios μ = 2.70 , Std.= 1.065 | Freq | 9 | 31 | 11 | 26 | 77 |
| | | %ge | 11.7 | 40.3 | 14.3 | 33.8 | 100.0 |
| 3. | Compare the debt ratio of the firm with the debt ratios of other firms μ =1.71 Std.=.944 | Freq | 48 | 3 | 26 | 0 | 77 |
| | | %ge | 62.3 | 3.9 | 33.8 | 0 | 100.0 |

**Sources:** own survey, 2013

As the above table (8.25) depicts the major aspect used to determine the capital structure of the firm is the Compare the debt ratio of the firm over time as replied by the majority of the respondents i.e. 46.8 percent (with a mean value and std. deviation of 2.91 and 1.258 respectively) in addition to the response with some consideration as 24.7 replied. In contrast to this the firm does not considered (62.3%) the debt ratio of the firm with the debt ratios of other firms.

### 10. Accounting Information System Management

Same to the above description this part also provides a description about the accounting information system management practices in the sampled companies.

**TABLE 8.26: FREQUENCY OF USING THE COMPUTERIZED ACCOUNTING IN PROCESSING THE FINANCIAL ACTIVITIES OF THE ORGANIZATION**

| s/n | Items | | Never | Rarely | Sometimes | Often | Always | I don't know | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1 | The company utilizes the computer in accounting activity μ = 4.62, Std.= .488 | Frq | 0 | 0 | 0 | 29 | 48 | 0 | 77 |
| | | %ge | 0 | 0 | 0 | 37.7 | 62.3 | 0 | 100.0 |
| 2 | The company uses computer in Recording business transaction μ = 4.78, Std.= .417 | Frq | 0 | 0 | 0 | 17 | 60 | 0 | 77 |
| | | %ge | 0 | 0 | 0 | 22.1 | 77.9 | 0 | 100.0 |
| 3 | The company uses computer in Preparing accounting reports Preparing accounting reports μ = 4.73, Std.= .641 | Frq | 0 | 0 | 8 | 5 | 64 | 0 | 77 |
| | | %ge | 0 | 0 | 10.4 | 6.5 | 83.1 | 0 | 100.0 |
| 4 | The company uses computer in Managing assets μ = 4.83, Std.= .377 | Frq | 0 | 0 | 0 | 13 | 64 | 0 | 77 |
| | | %ge | 0 | 0 | 0 | 16.9 | 83.1 | 0 | 100.0 |
| 5 | The company uses computer in Controlling payroll μ = 4.99, Std.= .114 | Frq | 0 | 0 | 0 | 1 | 76 | 0 | 77 |
| | | %ge | 0 | 0 | 0 | 1.3 | 98.7 | 0 | 100.0 |
| 6 | The company uses computer in Controlling cash flows μ = 4.66, Std.= .476 | Frq | 0 | 0 | 0 | 26 | 51 | 0 | 77 |
| | | %ge | 0 | 0 | 0 | 33.8 | 66.2 | 0 | 100.0 |

**Sources:** own survey, 2013

From the above table (8.26) almost all of the respondent's states utilize the computer in processing the accounting information of the companies. But there is a difference among the companies when they utilize the computer for the financial activities.

Some of the companies are used a latest software to run the financial activity (record, balance, report, and analyze) like ERP (enterprise resources planning) which is a multidimensional software applied to manage the overall activities (such as financial, human resources and the planning activities). The activities that are performed using this software are in any companies are interconnected using networks with the head office (if any). Exceptionally, the company's activities related to the projects and stock management is not connected with head office (if any).

- In some of the companies to manage the inventory level there is software called LMS (Logistic management system) used to manage and report the updated (daily/ending) balance at any time and reported the final information using the ERP. The LMS control the stock level of the company by list out based on their category and determine at any time their end balance in terms of Ethiopian birr.
- Others commonly applied the Peachtree software which has one-dimensional in order to control only the financial activities of the organizations.

## 8.3. SUMMARY OF THE DESCRIPTIVE STATISTICS

Descriptive statistics is a result in which the summary of all the variables' mean, standard deviation, minimum and maximum values with the number of observations is demonstrated in tabular form. Table 4.1 below, shows the descriptive statistics about the mean distribution, standard deviations, minimum and maximum values of the study variables in consideration of the responses with a minimum value one for strongly disagree and a maximum value of five for strongly agree. The variables were the selected financial management practices and the demographic factors that may affect directly and indirectly the practice.

**TABLE 8.27: EXISTING FINANCIAL MANAGEMENT PRACTICES AND THE RELATED DEMOGRAPHIC FACTORS**

| s/n | Variable | OBS | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|---|
| 1. | Financial reporting and analysis management | 77 | 3.894249 | .9584277 | 1.142857 | 5 |
| 2. | Working capital management | 77 | 3.877922 | .8099096 | 1.3 | 5 |
| 3. | Capital budgeting management | 77 | 3.516234 | .639101 | 2 | 4.75 |
| 4. | Capital structure management | 77 | 3.655435 | .4899886 | 2.5 | 5 |
| 5. | Accounting information system management | 77 | 4.081169 | .5819963 | 2.5 | 5 |
| 6. | Education | 77 | 2 | .4588315 | 1 | 3 |
| 7. | Experience | 77 | 1.857143 | .5784345 | 1 | 3 |
| 8. | Profession | 77 | 5.168831 | 1.093071 | 2 | 7 |
| 9. | Age of company | 77 | 3.285714 | .9981185 | 2 | 5 |

**Sources:** STATA output from own survey, 2013

The above table showed the descriptive statistics for the eleven private manufacturing companies with a total observations of seventy-seven. It shows the efficiency of the practices of the private manufacturing companies summarized from all respondents in the study. In addition to this the demographic factors are also summarized there. From the above table the first variable represent the existences and efficiency financial reporting and analysis management practices of the companies and indicating the response with a minimum (1.142857= near to strongly disagree) and a maximum (5=strongly agree) with this practice. The average response about the existence and efficiency of financial reporting and analysis management practices almost near to the positive answer agree (mean=3.894249). So that, there is an existed and efficient financial management practices in the organization to some extent because it is below four that indicates for agreement with the existence and efficiency of the financial reporting and analysis. From the total responses there is a deviation among them to the extent of 0.9584277 near to the minimum value of the efficiency.

The second variable from the above tables (8.27) represent for the existence and efficiency of Working capital management practice of the selected private manufacturing companies. It shows the existences and efficiency of the practices summarized from all respondents of the sampled companies in this study. The summary indicates the response with a minimum (1.3= near to strongly disagree) and a maximum (5=strongly agree) with overall efficiency of the practice. The average response (mean=3.877922) about the efficiency of this practice is almost near to the positive answer (agree=4). So that there is existing and efficient working capital management practices in the organization to some extent because it is below four that indicates for agreement with the existence and efficiency of the practice. From the total responses there is a deviation among them to the extent of 0.8099096 near to the minimum value of the efficiency.

The third variable from the above the table (8.27) is the capital budgeting management practice stands for the existence and efficiency of the practice in these organizations. As the table depicts the summarized response about the existence and efficiency of the practices in the companies; the summary indicates the response with a minimum (2= disagree) and a maximum (4.75=near to strongly agree) for the overall activity related to the capital budgeting management of the companies. The average response (mean=3.516234) about the efficiency of this practice is near to both neutral and the positive answer (agree=4). So that there is existence and efficient capital budgeting management practices in the organization with a lower average response because it is below the agreed amount. In addition to this there is a lower deviation among responses to the extent of 0.639101 because it is not more practical almost in all sampled companies**.**

The other selected variable in the study is the capital structure management practices. This variable represents for the capital structure management practices in the organization. The responses were between the minimum two point five (near to disagree) and the maximum five (strongly agree). The average response indicates (mean of 3.655435) near to agree with existence and efficiency of the practice. In addition to this there is deviation among respondents around 0.4899886.

The last specific variable from the financial a management practice is the Accounting information system management that represent the existence and efficiency of the practice in the sampled companies. The table shows a minimum two and half (lies between disagree and neutral) and a maximum five scale response for the practice.

The average response (mean=4.081169) about the existence and efficiency of this practice; that is almost above to the positive answer (agree=4). So that there is existence and efficient accounting information management practices in the organization with deviation among the responses to the extent of .5819963 near to the minimum value of the responses.

The second part in the above table (8.27) is about the demographic factors. The variable education represents

for the level of education qualification for the respondents (directors and officers) with a minimum response (1=diploma holders) and a maximum response (3=2nd degree holders). The average response is two (2= perfectly) degree holders in the sampled. From this almost the majority of the respondents are a first degree holder that involves in practices of financial management in the sampled organization.

The second demographic factor from the above table (8.27) experience represents the time period that respondent for how long has been worked in sampled organizations. The response includes a minimum one that represent with time bracket between zero and four years' work experience and the maximum response incorporate the time bracket from 10 to 14years. The average response is equals to 1.857143 that is near to the 5 to 9 years times' bracket and indicate in average they are in the bracket 5 to 9 years with a deviation in response by 0.5784345.

The third demographic factor from the above table is the profession that represents academic profession of the respondents and there is a minimum response two that for the academic profession represented for public administration and the maximum response (7) is represented for the respondents that have qualification accounting and fiancé and economics. The average response indicates (5.168831) that are more approximate to the accounting and fiancé profession with a deviation in response of 1.09307. The last factor from the above table is the age of the sampled companies with a minimum response of two that represent the time bracket of 5 to 9 years and a maximum five that represent for the age bracket of 19 and above. The average response for is 3.285714 that is approximate to the bracket of 10 to 14 years with a deviation in response around 0 .9981185.

## 9. CONCLUSIONS

The purpose of this study was to explore and assess the existing financial management practices of the companies. Based on the findings in this study, the following conclusions are derived regarding the practices of financial management practice of the companies.

- The findings of the study revealed the sampled manufacturing companies are preparing the basic financial statements with help of officers in the financial account division continuously at the end of the period within a year (monthly, quarterly, semiannually and annually). After preparing the reports the division head from financial account will analyze the report with some meddling by the finance head. During analysis the manufacturing companies more or less tried to analyze their report using the ratio analysis techniques such as liquidity, activity and profitability ratios.
- The sampled manufacturing companies provide rarely a product/service to their customers on credit basis. Some of these companies have their own credit policy. In addition to this these companies are engaged in reviewing their receivable on quarterly basis. But some companies review their receivables on weekly basis. To sum up this idea companies are review their receivable based on their credit policy. As result of providing a product on credit basis, there may be a bad debt. The companies are assessing their bad debt on annual base. Most of the companies have bad debt less than 2 percent of the total sales during the year.
- The findings of the study revealed the existing practices related cash activities of the companies. Most of the sampled companies prepared, review and determine their target cash balance always weekly and monthly.
- Related to the inventory management of the companies', the study showed that companies prepared and reviewed their inventory on annual basis.
- As the findings shows the majority of sampled private manufacturing companies did not apply the capital budgeting techniques even if some of the remaining sampled private manufacturing companies used often the accounting rate of return, profitability index and sometimes the payback period and net present value. Those companies used the techniques are also applied differently for different purpose. The profitability index is used more in order to evaluate the capital investment projects by the companies and upon their expansions in an existing projects. In addition to this, most of the users of the technique applied during the end of accounting period. But, most of the respondent discloses in the open ended question, the projects were reviewed based on the length of time taken to finish the project.
- As the findings of the study show, even if there are different factors that affects the companies investment decisions; the matter of preservation of high competiveness towards the rivals, forecasted cash flows from investment, and financial flexibility are the most affecting factor for the sampled manufacturing companies. In contrast to this idea, the corporate tax rate, depreciation level, control consideration, Potential financial distress costs and cliental tax rates are the least affected factors on the firm's investment funding decision with a given choice available.
- Capital structure management is one part of the financial management practices. Related to these practices the findings revealed that, most of the companies are reviewing their capital structure quarterly. As the above findings showed that, there are different factors which affect the choices of the company in selecting the amount of long-term debt. From these factors, maintaining of competitiveness towards industry rivals, debt repayment capacity, and corporation norms and volatility of present and forecasted earnings and cash flows are highly influential factors in choosing the long term debt of the organization. In addition to this there are

different stake holders that influence the capital structure of the companies. As indicated from the findings of the study the opinions of investment banks and commercial banks are the most influential stakeholders for the capital structure of the sampled companies. In addition to this the corporation from the corporation also highly affects for the relative companies. Finally, when the sampled companies needs to assess the capital structure of the firms the, these companies are mostly used the level of debt level of the company over time as standard of comparison. Unlike this, most of the companies not compared with debt level of other companies during the period.

- In addition to the above findings of financial management practices, the findings of study shows that, almost all of the sampled companies utilize the computer in order to process their accounting information. But there is a difference among the sampled companies in using different package of software to fasten and incorporate all activities in one system. Some of the companies used the latest and licensed software's unlike others.
- To sum up, there is strength and weakness in applying the practices effectively and efficiently.

Strengths: These sampled companies have on average a good financial reporting and analysis management practices, working capital management practices, and accounting information system management practices as shown from the total responses of the sampled companies; even if the working capital management has no significance effect on profitability of the selected companies.

- Weakness: the sampled companies have not good practices related to the capital structure and capital budgeting management practices as shown from the summary of descriptive statistics. They didn't apply the capital budgeting techniques in evaluating different types of projects in different stages. In addition, even if there is an existing accounting information management practices in the sample companies, but there is a difference among the sampled companies in using different package of software to fasten and incorporate all activities in one system.

## 10. RECOMMENDATIONS

Based on the above findings and conclusions this study can give information for those stake holders who will be able to know financial management practices that have an effect on the performance of the sampled manufacturing companies.

As the sampled companies have not good practices related to the capital structure and capital budgeting management practices as shown from the summary of descriptive statistics, companies should actively apply the capital budgeting techniques in evaluating different types of projects in different stages.

Even if the there is good average accounting information system management practices in the sampled companies, these companies should struggle and move violently to introduce latest software's that have multi-dimensional (more integrated) purpose like ERP that is introduced and applicable in some of the EFFORT companies. To remain competitive, these companies must boost the accounting information management practices effectively wherever possible. After all, improve specific knowledge and competence in this practice is some best ways to help a business in order to control the overall financial activities of the organization easily and effectively. In addition to this, even if this system is currently not applicable, these companies should be used this software for the management of human resources by sharing an experience from other companies that exercised previously.

## 11. LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This study has some limitation in relation to the selection of variables, methodology and other challenge that needs attention if there is a potential researcher to do his/her research on this title. Specifically, the study sought to explore the existing financial management practices of the selected private manufacturing company; however, the variables used in this study were not exhaustive. Other variables of the financial management practices such as budgeting, CVP analysis and other finance related practices were not incorporated. On the other hand, even though there are five selected variables in this study, it does not have deep insight in each aspect because of broadness of the topic. In addition to this, the study does not supported by theories as a result of broadness. The selected variables were also tested only on a single sector.

Secondly, respondents were reluctant and refuse to answer the questionnaire during the data collection period. Such situations are difficult or even impossible to avoid given the limited free time that people have. To solve this problem the researcher was collected the necessary data by using maximum effort.

Finally, the conclusions and recommendations would be based on the data analysis that would be used by the researcher; hence they are valid only to the extent of the validity of the data.

Except the above mentioned limitations, the study was believed to put in significant information about the selected existing financial management practices of the selected manufacturing companies.

*Furthermore,* future researchers shall consider the above limitation and challenges in order to fully explore all necessary practices of the sampled organizations.

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