

**THE EFFECTS OF GOVERNMENT DISBURSEMENTS
PROCEDURES ON THE MANAGEMENT OF ACCOUNTS
PAYABLE IN PUBLIC UNIVERSITIES IN KENYA: *CASE STUDY
OF EGERTON UNIVERSITY.***

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POSTGRADUATE STUDIES IN PARTIAL FULFILMENT OF
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BUSINESS ADMINISTRATION OF EGERTON UNIVERSITY.**

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DECLARATION AND APPROVAL

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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Nguri, James Mwathi

Date.....28/08/2003

APPROVAL

This research project has been submitted for examination with our approval as university supervisors.

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Date.....1/9/2003

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MAY GOD BLESS YOU ALL

DEDICATION

This research project is dedicated to my wife Wangui, son Nguri and daughters Wangecis, and Wanjiru.

ABSTRACT

In Kenya, public universities rely to a large extent (over eighty per cent) on the Government grants in their recurrent budget. The government requires that universities submit their budget requests four months before the start of every financial year. These budgets are subjected to the government procedures, the funding level controls and disbursements methods. These procedures determine the level of funding to the universities and how the funds are disbursed. The university budgets are sometimes reduced arbitrarily and disbursement delayed, thus affecting the financial management of the university. This study was aimed at determining the effects of government disbursements procedures on the management of accounts payable in public universities in Kenya with special reference to Egerton University. The objective of the study was to identify the effects of government disbursements procedures on the management of cash receipts, accounts payable and credit rating of the university. Secondary data was obtained from the University accounting records and the primary data through a questionnaire. The data was analysed using frequency tables, graphs, performance tables and the T-test showing the various aspects of disbursements of government grants and level of accounts payable. The findings indicate that government disbursements procedures and timings have a significant effect on the cash receipts and thus affects the management of accounts payable. It was noted that the disbursements directly affected the level of accounts payable at the end of every month. The credit rate assessment indicated poor rating by the suppliers. The rise in the level of funding (4% p.a.) was far below the rise in accounts payable (15.5%). Therefore the low level of funding was found to have contributed to an increase in the level of accounts payable.

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ACRONYMS

MOES&T: Ministry of education science and technology

GOK: Government of Kenya

CHE: Commission for higher education

PE: Personal emoluments

EU: Egerton university

EOM: End of each month

EOQ: Economic order quantity

A/C: Accounts

Co.: Company

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

There is no generally accepted definition of “management” as an activity although the classic definition is still held to be that of Fayol (1916). His general statement about management in many ways still remains valid after eighty years, whereby, to manage is to forecast and plan, to organize, to command, to coordinate and to control. Peter’s (1988) view of management, by comparison, shifts the emphasis away from describing what management is about, and stresses what it is that managers need to do.

According to Cole (1996) management is concerned with the inputs, conversions and outputs elements and especially processes of an organization. As Drucker (1955) put it, management is concerned with the “systematic organization of economic resources” and its task is to make these resources productive.

There appears to be no universally accepted strategy for financing in firms. Firms in Japan often view and therefore solve their financing problems very differently from their European and American counterparts. Cigarette manufacturers and steel mills often follow widely differing financing strategies. Despite these differences, we can identify a principle which underlines most if not all such financial strategies. These financial strategies usually reflect an attempt to maintain some relationship between the durability of assets and the maturity of the debt used to finance these assets.

Financial management involves making investment, financing and dividends policies in a firm. Financing and investment decisions in a firm mainly focuses on the management of working capital. The main components of working capital are cash, accounts receivable, marketable securities, inventories and accounts payable. In many firms, finance as a resource is scarce and it influences, to a great extent the major operations in the firm. Working capital is current assets and current liabilities. Current assets include cash, accounts receivables and inventories while current liabilities are the accounts payable and short term loans, that is those obligations falling due within one year. Levy and Sarnat, (1994) state that the size of the working capital depends crucially on the degree of synchronization among production, sales, and collections. Current liabilities are the accounts payable and accruals. Current assets minus current liabilities is referred to as net working capital. The conventional rule is to maintain the level of current assets at twice the level of current liabilities.

The management of accounts payable in an organization is of great importance, as firms rely heavily for their materials (inputs) and services on suppliers and service providers respectively. A firm requires finances to effectively manage accounts payable. The suppliers and service providers require to be paid in time for them to meet their obligations. Availability of sufficient and timely cash to manage accounts payable is necessary for a firm to be efficient. Manufacturing and other profit making organizations derive their cash from operations and where necessary, credit facilities are arranged with financial institutions to meet any short fall.

Private universities finance their operations from the fees they charge for the courses offered and services provided. The management of cash levels and receipts of the private universities are based on their financing policies which are governed by the wealth maximization objectives. These policies are set by the owners and implemented by the managers of these institutions. Public universities like other institutions have both financial and non-financial objectives. The main objectives of public universities is to provide quality and affordable education to the citizens of this nation.

In public universities, however, the main source of funds is the government in form of grants. The level of the funding to a great extent is determined by the government. The government budgetary and financing policies relies heavily on its expected revenue. The timing of the disbursements of the grants to the universities is subjected to the government procedures. Management of accounts payable in public universities relies heavily on the level of government funds, and the timings of the receipts of these grants. The management of accounts payable will affect the credit rating of the university by its suppliers.

The management of cash receipts and payments should ensure that cash is available when it is needed and that it is invested in times of abundance. The greatest concern here is that public universities have little control over the level and disbursement of these funds.

1.2 GOVERNMENT FUNDING

Public universities in Kenya are mainly funded by the Government of Kenya. Over eighty percent of their financial resources are Government grants, with the internal sources contributing about twenty percent. The Government funding procedures involve the following steps:

- i. The Government institutions prepare and submit their budget estimates to their respective parent ministries by the 28th February of each year for the next financial year commencing 1st July.
- ii. The ministries consolidate and subject these proposals to their budget ceilings set out by Treasury and if in excess the budgets are reduced accordingly.

All the ministries submit their budgets to the Ministry of Finance and Planning subject to their ceilings and if found to be in excess further budget cuts are applied. The consolidated budget proposals are then presented to Parliament for approval in June and thereafter printed estimates produced indicating the allocation for each institution. The printed estimates form the basis for the next year's expenditure ceilings. During this process, the university budgets may be reduced below their expected levels. This becomes a bottleneck in the financial management of the university.

The printed estimates to public universities is approved as a one line item budget. The vote holders mainly do the allocation to the various vote heads. This is then approved by the University Council. The allocations are made on a priority basis to ensure that the university's objectives are achieved. The budget allocations are then forwarded to the

Minister for Education, Science Technology. This budget becomes the control tool for the years' expenditure. Any variation in this budget can only be made on the minister's approval.

Government funding to public universities is mainly on recurrent and to some extent on development expenditure. Grants on recurrent expenditure are disbursed to universities on a one-twelfth basis as per government policy and at the end of each month. This procedure is justified since the government needs to collect its revenues before disbursements are made.

The government has its own bureaucratic payment procedures which often delay the process of disbursements. The Government payment procedures involve certain steps. The Ministries draw up a requisition for an exchequer release from treasury, based on the approved Printed Estimates for that year. Recurrent funds are requisitioned on a one twelfth basis, except where for justifiable reason an Institution requests for an accelerated capitation, which is recoverable from the year's allocation.

Once the exchequer release is received by the Ministry from Treasury, payments to Institutions for which the exchequer was made are prepared and released. The vouchers are prepared through the Ministry's payment process.

When the government does not have the required liquidity in time, there is a delay in releasing the funds to the public universities. Since the government funds forms the major portion of the public universities financial resources, a delay in the receipt affects its

financial operations. Subsequently payments for major items such as salaries, teaching materials, operations and maintenance are delayed, and this affects the provisions of the academic and other services by the university.

The effects of the government funds disbursement to public universities can clearly be demonstrated by evaluating the management of accounts payable. Accounts payable management will be dependent on the receipt of the government grants.

1.3 MANAGEMENT OF ACCOUNTS PAYABLE

Accounts payable arises when a firm receives goods/services for which it is not required to pay for immediately. Accounts payable is a form of unsecured short-term financing for a firm. Short-term financing is debt that matures in one year or less and it is used to fulfill seasonal and current assets needs.

Accounts payable result from transactions in which the merchandise is purchased, but no formal note is signed to show the purchaser's liability to the seller. The purchaser, by accepting merchandise, in effect agrees to pay the supplier the amount required in accordance with the terms of sale. The credit terms extended to the purchaser are normally stated on the suppliers invoice.

According to Gitman (1995), spontaneous financing arising from the normal operations of the firm are the accounts payable and accruals. These sources are unsecured. As a firm's sales increases, accounts payable increases because of increased purchases required to produce at higher levels. The firms accruals also increases as wages and taxes rise due to

greater labour requirements and the increased taxes from the higher sales. There are normally no explicit costs attached to either of these current liabilities although they do have certain implicit costs. Therefore whenever possible, the firms should take advantage of these often "interest-free" sources of unsecured short term financing.

In private firms, management of accounts payable relies on the skills of their managers. The firm must balance the advantages of trade credit against the cost of foregoing a cash discount. There are opportunity costs associated with possible deterioration on credit reputation if it stretches its payable, and the possible increase in selling price the seller may impose on the buyer. In public universities the main items they purchase on credit are stationery, machinery, furniture & fittings, teaching materials, and fuel. The main services provided to universities include teaching, repairs on plant and machinery, vehicles, supply of electricity and telephone services. The providers of these services and suppliers of goods are paid when the university obtains financial resources.

Private universities ensure that they receive sufficient income from the services they offer so that they are able to meet their financial obligations. Public universities however will mainly rely on the funds provided by the government as grants. Effective accounts payable management will depend on the level and the disbursements of the grants. Being a service provider, the main composition of the accounts payable in public universities is the personnel emoluments (PE). These fall due at the end of each month. Other suppliers of goods and service providers like the Kenya Power & Lighting Co., and Telkom Kenya, vehicle repairers and machinery servicing firms also need to be paid.

Cash is needed to meet these expenses as a delay in their settlement affects the efficiency of the university's other operations. For example the delay may result into financial losses due to court fines and interest charges. Being in the service industry, the human resource is a very critical element in the university operations. For instance, when there is a delay in payment of salaries or teaching materials are not available in time, staff morale declines and they are less effective in the provision of their services, and thus the university objectives are not achieved. Effective management of accounts payable will to a great extent depend on the level of funding and the timing of the disbursements. The university management has the responsibility of managing accounts payable although they do not have control over the government funding and disbursements.

However, they need to ensure that accounts payable are managed effectively and efficiently so that credit financing is still available to the universities.

1.4 STATEMENT OF THE PROBLEM

Public universities, like other public institutions prepare and submit their budget proposal to the government through their ministries. These budget proposals may be approved with or without any variations. Any variations will have an effect on the financial management of these universities. The Government funding procedures determines the level of funding and timing of the disbursements. The receipts of these grants affect the availability of cash and its management. These in turn will affect the effectiveness in the management of accounts payable. This situation leads to two major issues that need to be addressed and these are; the extent to which the government disbursements procedures affect the

effectiveness of the cash receipts and management of accounts payable in public universities and the credit rating of the university by its suppliers.

1.5 OBJECTIVE OF THE STUDY

This study had the objective of identifying the effect of government disbursements procedures on the efficiency in the public universities management of:

- (i) Cash receipts,
- (ii) Accounts payable and
- (iii) Credit-rating of the university.

1.6 SIGNIFICANCE OF THE STUDY

This study will be of significance to the following:

- (a) The government, through its Ministry of Education, Science and Technology will use the findings of this study to assess the effects of its funds disbursements on the public universities management of cash receipts and accounts payable.
- (b) This study will help public universities assess the effects of the government disbursements procedures on their cash receipts and accounts payable management and the effect on credit rating and assist in designing policies that will conform to government funds disbursements for effective management.
- (c) This study will also be of importance to the public who are the tax payers in that they will appreciate the effects of the government disbursements procedures on the management of cash receipts and accounts payable in public universities.

1.7 LIMITATION OF THE STUDY

The major limitations of the study are:

- During the data collection a number of records were missing. However to a large extent this did not affect the quality of data collected.
- For the purpose of the study government grants were taken as the only cash receipts and personnel emoluments as the main accounts payable.

1.8 DEFINITION OF TERMS USED IN THE STUDY

Public University refers to a University created by an Act of Parliament for the purpose of providing affordable higher education and research.

University Council refers to the Chairman, Vice Chairman, Hon. Treasurer and other Council members appointed by the Chancellor.

University Management Board refers to the Vice-Chancellor, Deputy Vice-Chancellors, Principals, Registrars and the Finance Officer as stated in the Egerton University Statute 2000.

Working Capital in this study simply means current assets and current liabilities

Net Working Capital is defined as current assets minus current liabilities.

The quick ratio, Acid test measures liquidity and is current assets less inventories, divided by current liabilities

Working Capital Policy refers to basic policy decisions regarding target levels for each category of current assets and how current assets will be financed.

Capitation refers to the government grants provided to the university on recurrent expenditure.

Current liabilities refers to accounts payable and other commitments of the university falling due within one year.

Accelerated Capitation – refers to requests for the capitation (grants) from the government in advance.

Exchequer release – this is a government authority document showing that the funds have been set aside for that particular purpose and can be spent.

CHAPTER TWO

LITERATURE REVIEW

2.1 FINANCING AND PLANNING

According to Van Horne (1986), financial planning involves analyzing the financial flows of the firm as a whole, forecasting the consequences of various investments, financing and dividends decision, and weighing the effects of various alternatives. The idea is to determine where the firm has been, where it is now, and where it is going. Not only is the finance manager concerned about the most likely course of events but deviations from the most likely outcome. If things become unfavourable, the company should have a back-up plan so that it is not caught flat-footed, without financial alternatives.

Cash budgeting is a planning tool used for the effective management of cash. A cash budget is arrived at through a projection of future cash receipts and cash disbursements of the firm over an interval of time. It reveals the timing and amount of expected cash inflows and outflows over a certain period. With this information, the finance manager is able to determine the future cash needs of the firm, plan for the financing of the needs and exercise control over the liquidity of the firm. A firm whose cashflows are subject to much uncertainty should provide for a cash cushion or ready credit facility to tide it over in periods of adverse cash developments. In commercial firms most of the working capital is derived from its trading activities and where there is need, credit facilities are negotiated with financial institutions.

2.2 MANAGEMENT OF CASH RECEIPTS

The term cash in the broad sense refers to the current and deposit accounts as well as currency holdings. According to Pandey (1999) sometimes near cash items such as marketable securities and bank term deposits are also included in the term cash. The term cash management refers to the general problem of managing the firms' cash balances (receipts and payments) and short term investments in securities. Firms hold cash for several reasons. According to Keynes (1936) firms hold cash for three motives; the transactions motive, the precautionary motive and the speculative motive. The transactions motive is the need for cash to meet payments arising in the ordinary course of business such as payments for materials, labour, taxes, and dividends. The precautionary motive for holding cash has to do with maintaining a cushion or buffer to meet unexpected contingencies. The more predictable the cash flows of the business the fewer precautionary balances are needed. Ready borrowing power to meet emergency cash drains also reduces the need for this type of balance.

The speculative motive relates to holding cash to take advantage of expected changes in security prices. A firm should hold cash until the rise in interest rates ceases. According to Van Horne (1986), optimal utilization of a firm's cash can contribute to the overall objective of the firm. Optimal utilization of cash can only be possible if a firm is in control to ensure timely collections and tightly controlled disbursements.

Institutions such as public universities hold cash basically for the same reason as individuals do; that is to have funds available to meet cheques drawn on their accounts and also as a means of paying the bank for some of the services it provides. The quick ratio or

acid test ratio is an important measure of a firm's liquidity level. A ratio of 1:1 is highly recommended for a firm. In public universities the availability and timeliness of cash depends on the receipt of government grants being the main fund provider. The government funding procedures are followed in processing the grants to these universities. These procedures affects the funds disbursements and the availability of cash to the University.

According to Van Horne (1986) the term liquid asset is used to describe money and assets that are readily convertible into money. Money itself is, by definition, the most liquid of all assets. Other assets have varying degrees of liquidity depending on the time necessary to convert them into money and the degree of certainty associated with the conversion ratio of price realised for the asset.

There are risks associated with lack of liquidity. A firm, by maintaining liquidity reduces the probability of insolvency and the risks of bankruptcy and its associated costs.

Cash management involves managing the monies of the firm in order to maximize cash availability and also earning interest on any idle funds. The idea is to collect cash immediately but delay payments as late as is practicably possible while maintaining the firm's credit rating with suppliers.

Van Horne (1986) states that management of cash for a firm of reasonable size with various branches spread all over the country may be done through the use of sophisticated techniques to speed collections and tightly controlled disbursements. The acceleration of

collections simply means reducing the delay between the time customers pay their bills and the time the cheques are collected and become usable funds for the firm.

A number of methods are designed to speed up this collection process and these includes:

- (i) Speed the mailing time of payments from customers to the firm.
- (ii) Reduce the time during which payments received by the firm remain uncollected funds and
- (iii) Speed the movement of funds to disbursement banks.

Some of the approaches used in managing the cash inflows and payments are as described below:

(i) Float

According to Block & Hirt (1992) people are sometimes shocked to realize that even the most trusted asset on a corporations books, cash may not portray actual shillings at a given time. Two cash balances are of importance; the Corporations recorded amount and the amount credited to the Corporation by the bank. The difference of the two is called float; and arises from time delays in mailing processing and clearing cheques through the banking system.

Once a cheque is received in the mail and a deposit is made, the deposited funds are not available for use until the cheque has cleared the banking system and been credited to the corporate bank account. This works both for cheques written to pay suppliers and those deposited from customers. This means that float can be managed to some extent through a combination of disbursements and collection strategies.

This is possible because not all the cheques payment released will be cleared by the bank immediately whereas most of the cheques deposited will go through the bank clearance time. The ``float'' arises out of the unpresented cheques

(ii) **Concentration Banking**

Concentration banking is one of the means of accelerating the flow of funds of a firm by establishing strategic collection centers. Instead of a single collection center situated at the company headquarters, multiple collection centers are established. Customers in a particular geographic area are instructed to remit their payments to a collection center in that area. The payments received are deposited in the collection centers local bank; surplus funds are then transferred from these local banks to a concentration bank where the company has a major disbursement account. This is done either through a wire transfer or a banker's cheque payable to the major bank.

(ii) **Lock-box system**

Another means of accelerating the flow of funds is a lock-box arrangement. In this arrangement a company rents a local post office box and authorises its bank in each of these towns to pick up remittances in the box. Customers are billed with instruction to mail their remittances to the lock box. The bank picks up the mail several times a day and deposits the cheques in the company's account. The cheques are recorded and cleared for collection. The company receives a deposit slip and a list of payments, together with any materials in the envelopes. This procedure frees the company from handling and depositing the cheques.

According to Braeley and Myers, (1984), firms have been known to fail because of failing to have sufficient cash levels. There is no standard appropriate minimum cash level that all firms would maintain. It is important therefore that each firm determines its minimum cash levels suitable for it considering its unique needs. In helping to determine the firm's optimum cash levels a number of cash management models have been suggested. Some of the models are analytical while others take the simulation approach. One analytical approach that is used is the Baumol model which is discussed below.

Baumol Model

Baumol, (1952) came up with a cash analytical classic model which applies the Economic Order Quantity(EOQ) to cash. Baumol considered the similarities of stocks and cash from a financial point of view. Holding costs for instance may be brought in when stocks not immediately required are held, while ordering and stock out costs make it expensive to keep stocks at a zero level. Stock levels therefore need to be at an optimum level that balances between the ordering and the holding costs. In cash management, holding costs will be the interest foregone when cash is held in excess of what may be immediately required while the order costs will take the form of clerical work and brokerage fees required in investing cash in marketable securities. These costs may be minimized by holding the optimal cash balances.

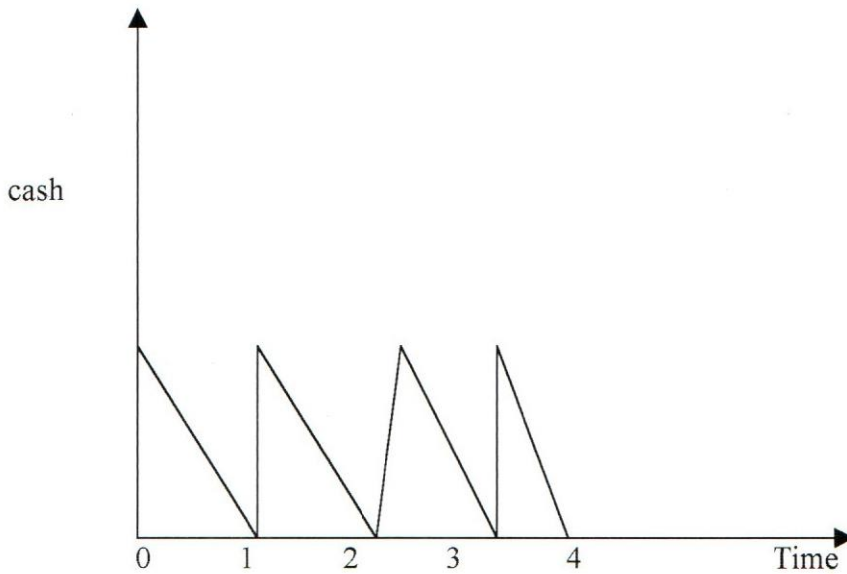


Figure1: Graphical demonstration of Baumol model.

The Baumol model assumes that the firm's cash/balance take a saw tooth pattern over time. The model also assumes certainty so that incomes are received at periodic intervals while expenditures occur continuously through out the period.

A firm that may find itself with excess cash after meeting its minimum cash levels may invest such funds in marketable securities that will mature at various intervals when cash would be required. This is illustrated in figure 1 above.

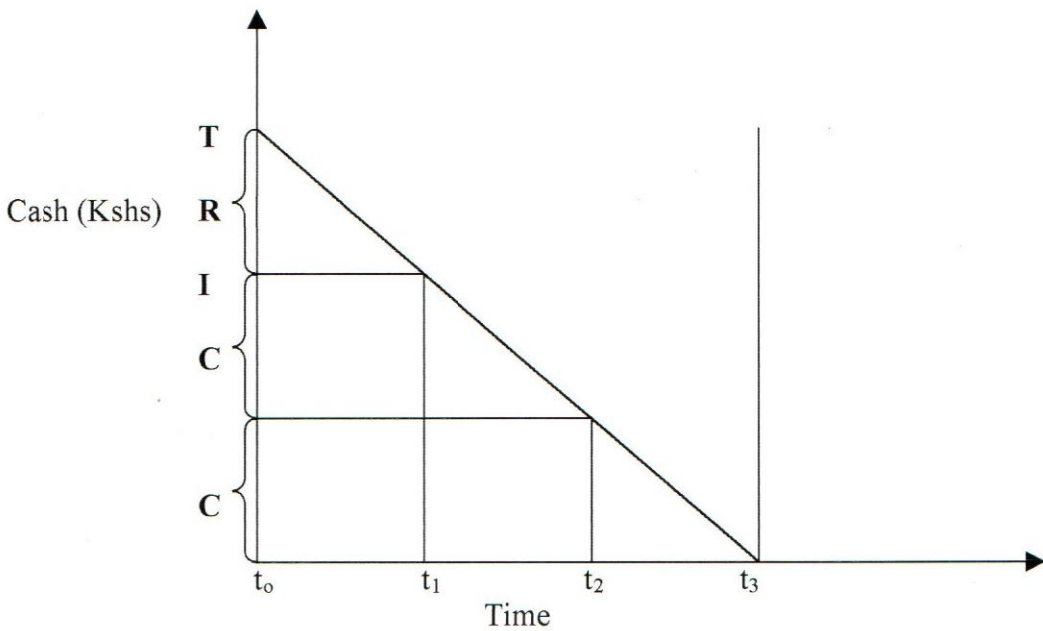


Figure 2: Baumol's transfers from securities to cash.

At time t_0 there is a cash available equal to T . The firm invests I in marketable securities that earn a rate of return, r and retains cash equal to $T-I=R$. The retained cash R is considered sufficient to meet the expenditure for the period t_0-t_1 before investment I matures. At time t_1 an amount of Ksh. C is transferred from investment I to cash. This is expected to meet the expenditure for the period t_1 to t_2 . At time t_2 another amount Kshs. C is again transferred to cash from the investment which is expected to meet the expenditure for the period t_2 to t_3 . At time t_3 there will be no more investment and T will again be received and the same process as described above followed.

Assuming that the disbursements will be continuous then the amount $R = T-I$ will be used for payment during a fraction of the entire period between receipts given by $\frac{T-I}{T}$ times the length of the period. The average cash holding during that period will be $\frac{T-I}{2}$. If r

is the rate of interest on funds invested then the opportunity cost for holding this average cash will be

$$\left(\frac{T-I}{2}\right)r\left(\frac{T-I}{T}\right)$$

The brokerage fees required to invest the amount Ksh.I will vary with the number of investments and size of each investment. The brokerage fees per deposit is equal to $b_d + k_d I$ where b_d is the base cost per deposit and $k_d I$ is the component which varies with the size of the deposit. In the same way, b_w and $k_w C$ are the costs of making withdrawals. The cost of obtaining cash for the rest of the period will therefore be

$$\left(\frac{c}{2}\right)r\left(\frac{I}{T}\right) + (b_w + k_w C)\frac{I}{C}$$

where $\left(\frac{c}{2}\right)r\left(\frac{I}{T}\right)$ is the opportunity cost and $(b_w + k_w C)\frac{I}{C}$ is the brokerage costs of withdrawing from the investment account.

Thus the total cost function, Z, is given by combining the component costs to get

$$Z = \left(\frac{T-I}{2}\right)r\left(\frac{T-I}{T}\right) + b_d + k_d I + \left(\frac{c}{2}\right)r\left(\frac{I}{T}\right) + (b_w + k_w c)\frac{I}{C}$$

When this equation is differentiated with respect to C and setting the derivative equal to zero leads to the optimal value for C as

$$C = \sqrt{\frac{2b_w T}{r}}$$

Therefore the optimum cash balance R, to withhold from the initial receipt is found by differentiating equation for Z above with respect to I, which gives

$$R = T - I = C + T k_w + \frac{k_d}{I}$$

Thus to minimize costs, the optimum amount of cash to withhold will be Shs.R from the initial receipts while Shs.C will be withdrawn from investment portfolio $\frac{I}{C}$.

The Baumol model makes a significant contribution as it captures the essential elements of the problem; C the value of each withdrawal; R, the optimum cash to be withheld from initial receipts; I, the deposit to make from initial investment; Z, the total cost function. However, the assumption that the cash flows are certain, is restrictive. Such behaviour of cash flow is more applicable to individuals than to business firms where inflows may not be in bulk while outflows may not be smooth and may follow an irregular pattern. The Baumol model therefore has left a gap which may be advanced by other models.

2.3 MANAGEMENT OF ACCOUNTS PAYABLE

Just like in commercial firms, trade credit is available to public universities from its suppliers. This arises when the university obtains goods or services in which they are not required to pay for immediately. When the university decides to utilize trade credit as a means of financing its activities, it can adopt any of the following alternative policies.

- (i) It can pay at the end of the discount period
- (ii) It can pay at the end of the credit period and
- (iii) It can pay its bills beyond the credit period (credit stretching).

Accounts payable is a form of short-term financing. This is a debt that matures in one year or less and is used to fulfill seasonal and current asset needs. The debt may be unsecured short term financing that is has no specific assets pledged as collateral.

In taking the full advantage of trade credit as a means of financing, considerations need to be made based on the terms of credit. Credit terms states the credit period, the size of discount offered, (if any) the cash discount period and the date the credit period begins.

Credit period is the number of days until full payment of accounts payable is required. A cash discount is a percentage deduction from the purchase price if the buyer pays within a specified time shorter than the credit period.

The cash discount period is the number of days after the beginning of the credit period during which the cash discount is available. The beginning of the credit period is stated as part of the suppliers credit terms, normally the date of invoice.

According to Van Horne (1986) trade credit is a form of short term financing common to almost all business, forming the largest source of short term funds for business firms collectively. In an advanced economy such as in USA, Europe and Japan most buyers are not required to pay for goods upon delivery, but are allowed a short deferment period before payment is due. Suppliers are generally more liberal in the extension of credit than are financial institutions. Small companies in particular therefore rely on trade credit.

Some companies may not extend credit but may demand cash on delivery or before delivery. Other companies may extend credit but no discount is allowed. The term "Net 30" indicate that the invoice must be paid within 30 days. Such terms may only be met by institutions with constant reliable cash flows. The terms of credit may be net period with cash discount, such as "2/10 net 30 EOM" which indicates that the seller offers a 2 percent

discount if the bill is paid within 10 days, otherwise the buyer must pay the full amount within 30 days and that the credit period begins end of each month (EOM). As a means of financing, trade credit may be extended up to the due date. The relationship between the annual interest cost of trade credit and the number of days between the end of the discount period and the end of the net period is shown below.

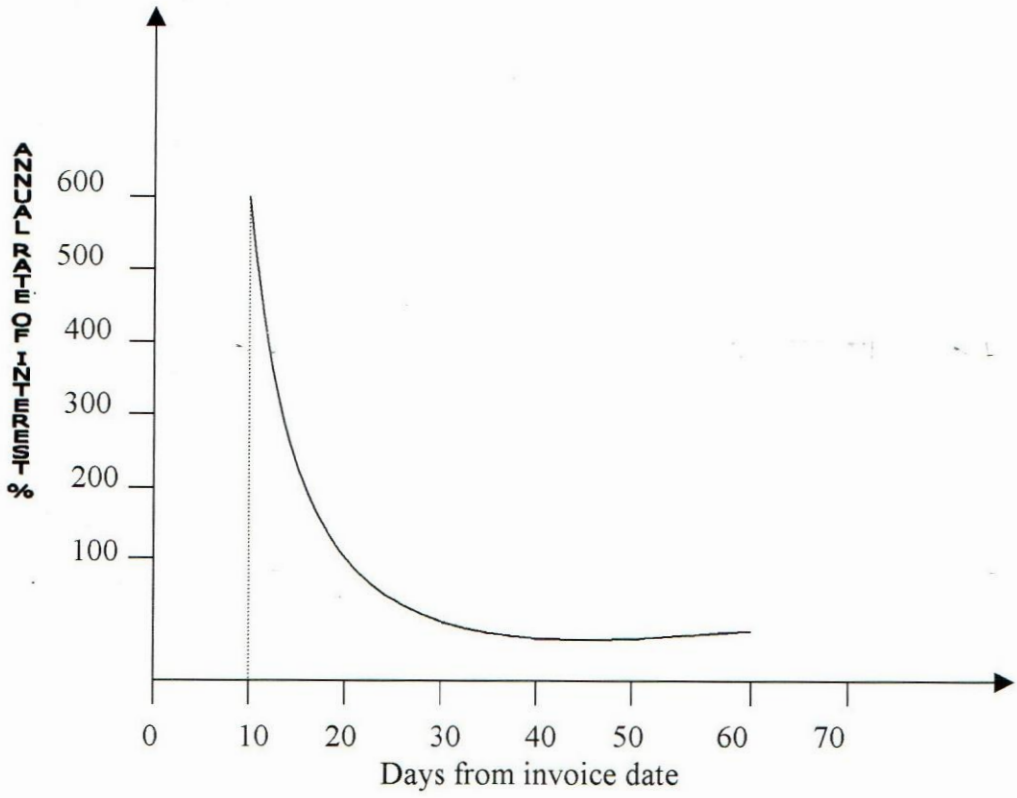


Figure3: Annual rate of interest on accounts payable with terms of 2/10, Net 30

In figure 3 we assume 2/10 discount terms. It can be seen from the figure that the cost of trade credit decreases at a decreasing rate as the net period increases. This implies that if a firm does not take a cash discount, its cost of trade credit declines with the length of time it is able to postpone payment.

The suppliers' cost of having their money tied up in merchandise after it is sold is probably reflected in the purchase price. The purchaser is already indirectly paying for this benefit. It is therefore necessary that the purchaser should carefully analyze credit terms to determine the best trade credit strategy. If a firm has extended credit terms that includes a cash discount it has two options.

The first option is for the firm to take the cash discount. If the firm intends to take a cash discount, it should pay on the last day of the discount period. Generally there is no cost associated with taking a cash discount.

Example

ABC company operator of a small video cassette store purchased a Kshs.5,000 worth of merchandise on March 31st from a supplier extending terms of 2/10 net 30 EOM. If the company takes the cash discount it has to pay Ksh.4,900 [Ksh.5,000-(2% x 5,000)] on April, 10th thereby saving Ksh.100.

The second option open to the firm is to give up the cash discount and pay on the final day of the credit period. This has no direct cost except an implicit cost that is the cost of giving up a cash discount. This is the implied rate of interest paid in order to delay payment of an account payable for an additional number of days which is demonstrated in figure 3 above. This can also be obtained from the following formula.

$$\text{The cost of giving up cash discount} = \frac{CD}{100\% - CD} \times \frac{360}{N} \dots\dots\dots (1.1)$$

Where

CD = the stated cash discount in percentage terms

N = the number of days payment can be delayed by giving up the cash discount.

Substituting the values for CD(2%) and N(20 days) for ABC company above, to equation

(1.1) we get the annualized cost of giving up the cash discount of 36.73 percentage

$$\text{That is } \left[\frac{2\%}{100\%} \times \frac{360}{20} \right]$$

Note:

The number of days in a year were assumed to be 360.

Credit Financing may also be extended by postponing payment beyond due date. This is referred to as “stretching” accounts payable or “leaning on the trade”. If a firm anticipates stretching accounts payable, its cost of giving up a cash discount is reduced. Stretching accounts payable is sometimes suggested as a reasonable strategy for a firm as long as it does not damage its credit rating. As noted by Gitman (1995) although this strategy is financially attractive, it raises an important ethical issue, that is variation of the agreement the firm entered into with its suppliers when purchasing the merchandise. Clearly no supplier would look kindly on a customer who regularly and purposely postpones paying for purchases.

In ideal situations the firm must balance the advantage of trade credit against the cost of foregoing a cash discount, the opportunity cost associated with possible deterioration in credit reputation if it stretches its payables and the possible increases in selling price the seller imposes on the buyer. The major advantage of trade credit as a form of short term

financing is that it is readily available and that it forms a continuous form of credit and no formal financial arrangement is needed.

When a firm continually has a tendency of delaying payments, the suppliers may provide credit but charge higher prices making the goods more expensive.

The management of accounts payable depends mainly on the cashflow management. Cash management is affected by cash receipts. In case of public universities the bulk of its finances comes from the Government. The government disbursement procedures of these funds affects the timing of the receipts of the funds by the universities. These in turn affects the management of accounts payable.

CHAPTER THREE

METHODOLOGY

3.1 RESEARCH DESIGN

A simple random sampling design will be used to select the suppliers. All the available secondary data will be used.

3.2 THE POPULATION

The population in this study consists of the six public universities in Kenya. These are Nairobi, Kenyatta, Moi, Egerton, Jomo Kenyatta and Maseno. For the purpose of this study, the researcher has chosen Egerton as a case study. This university was chosen because;

- i. During the period of study most of the public universities relied heavily on the government grants. The government adopts similar policies and procedures in the disbursement of funds to the public universities.
- ii. The researcher is situated a short distance from the university thus will save costs on traveling and other related costs.

3.3 DATA COLLECTION METHOD

This study relied mainly on secondary data and covered the period 1996/97 to 2000/2001. A random sample of university suppliers was used to provide the data required. The main source of the secondary data was the University final accounts, and other accounting records. These books gave data on:

- (i) The dates and amounts received from the government as grants.
- (ii) The monthly balances of the accounts payable.

The study was restricted to a group of items, mainly because these formed the bulk of income and expenditure of the university. These items are:

- (i) Capitation or grants from the government
- (ii) Personnel Emoluments
- (iii) Accounts payable

Accounts payable are assumed to be increasing uniformly over the year. The personnel emoluments are normally accrued and fall due at the end of each month. If personnel emoluments are not paid by end of month, they form the major part of the accounts payable.

Capitation which is the major source of funds to public universities is received every end of month, and on one twelfth basis. It is therefore assumed in this study that if these grants are not received by end of the month, payments for a major item such as salaries are not paid in time.

3.4 DATA ANALYSIS METHODS

The secondary data collected was summarised under the following headings.

1. Cash management – Annual budget requests by university, government approved estimates, variances and timing of the receipts of the grants.
2. Management of accounts payable – monthly balances of accounts payable

The data was analysed and variances obtained on the university budgets against the government approved estimates for the same years. The T-test was used to test the significance of the disbursements on the cash management.

The data from the suppliers on the credit rating of the university was received through the questionnaires and analysed using percentages.

3.4.1 FREQUENCY DISTRIBUTION/TABLES

These were used to show the number of times government grants were received in time. This was expressed as a percentage of the total periods. This has been preferred because it reduced the amount of information that the reader must absorb. The frequency in the payment of personnel emoluments were summarized in a frequency table.

3.4.2 DESCRIPTIVE STATISTICS

The arithmetic averages and percentages were generated for receipts of grants and settlement of accounts payable. This was useful in trying to find how the accounts payable were affected by receipt of government grants.

3.4.3 T-TEST

T-test was used to test the significance of the government disbursements procedures on the cash management. The T-test was calculated using the percentage of frequencies of the timings in the receipt of government grants.

CHAPTER FOUR

RESULTS AND DISCUSSION

In this chapter the results of the research are analysed, interpreted and discussed. The data collected for the study was mainly secondary. A questionnaire was used to collect data from the university suppliers.

The areas covered in this section are;

- ❑ Cash management disbursement timings of government grants
- ❑ Level of government funding to public universities
- ❑ Accounts payable
- ❑ Level of accounts payable and
- ❑ Increase in accounts payable
- ❑ Credit rating assessment

4.1 CASH MANAGEMENT

Disbursement timings of government grants

In order to find out the effect of the government grants disbursements on the cash management in public universities the dates and amounts of monthly grants received were analysed. The results are as indicated in Table 1 below.

Table 1: Receipt of monthly grants from GoK

Year	Grants received on time	%	Grants not received on time	%
1996/97	10	83	2	17
1997/98	8	67	4	33
1998/99	6	50	6	50
1999/2000	8	67	4	33
2000/2001	9	75	3	25
TOTALS	41	68	19	32

From the analysis for the period of study, disbursement timings of the grants were fairly satisfactory with 1996/97 maintaining the best timing (83%) and 1998/99 having the worst timing (50%). Overall the timings were 68% in time and 32% not in time for the period of study.

From the data the trend in the disbursement can be demonstrated in the following figure.

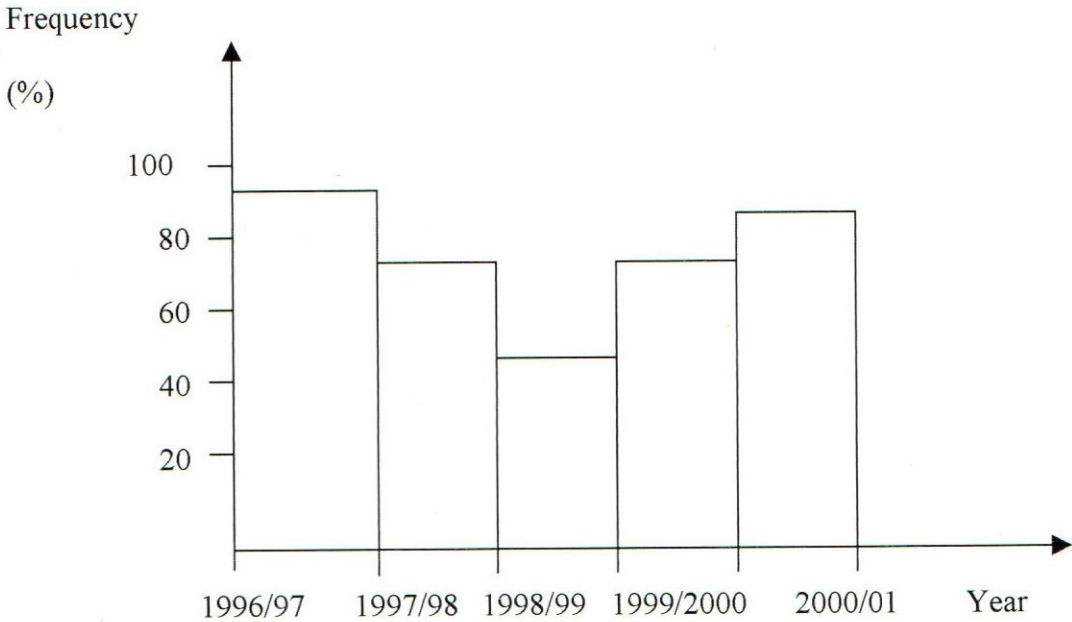


Figure 4: Frequency of disbursements before end of month

From figure 4 disbursements timings were efficient in 1996/97, declined in 1998/99 and started improving from 1999/2000. Improvement in disbursement timings was expected to have an impact on the management of cash and accounts payable.

From the above proportions, the efficiency of the timings of government grants were tested for significance. It was assumed that a 10% efficiency was an acceptable level.

Using the T-test, we have
$$t = \frac{0.32 - 0.1}{\sqrt{\frac{(0.32)(0.68)}{6.0}}} = 3.65$$

From the tables, $t_{59,1\%} = 2.39$

Since the calculated t-value is beyond the acceptable level we reject the hypothesis and state that the timings significantly affect the cash management at 1% level of significance. According to Van Horne (1986), optimal utilization of cash can be possible where a firm is in control of its cash position. This would require the organization to put in place specific policies for cash management. This results therefore shows that the management of cash and accounts payable were significantly affected by the government disbursements.

From the university records, it was observed that Egerton University had an overdraft facility of Kenya Shillings 10 million. This facility was insufficient as it could not settle the major payments like personnel emoluments. Although according to Baumols (1952), and Miller-orrs (1966), all firms should have a minimum cash balance level, this was not the case for Egerton university. The university did not have a minimum cash level. This view was however supported by Lockyer (1973), who did suggest that with the existence of an overdraft facility firms could have a minimum cash balance of zero or negative.

Level of funding

During the period of study the university prepared and submitted its budget on recurrent expenditure to the Ministry of Education, Science and Technology for funding. The government provided the funding as shown in Table 2 (capitation) for each of the years.

Table 2: Differences between university request and Government grants

Year	E.U request.to MOEST Kshs. `000`	Capitation p.a Khs. 000.	Increase/decrease Kshs. 000	%
1997/1998	965,160	738,801	(226,359)	-23
1998/1999	1,109,934	770,354	(339,560)	-31
1999/2000	1,153,700	808,168	(345,532)	-29
2000/2001	1,211,385	872,821	(338,564)	-24

From the above figures, the trend in government grants to Egerton University can be tabulated as shown below:

Table 3: The trend of GoK grants

Year	Annual Grants Received Kshs. `000`	Difference from previous year increase/decrease Kshs. `000`	%
1996/97	595,000	-	-
1997/98	738,801	143,801	24+
1998/99	770,354	31,553	4+
1999/2000	808,168	37,814	5+
2000/2001	872,821	64,653	8+

From the analysis in Table 3, there was an increase of 24%, 4%, 5% and 8% for the years 1997/98, 1998/99, 1999/2000 and 2000/2001 respectively on the GoK grants to Egerton University, this being far much below the expected budget, as shown in Table 2 above.

It is therefore clear that the university was inadequately funded by the Government. During the year 1997/98 the under provision was -23%. This was a lower figure as compared to the other years when it was underfunded by between 24% and 31%.

It was explained that the 24% increase in capitation in 1997/98 was for the increased salaries announced by the government to staff in all public universities. The enhancement therefore did not amount to an increased funding level.

Over the five years of study grants increased by 47%, and on average by 9% per annum. Although a growth of 9% was registered in the level of funding it was observed that accounts payable also increased on average over the same period by an average of 15.5% per annum.

This implied that the annual increase of the government grants (9%) could not sustain the annual increase in accounts payable (15.5%). The result of this study was that unless the university obtained funds from other sources it could not manage to meet its cash requirements. This is a clear indication that the university was underfunded. The trend in the funding level for the period of study is as shown below;

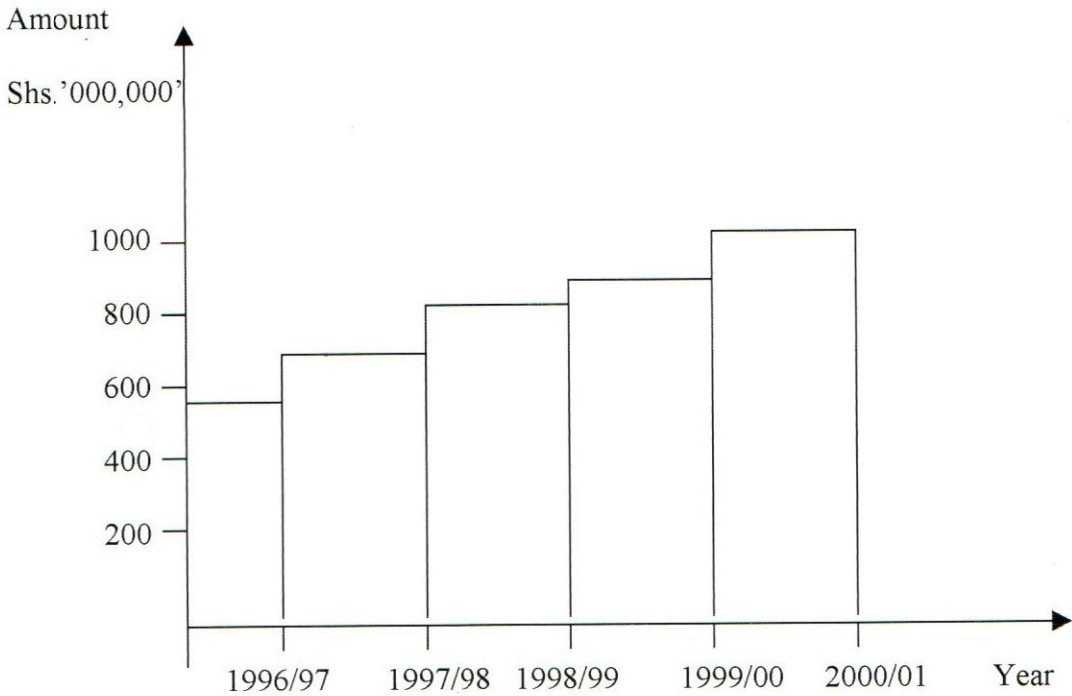


Figure 5: Funding level of Egerton university

The effects of under funding is that the university has continued to accumulate debts thus making it inefficient in management of accounts payable. From information available it was observed that the government funded public universities on the basis of a unit cost of Ksh.120,000 per student per year. This was a figure arrived at using the 1991/92 expenditure figures where total expenditure was divided by the total number of students. The adopted unit cost was defective as a basis for funding public universities because the actual unit cost per student depend upon the programme in which the student is registered.

Universities that teach art related courses required minimal teaching materials, mainly chalk and stationery while those offering science based courses require more resources for teaching materials such as laboratory chemicals, machinery and other teaching-aids. The unit cost of Ksh.120,000 was faulty and public universities and CHE recalculated it and

recommended that the figures be adopted by the government for funding. The figures recommended are as shown below.

Table 4: Recommended degree clusters and corresponding unit costs

Cluster	Degree programmes	C.B. on 1991/92 Ksh.	A.B. on 1996/97 Ksh.	Real 1997/98 expected Ksh.
C1	BA	121,000	148,000	186,000
C2	B.Ed, B.Sc, B.Env. Sc.- Arts	128,000	172,000	220,000
C3	B.Sc, B.Ed, BA, B.Env. Sc.	136,000	205,000	260,000
C4	B.Sc	141,000	238,000	300,000
C5	B.Pharm, MBch.B (UoN), B.Arch, B.Sc Biomed Sci.	156,000	300,000	380,000
C6	BDDS, BVM, MBch.B (Moi)	181,000	400,000	500,000

Source: Report of the Vice-Chancellors' sub-committee on the consolidated unit cost per degree programme 17th October 1997

The degree programmes in each cluster will differ from year to year as the unit cost of the programme changes. It is expected, for example, that BDDS may move from cluster C6 to C5 if the number of students increases.

Direct payment is taken as 19% of the unit cost. This is what a government sponsored student is expected to pay directly to the university.

The current average unit cost of 120,000 (based on 1991/92 audited accounts) was calculated to an average figure of 186,000 as at June 30th 1998, (using CPI, and foreign exchange fluctuations)

The Vice-Chancellor's committee noted that unit cost is affected by certain factors These are:-

(i) Student Numbers

An increase in the number of students in a particular degree programme lowers the unit cost for that programme due to economies of scale. Such increase is, however, subject to availability of space and other facilities, otherwise the quality of the degree may be compromised. The unit cost of such expensive programmes as BVM, BDDS, and B.Environment could be lowered to affordable levels by admitting additional students.

(ii) Quality Assurance Programmes

The high examination costs raise the unit cost. Quality can continue to be assured if the external examination process is made biannual or triennial, instead of the current annual evaluation.

(iii) Staff Productivity

Low staff productivity breeds inefficiency and raises the unit cost. Public universities should therefore continue to train both academic and administrative staff in order to increase productivity. In the long run, essential staff training and refresher programmes will reduce the unit cost due to increased staff productivity.

Public universities are funded on the basis of unit cost of Ksh.120,000.00 per student per year irrespective of the course; Art or Science. Science courses are more expensive to run than art related courses. Egerton University has 65% of its courses being science based.

Thus Egerton ought to have charged between Kshs.148,000 and Ksh.300,000 p.a. per student as per 1996/97 average. With 6,500 students the university would have received between Kshs.962 million and Kshs.1.95 billion in 1996/97, which could have been sufficient to meet its recurrent expenditure of Ksh.965 million.

4.2 ACCOUNTS PAYABLE

Frequency analysis of Accounts Payable

In this section the monthly accounts payable are summarized and tabulated. Personnel emoluments are considered as the major component of accounts payable and accrue monthly. For the purpose of this study monitoring of accounts payable is provided by analyzing the frequency of how personnel emoluments are paid on monthly basis. The findings are presented below.

Table 5: Frequency in payment of personnel emoluments

Year	No. of Months PE paid in Time	Percentage (%)	No. of months PE paid late	Percentage %
1996/97	10	83	2	17
1997/98	7	58	5	42
1998/99	5	42	7	58
1999/2000	8	67	4	33
2000/2001	9	75	3	25
TOTALS		68.4%		31.6%

From Table 5 analysis personnel emoluments (PE) were paid 68.4% in time on average and 31.6% late. The year 1998/99 was worst when payroll was paid 58% late.

As observed there is a direct relationship between the government disbursement and payments of P.E. When cash receipts are managed efficiently accounts payable can be managed efficiently. From the t-test analysis of the grants disbursement, the procedures influenced the management of cash by over 10%, which is significant, assuming a 0.1 confidence level. It was therefore observed that disbursement procedures have a significant influence over the management of accounts payable, both the P.E and other accruals.

Level of Accounts Payable

According to Van Horne, (1986), credit financing has a cost; the cost of cash discount forgone and the possible deterioration in credit rating. The dangers of credit “stretching” include risk of increased prices and other legal costs. A firm has have a negative net working capital cannot meet its obligations as they fall due.

From the data collected, the following table presents the level of accounts payable.

Table 6: Level of accounts payable

Year	Amount (Kshs. 000)	Increase (Kshs. 000)	%
1996/97	318,944	-	-
1997/98	408,651	89,707	28
1998/99	452,483	43.832	11
1999/2000	553,388	100,905	22
2000/2001	558,823	5,435	1

From the analysis in table 6 it was noted that accounts payable increased from Ksh.318,944,000 to Kshs.558,823,000 from 1996/97 to 2000/2001. This was an increase

of 62% and an average of 15.5% per year. From the data collected, over the same period, personnel emoluments rose by 47%, an average of 9% per year.

Over the same period, government grants increase by 4% per annum. Therefore there was an under provision of 11.5% on the budget provision to meet accounts payable. It was noted that the increase in accounts payable did not have a corresponding increase in grants as normally expected thus the continued increase in accounts payable.

An increase in expenditure should have been met by a corresponding increase in government grants. Since the increase in the grants was lower than the increase in expenditure, then accounts payable continued to rise.

The movement in accounts payable and the government funding for the period of study are demonstrated in figure 6.

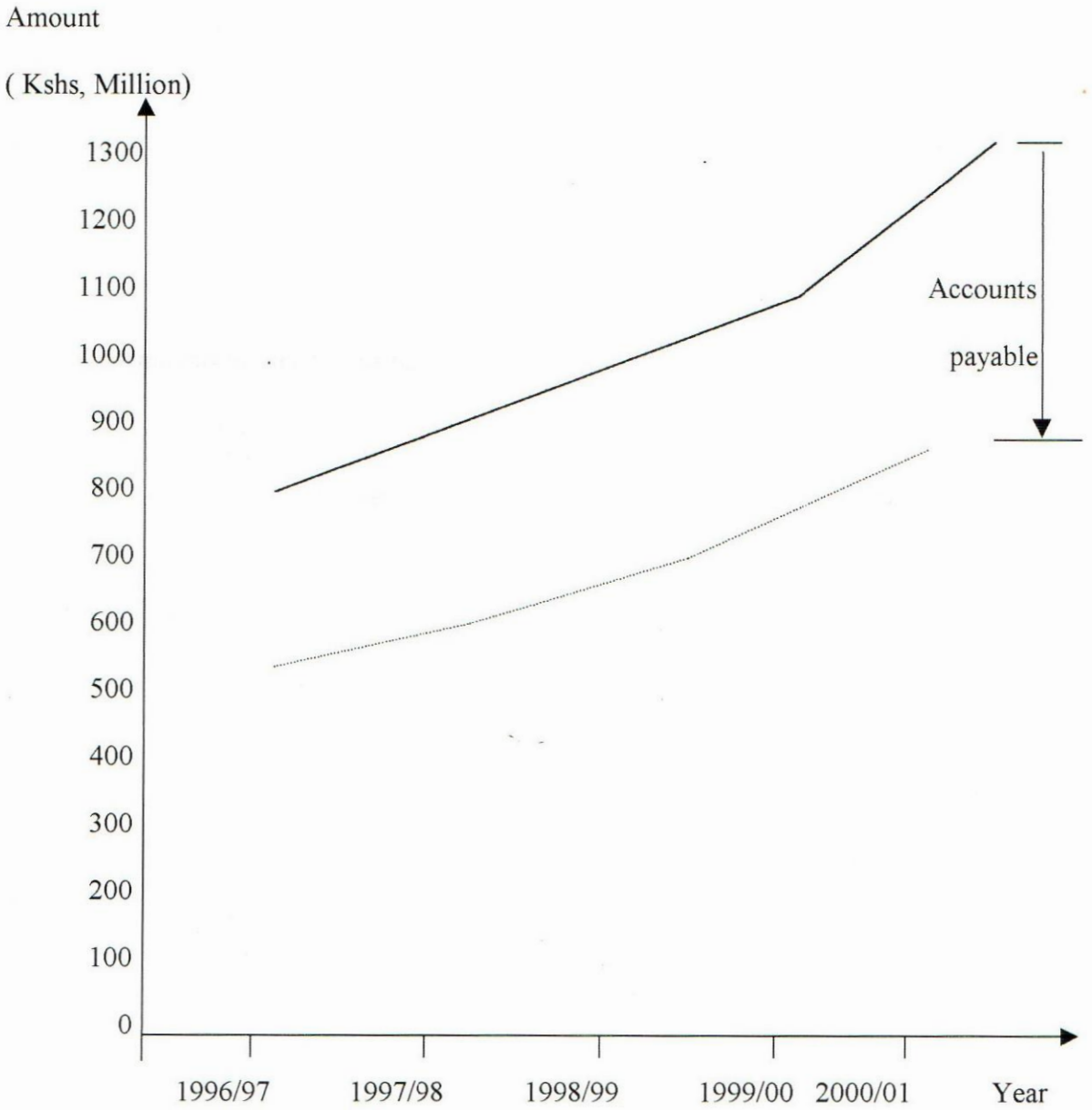


Figure 6: Movement in accounts payable and government funding

- Government grants
- Expenditure

From figure 6, expenditure have risen at a higher proportion than the GoK grants.

4.3 CREDIT RATING ASSESSMENT

This section presents research findings on the third objective of the study, and it is divided into two parts; part one analyses the payment time while part two shows how the university is assessed in terms of its payment efficiency.

The following Table 7 presents a summary of the credit rating.

Table 7: Analysis on credit rating

Location	Nakuru	Nairobi	Other	
% No. of Suppliers	80.6	19.4	0	
Number of years	1-3 years	4-7 years	8-11 years	over 11 years
% No. of suppliers	38.9	11.1	22.2	27.8
Payment time	0-1 month	1-2 months	2-3 months	Over 3 months
1996/97	9.5	4.8	38.1	47.6
1997/98	71.4	4.8	4.8	19
1998/99	0	4	40	56
1999/00	3.2	19.4	45	32.3
2000/01	8.6	37.1	42.9	11.4
Payment efficiency	V. Good	Good	Satisfactory	Poor
1996/97	9.5	4.8	33.3	52.4
1997/98	4.8	4.8	33.3	57.1
1998/99	0	16	36	48
1999/00	6.5	25.9	30.7	29
2000/01	14.3	34.3	37.1	14.3
Current situation	Satisfactory	Satisfied	Not Satisfied	
% No. of Supplier	83.3	16.7		
Recommendations	Improvement			
LPO	33.3% of No			
Payment	50% of No			
Central Stores	16.7% of No			

A total of 52 suppliers were chosen as respondent from the tender book this being approximately 85% of the total tendered suppliers. The list excludes suppliers from where

the university purchases goods in cash, since such suppliers would not have supplied useful information regarding credit rating of the university.

A total of 36 respondents filled and returned the questionnaire. This was a 70% response which was sufficient for the study. A few suppliers especially in Nairobi declined to fill the questionnaire claiming that those authorized to fill such documents were either too busy or on leave.

Location of suppliers

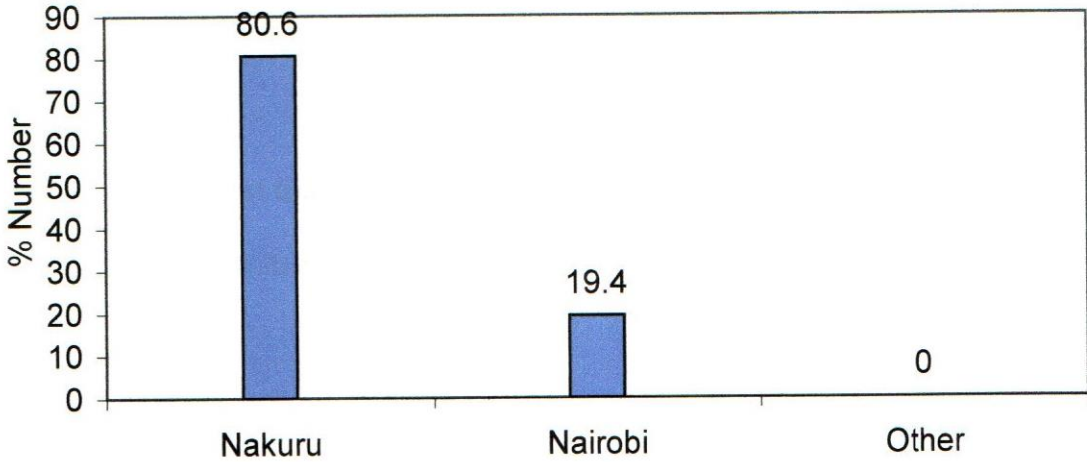


Figure 7: The location percentage number of Egerton University suppliers

Figure 7 shows that about 80% of the suppliers are situated in Nakuru while 19.4% are in Nairobi and none from other towns. This is because the university prefers suppliers in Nakuru as it is cheaper in terms of transport, being only 30km away from Njoro Campus, communication and delivery time is normally shorter than from Nairobi and other major towns.

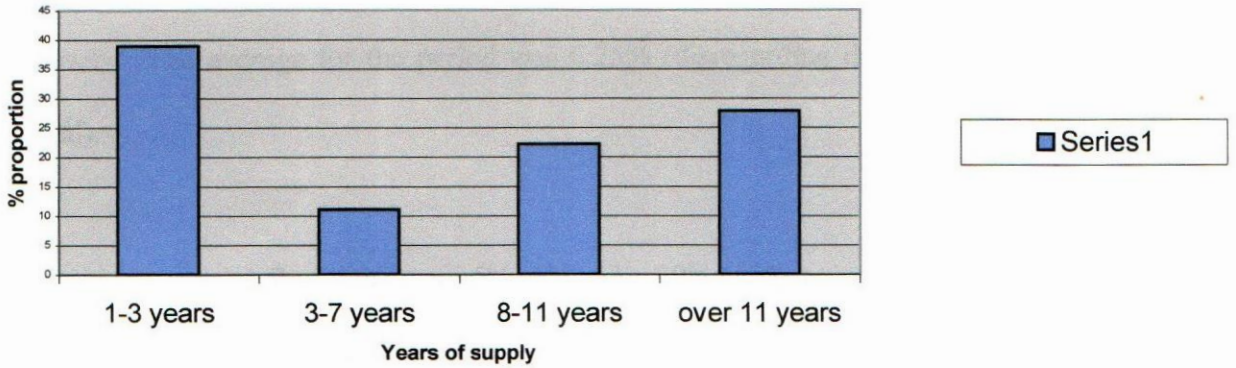


Figure 8: Proportion of suppliers by number of years

From figure 8 above, about 39% of the suppliers who responded have been suppliers of Egerton University for between 1-3 years, 11% for 3-7 years, 22% for 8-11 years and 28% for over 11 years.

Analysis of payment time

The following figure shows the analysis of payment time.

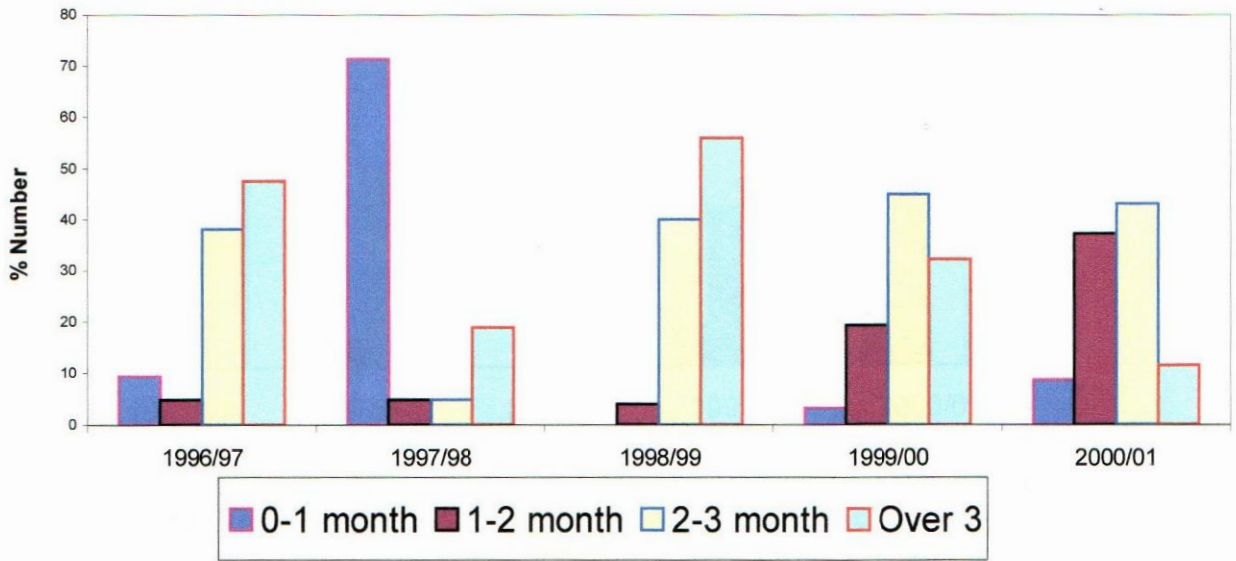


Figure 9: Time taken to pay EU suppliers in 1996/97 to 2000/01

The results of the analysis as shown in figure 9 indicate that from 1996/97 to 2000/2001 respondents who were paid between 0-1 months were 10%, 70%, 0%, 5% and 10% respectively. The average for the period was 6.25% (disregarding the 70% which looked abnormal).

Those paid between 1-2 months were 5%, 5%, 5%, 20%, 40% respectively for the period 1996/97 to 2000/01. This is an increasing trend showing improvements over the period of study. On average 15% of the suppliers were paid between 1-2 months. Those paid between 2-3 months were 40%, 5%, 40%, 45% and 40% over the study period. This works out to an average of 34%. In the same period those paid over 3 months were 50%, 20%, 60%, 30% and 10%. On average those paid over 3 months were 34%. The trend shows that the university delays in payment and pays on average over 68% over 2 months.

Efficiency in payment

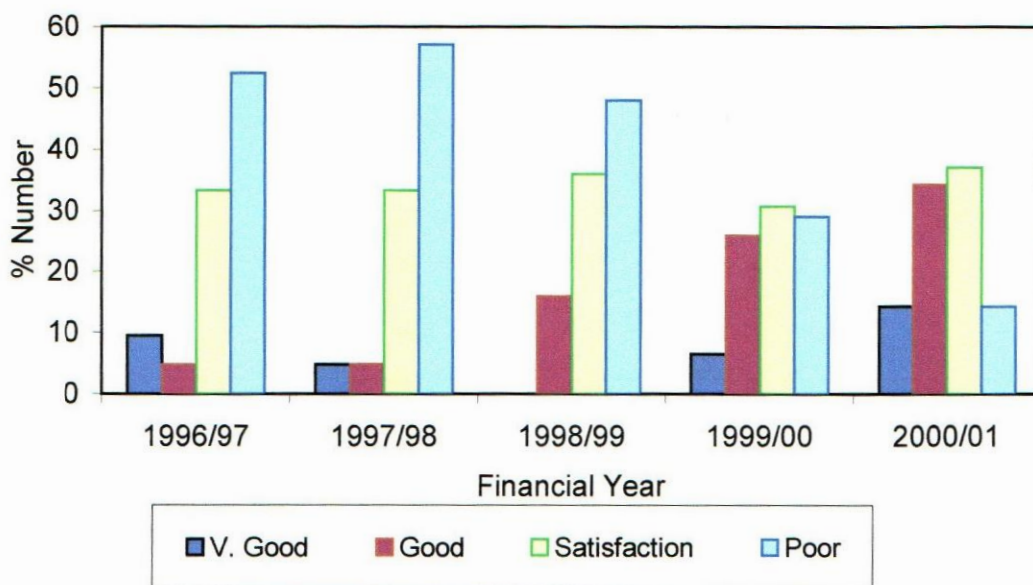


Figure 10: The rating of efficiency of EU in processing payments to suppliers

Figure 10 above shows the rating in terms of efficiency in payment, and it is observed that on average the suppliers who rated the university very good in terms of efficiency were only 7%. Those who rated the university good over the period of study were on average 17%. Those who rated satisfactory were 34% while those who rated poor were 40%. The trend indicates a poor rating. From the analysis it is clear that majority of the respondents indicate poor rating over all. There is a slight improvement in 2000/2001, where majority of respondents rated the University satisfactory and good and very good, this being an indication of improvement trend.

Level of satisfaction

The level of current satisfaction is shown in the following figure.

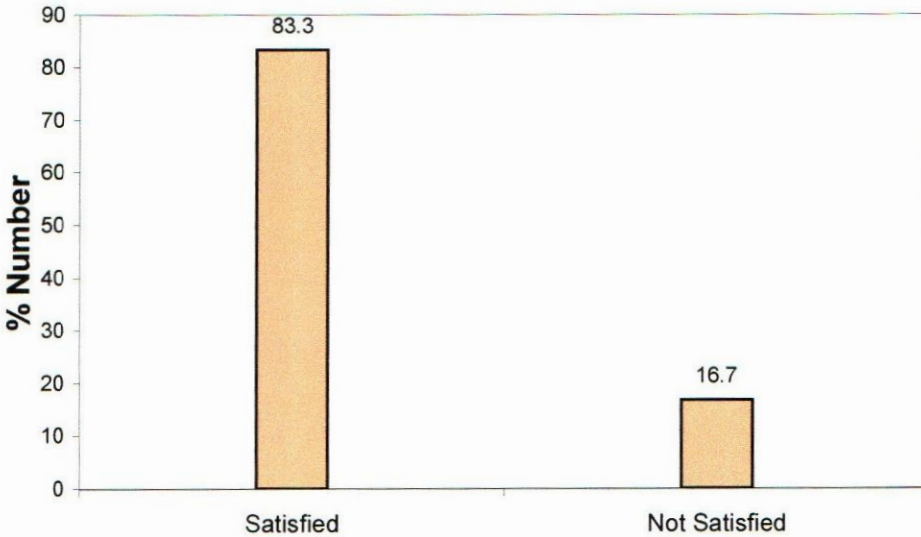


Figure 11: Suppliers' ratings on payment services provided by Egerton University

From figure 11 above, those who indicated were satisfied with the services of the university were 83% while those who were not satisfied were 17%. Of those not satisfied, 33% suggested an increase on the minimum amount on the LPO value. Those who requested improvement in payments time were 5% and 17% recommended improvement in the central stores, where goods are normally received.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

Financial management in any institution is an important aspect and guides effective utilization of resources. Effective working capital management should stem from well adapted principles and strategies to overcome the harsh and variable conditions in the university operations. The risk of lack of cash and loss due to holding too much cash need to be balanced. Cash budgets need to be accurately designed to ensure it meets the desires of the various users of the cash.

Public universities in Kenya have historically depended on government grants. These grants are disbursed to the universities following the laid down government procedures which affect both the level of funding and the timing of the disbursements to the Universities. Financial management in public universities therefore relies on the receipt of these grants. Working capital is part of financial management. One of the key area in working capital is accounts payable management.

Accounts payable needs to be managed in such a way as to take advantage of cash discounts where applicable, and as a “free” financing strategy. Care need to be taken such that suppliers do not charge high prices due to long delays in settlement of their bills. The credit rating of the university may also be negatively affected.

Public universities that rely heavily on these grants should therefore make their financial plans based on the approved budgets.

As observed from the rise in accounts payable over the time, it is clear that the government under-funded the university. This however assumes that the rise of the accounts payable is due to the needs of the university and not due to the mismanagement of resources.

With time, credit rating has continued to improve. There has been a decline of the suppliers who have rated the university poor and an increase of those who rated the university good. This may be attributed to the fact that the university has continued to manage its resources effectively and more attention made to the accounts payable management.

The other factor that may be considered is the fact that as at the time of this study, the university has improved on debt management. Therefore suppliers may have compromised the past “dark days” because of the good management of accounts payable now.

5.2 RECOMMENDATIONS

The recommendations are two-fold. Those on what is to be done by government in funding levels and disbursement procedures and those that public universities need to do in order to effectively manage accounts payable.

Government funding and disbursement procedures

- The Government needs to evaluate the level of funding to public universities in light of their needs.

- There is need for the disbursement of the government grants to be made timely for example either through direct credit transfers to public universities bank accounts or advance release of grants.
- The government needs to adopt and implement a 1997 recommendation proposal by the Commission for Higher Education and Public Universities where the universities should be funded on the basis of the unit costs for the respective programmes.
- The government needs to review the funding and disbursement procedures to ensure efficiency and effectiveness in its financial operations.

Public universities

- Public universities need to exercise greater control and base their expenditure on expected income.
- There is need to provide financial management training to managers of public universities to minimize management inefficiencies.
- Public universities need to seek other ways of generating resources to supplement the limited government funding. So far, some of the public universities are offering self sponsored programmes. However a large proportion of the funds generated from these programmes go to service providers and purchase of teaching materials.
- There is need for universities to design their financial policies bearing in mind that the government funding procedures will have an impact during implementation of these policies.
- There is a need to computerize the financial activities and records in public universities for ease of control, access and reference.

- Continuous training of financial management staff is essential in order to acquire new financial management skills and techniques.
- Revision of financial rules and regulations should be regularly carried out to accommodate new ideas and challenges faced from both internal and external environment.
- Public universities should review their academic programmes according to market demand so that they generate extra financial resources to subsidize the government grants

Areas for further studies

This is a Pioneer study into the effects of government funds disbursement procedures on the Public Universities management of accounts payable. It is by no means an exhaustive study, but merely an introduction for further research in this field. The study was limited to Egerton university. For more conclusive results, a similar study may be carried out on other public universities.

Secondly, a study may be carried out on the management of receipts and payments in private universities and compare with public universities and come out with a policy on effective management of receipts and payments.

Thirdly a study on the effects of funding levels on working capital management in public universities can be undertaken

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APPENDICES

APPENDIX 1: Covering letter

DATE:

Dear Sir,

RE: REQUEST THAT YOU FILL OUT A QUESTIONNAIRE

I am a post graduate student at Egerton university studying for a masters degree in Business Administration I am now undertaking a research project which is part of the requirements for the programme. My research is on the effects of Government disbursements procedures on the management of accounts payable in public universities, case study of Egerton university. Accounts payable management includes credit servicing. Your organization is one of the firms that supplies goods or provide services to the university and I have selected your company as part of the sample of firms I would like to use for data collection.

I am kindly requesting you to assist me in the data collection by filling out the questionnaire attached. The information you provide will be treated with utmost confidentiality and the results of the research will be for academic purposes only. However, the findings will be availed to you upon request.

If you have any further questions or would like further information please call me on telephone number 037-62586.

Thank you for any help you will give me.

Yours faithfully,

J. M. Nguri
RESEARCHER

APPENDIX 2: Questionnaire

QUESTIONNAIRE FOR SUPPLIERS TO EGERTON UNIVERSITY

Please tick or insert points [] where necessary in the box next to the response

1. Location of your business Nakuru [] Nairobi [] Others []
2. Number of years you have supplied to Egerton university
1 – 3 years [] 3 – 7 years [] 8 – 11 years [] over 11 years []
3. How long, in months, does Egerton University take to pay you? Give the points as shown below for each of the five years:
(0-1 month) – 4 points, (1-2 months) – 3 points, (2-3 months) – 2 points
(over 3 months) 1 point
1996/97 [] 1997/98 [] 1998/99 [] 1999/2000 [] 2000/2001 []
4. How do you rate the efficiency of the university in processing your payment as compared to your other customers? Give points for each of the financial year.
Very good – 4, Good – 3, Satisfactory – 2, Poor – 1
1996/97 [] 1997/98 [] 1998/99 [] 1999/2000 [] 2000/2001 []
5. Are you satisfied with the university service to you? Yes [] No []
If your answer to No. 5 above is no then which areas/s would you recommend improvement

Thank you for taking your time to fill and return this questionnaire

APPENDIX 3: Letter of authority

J. M. Nguri
P.O. Box 536
NJORO

20th January, 2003

The Deputy Vice-Chancellor,
Administration and Finance,
Egerton University,
NJORO.

Dear Sir,

RE: AUTHORITY TO COLLECT RESEARCH DATA

I am a student at Nakuru Town Campus pursuing an MBA degree. As a partial fulfillment of the requirement for the degree, I am required to undertake a research project based on my area of specialization, which is Finance.

Towards this end, I am carrying a research on “The effects of Government disbursements procedures on the management of accounts payable in public universities in Kenya, case study of Egerton University”.

The purpose of this letter is therefore to seek your authority to enable me collect the research data both from the university accounting records and its suppliers. It is my strong believe that the university is going to benefit from this study as this is one of the critical areas towards enhancing the working capital management in an organization.

It would be appreciated if you favourably considered my request soonest possible.

Yours faithfully,

J.M. Nguri
CM11/0014/01

APPENDIX 4: Notes on recommended degree clusters and corresponding unit costs

Notes: CB-current based on, AB-average based.

Degree programmes; C1-BA-General, Anthropology, Admini and Manag, Cultural Studies, External Degree, B. Comm., LL.B, B.A. Government

C2-B.Ed; Arts, Special Education, Languages, Early Child; B.Sc; Natural Resources.

C3-B.Sc/B.Ed; General, Science, Fine Art, HS&T, Agric Edu; BA; Land Econ, Building Econ, Design.

C4-B.Sc; Forestry, Fisheries, Tourism, Nursing, WS&T, Agric Bus, Produc, Hort, Comp Sci, FS&T, Information Sci, Agric Engin, Econ, DF&T, HI&Magt, Engineering-MS&E Animal, Chem. Process, Survey, B.Ed-Tech. Educ

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