CHRISTIAN SERVICE UNIVERSITY COLLEGE

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

ASSESSING THE EFFECTIVENESS OF WORKING CAPITAL MANAGEMENT OF PUBLIC HEALTH FACILITIES WITHIN KUMASI METROPOLIS FOR THE PAST FOUR YEARS; FROM 2011 TO 214.

(USING KUMASI SOUTH HOSPITAL AS A CASE STUDY).

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, CHRISTIAN SERVICE UNIVERSITY COLLEGE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE IN BACHELOR OF BUSINESS ADMINISTRATION

JUNE, 2015

STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and does not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report Herein Submitted.

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DECLARATION

We hereby declare that this work is our own research towards the award of a degree in bachelor of business administration and contain no material formally published by any other person or any material which has accepted for the award of any other degree of the universities except where suitable acknowledgement has been made in the text.

DEDICATION

We dedicate our study to the Most High God for his strength and guidance throughout the entire period our study.

ACKNOWLEDGEMENT

We acknowledge God for his love, kindness and mercy in sustaining us through the entire period of our work. We are more than grateful.

For the immeasurable efforts of our supervisor, Dr Solomon Arhin. His directions and corrections shaped our dream of providing such study. These brought out the gold in us to finish this study successfully. We say "**WE ARE GRATEFUL DR**".

We are much grateful to the entire management of Kumasi South Hospital and other public health facilities within Kumasi Metropolis for their support and every service they rendered to us to get our dream realized.

Finally we are grateful to ourselves for the unity, hard work and even conflicts that enabled us to focus on our group objectives of providing this study. We say **"WE MADE IT AT LAST".**

ABSTRACT

The purpose of our study was to assess the effectiveness of working capital management of public health facilities within Kumasi Metropolis by measuring the overall short term liquidity and reviewing the techniques and policies used in the management of working capital components for the past four years thus from 2011 to 2014.

The study design was both exploratory and descriptive, therefore, we adopted both case study and survey strategies in our data collection. Both primary and credible secondary data were used for the study. The study population was 68 public health staffs from the five Ghana health services facilities within the metropolis. We sampled 48 of the administrative staffs within these facilities. We administered questionnaires to our selected sample and conducted unstructured interview to collect data from our busy respondents. The quantitative data were analyzed with Statistical Package for Social Science (SPSS) whiles inferences were drawn from qualitative data.

In our study, we found out that; 62.5% of public health facilities within Kumasi Metropolis use the moderate working capital funding policy. 32.5% of the population uses the conservative working capital funding policy and 5% of our respondents use the aggressive working capital funding policy. Our study revealed that, 62.5% our respondent of public health facilities within Kumasi metropolis use the Economic Order Quantity techniques in managing their current assets. 20% of our respondents use the ABC analysis in managing their investment in current assets. 17.5% of our respondent use Just In Time techniques to regulate their investment in current assets (inventory). 10% uses none of these strategies. However the use computerized accounting software is very low among public health facilities within Kumasi metropolis. Generally, the overall working capital management has been moderately managed.

In spite of these, the NHIS has the lion's share of the account receivable structure. This has been hard to collect and has impacted negatively on the operating cycle and the cash cycle.

This is increasing the level of accounts payable and overall reduction in the facilities' liquidity position.

In future studies, we recommend that the researchers study further into the impact of the NHIS on the working capital management towards the provision of quality health delivery within Kumasi metropolis. Such study would provide deeper knowledge on how the NHIS affects the overall liquidity, efficiency and effective quality healthcare delivery to both low and high income earners within Kumasi Metropolis in particular and Ghana as a whole.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Working capital is an important component of every business, which requires diligent attention by management decision to ensure it is managed effectively. The management of every entity should be critical and adopt effective techniques in managing the elements of working capital. The working capital can be simply be defined as the excess of current assets over current liabilities. This can be favorable or unfavorable. When the current assets exceed current liabilities, it is said to be favorable but it is unfavorable when the current liabilities exceed current assets of an entity within a period of time. When the later happens the management of the entity should take strategic decision to avoid liquidation of the firm.

Working capital serves as the life blood of a business without which a business cannot operate effectively. The ability of an entity to generate cash, meet customer demand and meet the payment of its short term liabilities depends solely on how well it manages its working capital. It is therefore very imperative that the managers of a business regularly monitor and control its current assets and current liabilities to avoid liquidation problems. The size and level of working capital of a business depends on the type and nature of the industry of the firm. The manufacturing industry would deem it appropriate to keep large level of working capital, whiles firms in service, retail and government industry would have small working capital because, their operation involves instant cash receipt and payment.

In working capital management, the business should be concerned with the operation cycle. This cycle involves the purchase of raw materials and supplies from its creditors which are used to manufacture products as inventory, this is sold to customers on credit, which becomes

accounts receivables, the cash collected from debtors is used to pay creditors to enable the firm acquire another raw materials. This cycle goes on and on. It is very important for the firm to calculate the average number of days that raw materials are converted to inventory which is known as stock days. The average days taken for the account receivables to be converted to cash is called debtor days. Finally the average days taken for a firm to pay its creditors is creditors days. The addition of stock and debtors days less creditors days is known as cash conversion cycle. Long cash conversion cycle depicts the inability for firms to generate cash quickly from its operations. Short cash conversion cycle shows the ability of a firm to generate cash quickly from its operations.

Another important factor a firm ought to consider in managing its working capital is the financing of its various assets policies with its long and short terms funds. These include, conservative, moderate and aggressive policies.

Because working capital plays important role in management's profitability and liquidity decisions, firms should focus on managing working capital elements effectively and efficiently to realize the objectives of the firm and more importantly its existence.

The Ghana Health Service (GHS) is a public service body established under the Act 525 of 1996 as required by the 1992 constitution. It is an autonomous Executive Agency responsible for implementation of national policies under the control of the Ministry of Health through its governing council, the Ghana Health Council. The Ghana Health Service continue to receive public funds and thus remain within the public sector. However its employees will no longer be part of the civil service, and its managers are not required to follow all the civil service rules and procedures. The independence of the Ghana Health Service is designed primarily to

ensure that its staffs have greater degree of managerial flexibility to carry out their responsibilities, than would be possible if they remain wholly within the civil service. Ghana Health Service does not include Teaching Hospitals, Private and Mission Hospitals.

The service is set up to implement approved national policies for health delivery in the country, increase access to good quality health services and to manage available resources prudentially for the provision of the health services.

In order for the service to achieve the various purposes it is mandated to undertake the following functions;

1. Develop appropriate strategies and set technical guidelines to achieve national policy goals.
2. Undertake management and administration of the overall health resources within the service.
3. Promote healthy mode of living and good health habits by the people.
4. Determine the charges for health services with the approval of the ministry of Health.
5. Provide in-service training and continuing education.

Provision of quality health care delivery by public health facilities as their main objective cannot be achieved without effective working capital management. Effective working capital management involves effective financing policies, implementation of working capital strategies, cash conversion management and continuous measurement and management of organization's liquidity. This is the key to sound and uninterrupted provision of quality healthcare delivery by public health facilities within Kumasi and Ghana as a whole.

1.2 Statement of Problem.

Health financing involves the mobilization, allocation and management of financial resources for the purpose of financing affordable health care for the population at large. The function of the health system involves revenue collection, pooling of resources and the efficient use of these not only for direct health expenditure but also for financing all indirect expenses such as salary and wages of volunteers and capital investment.

Financing of public health are mainly, the Government Of Ghana subvention, Internally Generated Funds(IGF), and Donor Pool Fund mostly through project grant. IGF remains the largest and most reliable source of revenue as far as financing health is concerned. The insured revenue (NHIA) contributes about 85% of the total revenue of the IGF. Whereas the non-insured (cash and carry) contributes the remaining 15% of the total revenue generated within. Recently the inflow of Government of Ghana subvention and grants has not been effective. The facility therefore depends solely on the IGF in financing its current assets and current liabilities.

The over dependence and reliance on the IGF in an attempt to provide affordable and quality health delivery has been a challenge to the facility. Public health facilities in Kumasi Metropolis have been cash trapped as a result of lack of control on its debtors (NHIS), high cost of operation and inefficient revenue collection system.

For instance it has been reported on my joy online that, Ghana Health Sector suffers liquidity problem as a result of the power crises and the late claim payment of the NHIA. This has made the facility cash trapped and unable to finance its working capital component.

From the report “NHIA owes hospitals a total of GH¢14.2 million which includes Ghana Health Service. This amount of debt has made most facilities cash trapped. Kumasi South

Hospital (KSH) located at Kumasi metropolis, Atonsu, is one of the victims to such problem. According to the report, the problem has made the KSH owe Electricity Company of Ghana GH¢308629, NHIA authority has not made four month claim payment to the facility amounting to GH¢ 1,125,414 therefore the management of the hospital have decided to levy patients insured or uninsured pay for photocopy, receipt and injection. This is the last resort by which the facility can meet its operational expenditures and provide the desired service to its value client.

Therefore our study is to assess the level of effectiveness in managing working capital components and recommend appropriate policies that facilitate quality and affordable healthcare delivery in Kumasi Metropolis and Ghana as a whole.

1.3 Research Objectives;

The following are the objectives that the researchers seek to achieve;

1) To identify the sources of funding working capital available to public health facilities in Kumasi Metropolis hospitals?
2) To identify and understand the management techniques adopted by hospital for their assets.
3) To determine and evaluate the policies adopted by health facilities in financing its types of assets with its long and short term funds.
4) To measure the level of liquidity of public health facilities within Kumasi Metropolis.
5) To find out the level of investment in net working capital of public health facilities within Kumasi Metropolis for the past four years.

1.4 Research Questions

The questions that our study seeks to answer are elaborated below;

1) What are the sources of funding working capital to public health facilities within Kumasi Metropolis?
2) What are the management techniques adopted by public hospitals for managing their current assets?
3) What are the policies adopted by hospitals in financing its various types of asset with its long and short term funds?
4) What is the extent of liquidity of public health facilities within Kumasi Metropolis?
5) What are the changes in net working capital of public health facilities within Kumasi metropolis from 2011 to 2014.

1.5 Significance of the Study

The study enabled researchers have deeper knowledge on how effective public Health facilities have managed their working capital components. It also gave researchers the opportunity to measure the level liquidity and effectiveness of various public health facilities in Kumasi for the past four years.

The study however, seeks to enable managers of public health facilities adopt appropriate current assets and liabilities management techniques to foster their operational and financial activities. The study would provide solutions to consequences of working capital mismanagement such as cash crises, cost of inventory investment and excessive reliance on suppliers for credit. However the study is undertaken purposely to help sustain and improve the existing working capital management techniques and policies of public health facilities in Kumasi and Ghana as a whole.

Finally, the study would serve as an existing reference to an individual who would want to research into similar sector. Findings from this study would contribute to the existing data which will facilitate formulation of good policies for the health sector.

1.5 Scope and Limitation of the Study

The scope of the study is focused on how the working capital components are managed by public health facilities in the Kumasi Metropolis. These include, Suntreso Hospital, Tafo Hospital, Manhyia Hospital, Child Welfare Clinic and Kumasi South Hospital.

Among these health facilities, Kumasi South Hospital is used as the case study, because it is the second largest hospital in Ashanti Region. The case study provided general overview of the study.

However due to differences in the public health facilities in Ashanti Region in general and Kumasi metropolis in particular, the study was limited to Kumasi South Hospital.

In addition to this, the busy schedules of our respondents and participants made the answering of questionnaires and interview questions very difficult respectively.

Last but not the least, the study was limited by time, the time frame for the study was very short which resulted in our inability to ask all the interview questions during time with our respondents.

The above limitations notwithstanding the findings, represented public health facilities in Kumasi.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focused on the different knowledge shared by different authors. It included the definitions, related studies and the conceptual framework of the study.

2.2 Definitions of Working Capital

Working capital is the difference between the current assets and the current liabilities of an organization (Kester, Ruback and Tufano). Current assets are the assets which are utilized within accounting period of one year and the economic benefit is expected to flow within an organization. Current liabilities are the financial obligations which an entity has to undertake as a result of past transaction between different entities and would result in an outflow of an economic benefit of the organization within accounting period of one year (IAS 1). Since the evolution of working capital, several authors have analyzed the concept by defining the working capital to ensure that the components are effectively managed. These definitions have fostered the evolution of management techniques in working capital.

In defining the working capital theories, the authors used both gross and net working capital concepts to formulate their theories. Some of the authors agreed that working capital was the total assets of the entity whiles others contradicted to these definitions. According to, Mead Edward, Field Kenneth, Baker and Mallto suggested quantitative approach to define working capital. They defined working capital as current asset of the organization. This was because, they understood the important roles that current assets play in generating profit when they are prudentially managed and utilized by the organization.

Adam Smith supported this opinion. According to him “the goods of a merchant yield him no revenue of profit till he sells them for money and the money yields him a little till it is again exchanged for goods. His capital is continuously going from him in one shape and returning to him in another and it is only by means of such circulation or successive exchanges that can yield him a profit. Such capital therefore may vary appropriately be called circulating capital (current assets).

J. I. Bogen has defined working capital as the total current assets of an enterprise which circulates from one form to another, for instance, from cash to inventories, to receivables and back to cash. The capital that circulates equals the total current assets of an enterprise.

C.W. Gesten Berg supported the views of Professor Bogen and considered working capital as the total current assets of an enterprise which circulate from one form to another.

Eugene F. Brigham and Philip R. Daves defined working capital as both Gross working capital and Net working capital. The gross working capital was defined as the total current assets used in the operation of organization whereas the net working capital is the difference between the gross working capital and the current liabilities.

The above definitions focused on the gross working capital of an enterprise. These definitions focused on the quantity of current assets possessed by an organization or an enterprise without regard to its short term obligations.

However in the accountant’s handbook, working capital can be defined as the excess current assets over current liabilities. This definition shows the financial position of an organization.

According to Dr. Colin Park and Professor J.W. Gladson., working capital is defined as the excess of current assets of an organization over current items owed to employees and others.

Which includes salaries, wages, accounts payables, taxes owed to government and other short term financial obligations. This definition contradicted to the former definitions because, Dr. Park and Prof. Gladson included financial obligation which was due for payment within one accounting period of twelve months. These were classified as the expenses in arrears or outstanding as part of current liabilities.

Harry G. Guthman and Herbert E. Dougall defined working capital as the excess of current assets over current liabilities.

William H. Husband and James Dockery have suggested that "working capital comprises the sum of current assets and it takes into consideration all the current resources of the enterprise and their application to the current and future activities"

Joyce Ama Quartey 2012, saw working capital as the oil without which the engine of the enterprise is void of working. She defined working capital, as the excess of the current assets over the current liabilities.

William.R. Lasher, defined working capital as the assets and liabilities that are required to operate a business on day to day basis. The assets are cash, receivables and inventories, whiles the liabilities are generally payables and accruals.

In all the empirical studies conducted by the various authors on working capital, there is no universally acceptable concept but it can be observed vividly that the concept is based on the gross working capital and the net working capital. The gross working capital focuses on the total value of current assets and how it is managed effectively to achieve operational profitability of an organization. The net working capital however is regarded as the excess of current assets over the current liabilities. The net working capital concept depicts the

financial position of the organization. Working capital also includes the portion of fixed assets invested in current assets.

2.3 Related Studies

Considerable studies have been done pertaining to managing working capital of an organization. All these studies were related to the management of working capital components as the overall management of working capital. However, our research will find answers to the new questions that have been described under the problem.

John Sagan in his study of working capital management theory (1955) suggested that working capital management should reasonably be linked to the objectives of liquidity and profitability of an organization. He emphasized that working capital management should aim at organizational stability and growth. In his theory he suggested that cash management should be the focus in working capital management because cash is more liquid and difficult to manage than any other component of working capital that is inventories, account receivables, account payables etc. Sagan's theory also further stated that high level of sales in enterprise calls for large cash balances.

ABDE. L. Motall observed that, a lot of financial manager's time were utilized in the management of working capital. In his study, he found out that, shortage of working capital is the main cause of business failure. He advocated that mismanagement of working capital is the cause of business failure.

Earnest .W. Walker studied nine enterprises and found out that, the level of working capital and rate of return were inversely related. He revealed that an increase in working capital resulted in a decrease in the rate of return

In 1966, the first study on working capital management in relation to India industry was published with a caption "Structure of the working capital" by the National Council of Applied Economic Research (NCAER, 1966). The study was related to three types of industries thus Fertilizers, Cement and Sugar. They found out that there had been excess working capital funds locked up in most of these industries. It was finally concluded that the need of the hour was to establish good accounting and costing systems together with new techniques of inventory management among these three companies.

In 1934, Stevens W. M, Saliers E. A, and Lincoln E. E. studied working capital management in the New York enterprises, according to their study they advocated that,

- What matters in the long run is the surplus of current assets over current liabilities and not the absolute quantum of current assets.
- It is useful in assessing financial position of the enterprises possessing the same amount of current assets.
- The concept of working capital assists investors and creditors of an organization to judge its financial soundness and margin of safety.

Jerome B. Cohen and Sydney M. Robbins 1968, studied the level of working capital of an enterprises at New York. In their study they concluded that operating cycle method was the appropriate tool that could be used to measure the cash flow of an enterprise. They further advocated that the operating cycle was the effective tool that identified the cash invested throughout the stages of operations thus from procurement of raw materials to finished goods and inflow of cash through sales or receipt from debtors.

James C. Van Horne, an engineering economics in 1969, studied the relationship between the liquid assets and a firm's ability to meet the current obligations. He observed that there was a direct relationship between these two variables. Thus when the liquid assets of the firm

reduces, the ability of the firm to meet its current obligation decreases. During his study he separated the liquid assets such as cash and marketable securities from the current obligations such as accounts payables and short term liabilities. He revealed that the risk of a firm in meeting current obligation decreases when the firm's working capital and liquid asset's position decreases.

During 1975, Ram K. Misra, studied working capital management within six central public sectors enterprises in India for the period 1960 to 1968. He identified inventory, receivables cash and working capital finance as the problem areas of working capital. After delving into these problems, he suggested that due diligence should be given to these areas since they were neglected hitherto affecting profitability. During his study he found out that working capital was mismanaged, large investment in inventory, inefficient inventory and account receivables and finally disproportionate levels in cash as result of improper planning and budgetary controls.

In 2012, Annor Michael Narkotey studied inventory management of public health facilities within Ho metropolis, Ghana. During his study he found out that, most medicines prescribed to clients were not available at the facilities and there was no guarantee that clients got the prescribed medicines and this affects quality healthcare delivery in Ghana. He recommended that the facilities should adopt proper inventory control method to ensure accurate quantities of commodities at the various facilities to meet clients' demand.

Another study done by Julius Aidoo-Buamah in 2014, on the NHIA as an account receivable on impact on accounts payables management, effects on working capital management of public health facility revealed that, the more NHIS component of account receivables balances increases, the more problematic it becomes for the facilities to meet its payable obligations. Failure of the NHIA to meet its debt obligations to public health facilities on time delays almost three times longer on the part of the facility to meet their debt obligation to

suppliers. He suggested that the facilities should manage its non-NHIS components of its account receivables debt structure with utmost efficiency and strengthen its internal controls to increase the ability to meet short term obligations.

2.4 Conceptual Framework.

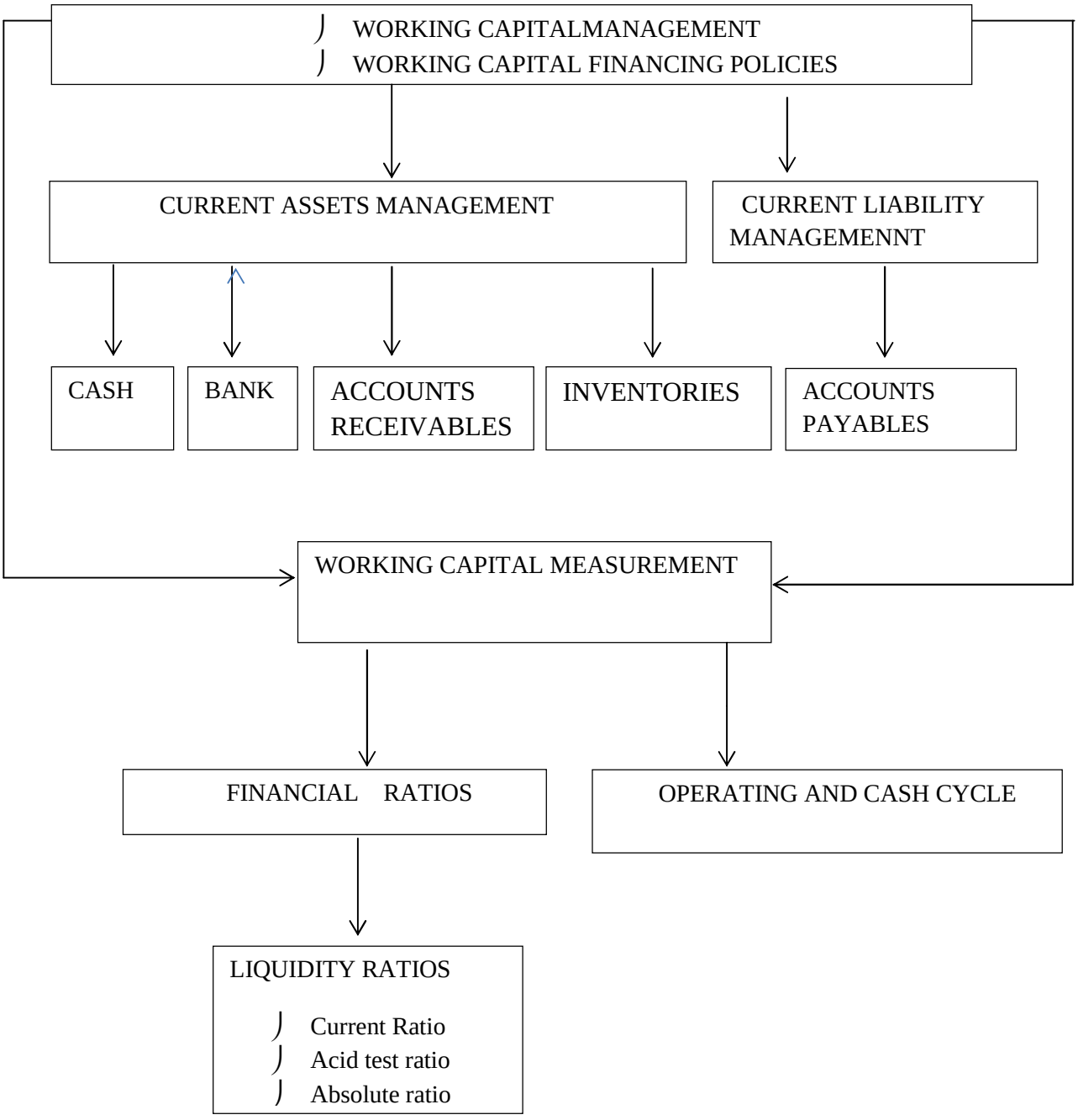


Diagram 1.1 The diagram above shows the conceptual framework of the study.

2.5 Definition of Terms.

Working Capital Management

The ACORN Professionals, India; define working capital management as the administration of current assets and current liabilities. This activity is carried out to realize the maximum value of net current assets by having the appropriate and acceptable level of working capital components. Effective working capital management helps to keep the optimum level of inventories, cash, account receivables and accounts payables to ensure continuous smooth flow of business operations.

Working Capital Financing Policies

The trade-off between risk and return which occurs in policy decisions regarding the level of investment in current assets is also significant in the policy decision on the relative amounts of finance of different maturities in the balance sheet, that is on the choice between short and long term funds to financing working capital.

Brealey, Meyers and Marcus, suggested, that an organization should use the following policies to finance its working capital;

- A matching funding policy whereby a business firm finances fluctuating current assets with short term funds and permanent current assets and fixed assets with long term funds. This policy matches the maturity of the funds with the maturity of the different types of assets.
- A conservative funding policy, this is when a business uses long term funds to finance not only fixed assets and permanent assets, but some fluctuating current assets as well. This is due to less reliance on the short term fund. This funding policy is associated with low risk but higher cost of long term finance.

- Aggressive funding policy; here the organization uses short term funds to finance not only fluctuating assets but some permanent current assets as well. The risk associated with this policy is solvency.

Cash

Cash is the most liquid asset of every firm. This can be the cash at hand for meeting the day to day activities.. The management of cash involves the decision to balance the demand for cash to meet daily activities or investing the cash at hands or in account to generate income. Management of cash at the public health facility involves the ability of the hospital to involve in activities that increases cash and control the activities that decreases cash.(Wester, Ross and Jordan).

Bank

This is the amount of money held in the account of an individual for meeting cash demand (Bank). These include marketable securities, current, saving and fixed deposits held in the accounts of firms. (Frank wood and Alan Sangster).

Account Receivables.

Account receivables are the amount of money due to an organization as result of services rendered to its customers. (Wester, Ross and Jaffe)

Inventories

Inventories are the goods in which the business normally deals that are held with the intention of resale. They may be finished goods, partly finished goods or raw materials awaiting conversion into finished goods which will then be sold. (John Blake).

Accounts Payables

These are the monies owed by a business to its suppliers shown as a liability on a company's balance sheet.(Brealey, Myers and Marcus).

Financial Ratios

Financial ratios are mathematical tools that are used to analyze and interpret financial performance of an enterprise within a particular period time (trends). Working capital ratios are current ratio, acid test ratio and absolute ratio.

Operating Cycle

Operating cycle is the duration of time for which an organization converts its current assets to cash. These are stock conversion period and debtors' collection period.

Cash Cycle

The cash cycle shows the difference between the operating cycle and the accounts payable period.(William W. Lasher)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter of the research focused on the research design adopted to undertake the research topic. It defined the study type, population and sampling procedures, sources of the data and the research instruments adopted by the researchers for their study.

3.2 Background of the Study Area

The study is related to how the working capital components are managed by the public health facility (Kumasi South Hospital) and how this facility achieves and sustains an effective and efficient healthcare delivery system to its clients for the past four years, thus;2011 2012, 2013 and 2014. The study focused on the level and management of working capital, operation cycle, cash cycle, working capital financing policies of the facility which are designed to achieve the government objective of quality healthcare in Ghana in general and Kumasi in particular . The study would also include other health facilities within Kumasi metropolis (Suntreso Hospital, Tafo Hospital, Manhyia Hospital and Child Welfare Clinic hospitals.)

3.3 Study Type

The study was made up of both qualitative and quantitative study because it enabled researchers to inductively examine the topic and drew inferences from the data. The study provided the overall description of how working capital components are managed by the facilities because the data were collected purposefully to meet objectives of the study. However the quantitative approach assisted researchers to report the summary of the results in a numerical form.

3.4 Research Design

Both exploratory and descriptive design were adopted for the study. The exploratory design was adopted because the management of working capital components in relation to public health facilities is not conclusively determined. In addition, the measure of the liquidity, cash cycle and working capital management policies have not conclusively been known. This design was used because it assisted the researchers to explore the techniques, policies, experiences and collaborations in managing the current assets and the current liabilities which helped the researchers to obtain an innovative result. Notwithstanding to the above design, descriptive designed was adopted because it enabled researchers to go further and draw conclusions from the data described. This design provided researchers the characteristics and the nature of current assets and current liabilities of the sector. This design was used because, it provided the researchers with knowledge and an overall understanding of the managing the working capital components.

3.6 Sources of Data

Researchers used both primary and secondary data for the study. The primary data were collected through questionnaires and unstructured interview with our respondents. This type of interview was conducted to collect facts based on respondents understanding of the overall working capital management. The questionnaires helped researchers to collect large data within a short period of time. It also created anonymity with our respondents. However, reliable and appropriate secondary data was used for the study. These types of data saved the researchers' time because it was available for use. In addition the data was consistent with the study.

3.7 Population and Sampling Techniques.

The population is the total number of people from which the data can be sourced and investigated. The scope of the research identified the target population of 68 staffs of public health providers within Kumasi. They were identified as the Heads of finance, administrators, revenue collectors, Accounts staffs, pharmacists, store keepers, procurement officers and other officials whose schedules would enable researchers obtain the vital information.

Probability sampling method was used by the researchers to give an equal chance to respondents. We adopted stratified probability sampling because it enabled us to allocate the working capital components to the respective respondent. The respondents were defined according to four strata. Thus,

Stratum 1) This involves Administrators, pharmacists, heads of finance and accounts staffs.

Stratum 2) This comprises inventory managers (stores).

Stratum 3) This focuses on the Procurement staffs.

Stratum 4) this comprises insurance office within the hospital.

To ensure that each of the stratum was representative of the population, researchers used a simple random sampling to select respondents from the strata. The sample used for the study represented a subset of the population. It therefore gave an equal opportunity to every population element of being selected. We sampled 40 out of total population of 60 for our study before administering questionnaires to the sampled population.

3.8 Data Collection Procedure.

In undertaking the study, both quantitative and qualitative data were required to facilitate the numerical analysis and descriptive analysis of the organization's working capital management activities. Case study strategy allowed the researchers to collect large amount of

data at the lowest cost. This strategy enabled us gain a rich understanding of the study as well.

In addition to the above, we used unstructured interview and observation to ensure that the data collected from the respondents focused on the study's objectives. The researchers visited the facility, involved in the working capital practices to enable them to gain deeper understanding of managing such components. In doing this, we interviewed the core management team who are responsible for the day to day administration of the facility (Medical Director, Administrator, Head of Nursing Head of pharmacy and Head of finance) and other staffs from finance, pharmacy, stores and procurement units.

3.9 Research Instruments

We used unstructured interview and questionnaires to collect data for our study. These instruments were adopted because it saved the time of the respondents due to their busy schedule. The techniques provided true and honest response from the participants on sensitive issues.

The interview was conducted with the following participants;

1) The Head of finance and Accounts staffs.
2) The Procurement officers/ store keepers.
3) Some registered suppliers were interviewed to ascertain data related to credit policies.
4) Management was interviewed to acquire the inventory management policies adopted by the facility.

We used secondary data for the study. This kind of data was chosen because it was readily available, accessible, time and cost saving. In evaluating the overall suitability prior to the use of the secondary data researchers measured the coverage, reliability and the validity to ensure that, such data was of high quality.

3.10 Data Analysis

The data of our study was collected solely by unstructured interview and questionnaires which were supported by a secondary data to enable researchers analyzed it quantitatively and qualitatively. We also adopted the use of liquidity ratio, solvency ratio, activity ratio and cash flow analysis to analyze the data. However the used of the descriptive and inference statistics were appropriate to the researchers because they provided better explanation of the data collected. Researchers used Statistical Package for Social Science (SPSS) to analyze the questionnaire and Microsoft excel software was used to analyzed the secondary data.

3.11 Ethical Consideration

Researchers prioritized ethical issues throughout the study by respecting the confidentiality of the facilities. The researchers refrained from collecting unauthorized and unapproved data during data collection period. The data collection mode and storage media were communicated to respondents for their approval. The purpose of the study and the access to the facilities were done appropriately. All data collected for the study were prior to the approval of the authorities at the facilities.

CHAPTER FOUR

DATA ANALYSIS

4.1 Introduction

This chapter is related to the interpretation and analysis of the data that have been received from our respondents. This analysis is divided into two parts that is primary data analysis and secondary data analysis.

4.2 Primary Data Analysis

Inventory.

Table 4.1 Descriptive Statistics of Inventory

	N	Minimum	Maximum	Mean	Std. Deviation
STOCK TAKING PERIODS	40	1.00	4.00	2.1750	.81296
METHOD OF STOCK VALUATION	40	1.00	5.00	1.7000	1.13680
LEVEL OF STOCK	40	2.00	5.00	3.1750	1.37538
STOCK SHORTAGE	40	1.00	2.00	1.3500	.48305
CAUSES OF STOCK SHORTAGE	26	1.00	4.00	2.1923	.84943
INVENTORY SOFTWARE	40	1.00	2.00	1.7500	.43853
STOCK MANAGEMENT STRATEGY	40	1.00	4.00	2.1750	.87376
Valid N (listwise)	26				

The table above shows the descriptive statistics of inventory of public health facilities within Kumasi Metropolis. The level of stock has the highest mean of 3.1750 which indicates most efficient level of inventory. It also has a standard deviation of 1.37538.

4.3 Accounts Receivables

Table 4.2 Descriptive Statistics of accounts receivables

	N	Minimum	Maximum	Mean	Std. Deviation
MAJOR DEBTORS	40	1.00	3.00	2.0250	.42290
DEBTORS COLLECTION PERIOD	40	2.00	3.00	2.8250	.38481
DEBTORS COLLECTION PERIOD RATINGS	40	1.00	3.00	2.5000	.59914
RECORDS OF BAD DEBT	40	1.00	4.00	2.1750	.84391
PROVISION FOR BAD DEBT	40	1.00	2.00	1.6500	.48305
Valid N (listwise)	40				

From the table, debtors collection period has the highest mean thus 2.8250 showing that the facilities has a high debtors collection period. It also has the standard deviation of 0.3848

4.4 Cash

Table 4.3 Descriptive Statistics of cash

	N	Minimum	Maximum	Mean	Std. Deviation
SOURCE OF FUNDING	40	1.00	11.00	3.6000	2.82661
CASH GENERATING ABILITY	40	1.00	5.00	2.8500	1.33109
CASH SURPLUS	40	1.00	4.00	1.7750	.57679
INVESTMENT OF CASH SURPLUS	12	1.00	4.00	1.9167	.79296
CASH SURPLUS RATINGS	40	1.00	5.00	3.2250	1.04973
REVENUE COLLECTION SYSTEM RATING	40	1.00	4.00	2.4000	.63246
Valid N (listwise)	12				

Source of funding has the highest mean of 3.6000 which means the facilities have a strong sources of funding with a standard deviation of 2.82661

4.5 Accounts Payables

Table 4.4 Descriptive Statistics of accounts payables

	N	Minimum	Maximum	Mean	Std. Deviation
SUPPLIERS' PAYMENT PERIOD	40	1.00	3.00	2.4750	.64001
PAYMENT RATING	40	1.00	3.00	2.4750	.64001
SATISFACTION OF SUPPLIERS' PERIOD	40	1.00	2.00	1.6500	.48305
DEFAULT PAYMENT TO SUPPLIERS	40	1.00	4.00	2.5750	.81296
Valid N (listwise)	40				

From the table above, Default payment to suppliers has the highest mean that is, 2.5750 showing that public health facilities default most of their payment to suppliers with standard deviation of 0.81296.

4.6 Working capital

Table 4.5 Descriptive Statistics of working capital

	N	Minimum	Maximum	Mean	Std. Deviation
WORKING CAPITAL FUNDING POLICY	40	1.00	3.00	2.5750	.59431
LEVEL OF WORKING CAPITAL	40	1.00	5.00	3.0500	.81492
APPLICATION WORKING CAPITAL POLICY	40	1.00	4.00	2.8500	1.02657
RECOMMENDATION TO WORKING CAPITAL MANAGEMENT	40	1.00	3.00	2.0750	.47434
Valid N (listwise)	40				

From the table, the level of working capital has the highest mean, 3.0500. This indicates that most public health facilities within Kumasi have managed their working capital effectively with

4.7 Demographic Statistics

Figure 4.1 Age , Gender Educational Background and Working Period

AGE

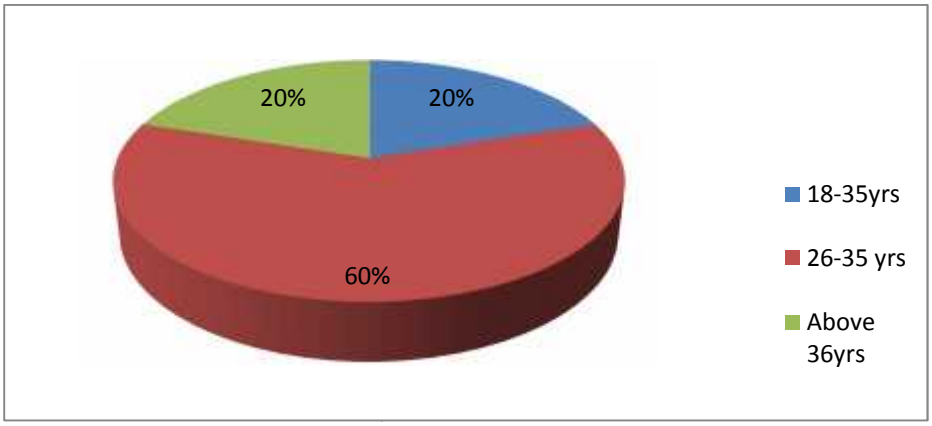
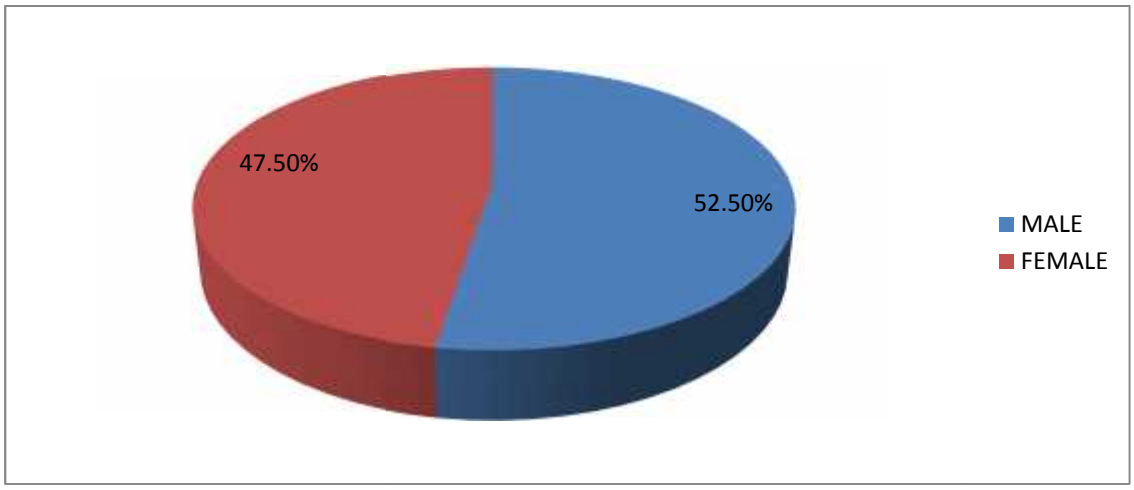


Figure 4.1 This table shows the Age frequency of our respondents.

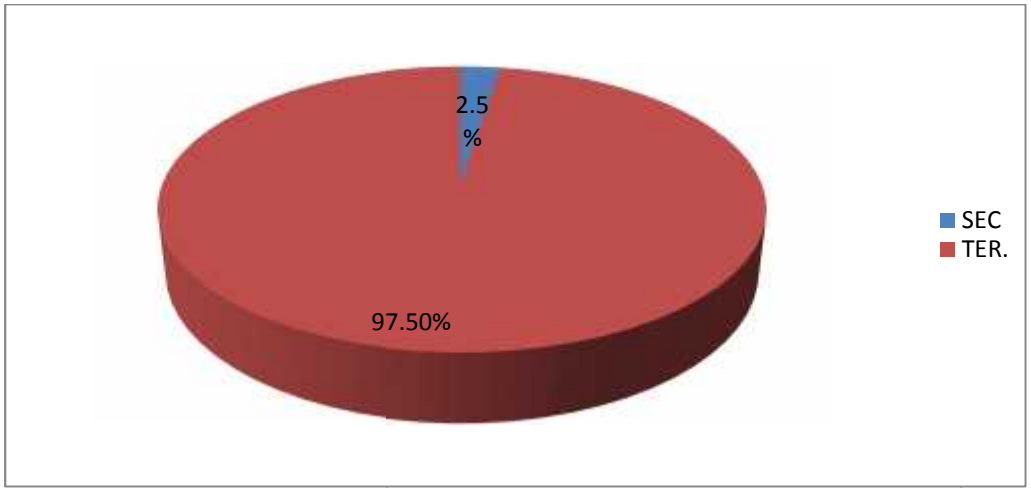
From the table above 20% , 60% and 20% of our respondents were between the ages, 18-25, 26-35 and above 36 years respectively.

Figure 4.2 Gender



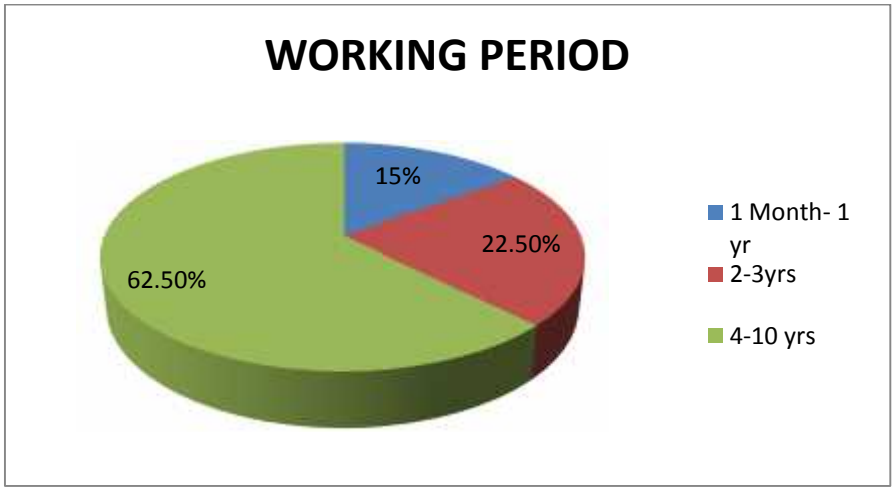
Out of the 40 respondents, 21 were males which represented 52,5% and 19 were females which formed 47.5%.

Figure 4.3 Educational Background



This shows the educational background of our respondents. 2.5% of our respondent had secondary education and 97.5% had tertiary education.

Figure 4.4 Working Period



Our respondents had different working period within public health facilities. 15% of our respondents had worked for the one month to one year, 22.5% had 2-3 years working period and 62.5% had 4-10 years working period

4.8 Secondary Data Analysis

Figure 4.5 Gross working capital (Current Assets and Current liabilities)

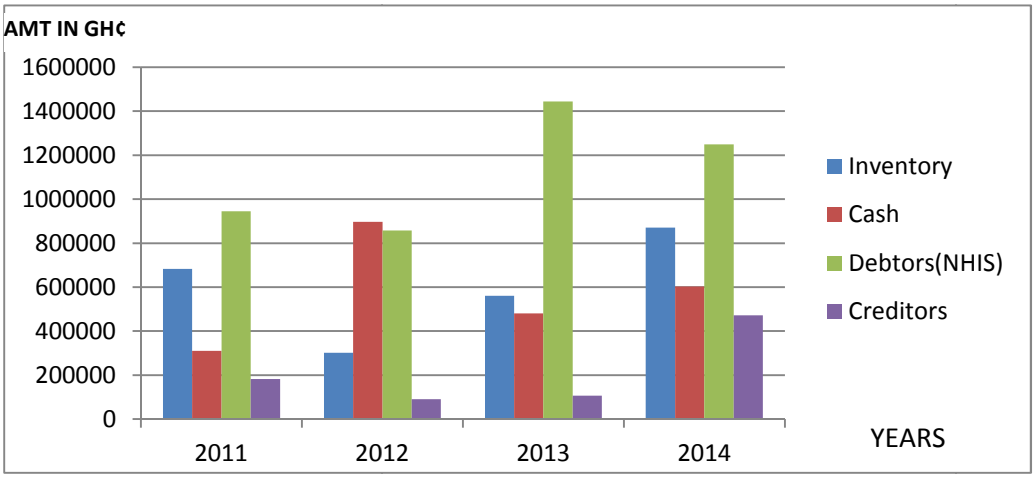


Figure 4.5 The diagram above shows the current assets and current liability component of the Kumasi South Hospital for the years; 2011, 2012, 2013,2014.

From fig 4.5, the facility had a high account receivables, moderate level of inventory, low level of cash and accounts payable in 2011. During this year the facility paid almost all of its accounts payable and also invested in inventory but failed to collect all the accounts receivable which decreased the level of cash for that year.

However in the year 2012, the facility reduced its investment in inventory, paid majority of its accounts payables but still failed to collect its cash from debtors. The cash level increased by 189% as result of cutting down 55.9% investment in inventory and collecting9.18% of its accounts receivables and paying 50% of its accounts payables. The facility did receive funds from its donor partners and central government.

In 2013, the level of cash decreased by 46.4% as compared to 2012, because the facility increased investment in inventory by 86.2%, accounts receivables increased by 68.2%, failed to meet all accounts payables which increased by 17.6%. this reduced the ability of the firm to generate cash as compared to 2012.

During 2014, the cash increased by 25% from the previous year. However the investment in inventory by 55% which caused the account payable to rise by 339.9%. This was because the account receivables decreased by 13.4%.

From the data there is direct relationship between the investment in inventory and the level of account payables. Thus an increase in inventory increases the level of the facility's current liabilities. There is an inverse in the level of cash and accounts receivable. A rise in the level of cash decreases the level of accounts receivables. For the past four years the increase in the level of accounts receivables has dominated components andthis has distorted the ability of

the facility to generate cash. The facility has resorted to credit purchases of inventory which has increased the level of accounts payables recently.

Figure 4.6 Networking Capital

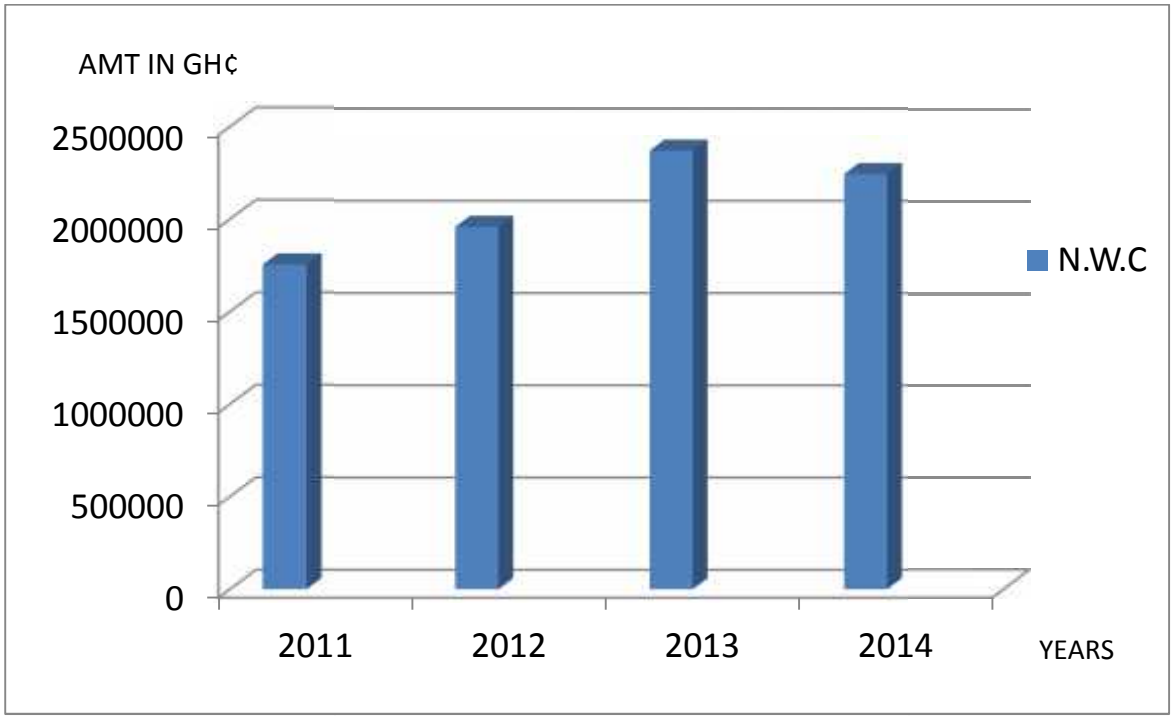


Fig 4.6 shows the level of net working capital of our case study (Kumasi South Hospital) For The Four Year Trend. From the diagram above, the net working capital of the facility increased by 11.8% from 2011 to 2012. This was due to the reduction in investment in inventory and cash collected from debtors, which raised the level of cash.

In 2013, there was an increase in net working capital by 21%. During this year the facility reduced investment in inventory, reduced its accounts payables and maintained efficient operation. From 2013, the facility's net working capital decreased by 5% in 2014. The ability of the facility to meet its current financial obligation decreased because of persistence rise in accounts receivables.

Generally, the net working capital of the facility has been favorable for the years 2011, 2012 and 2013. The marginal fall in the level of net working capital in 2014, is signal to the facility's reduction in its ability to finance its short term liabilities.

Figure 4.7 Level of Liquidity

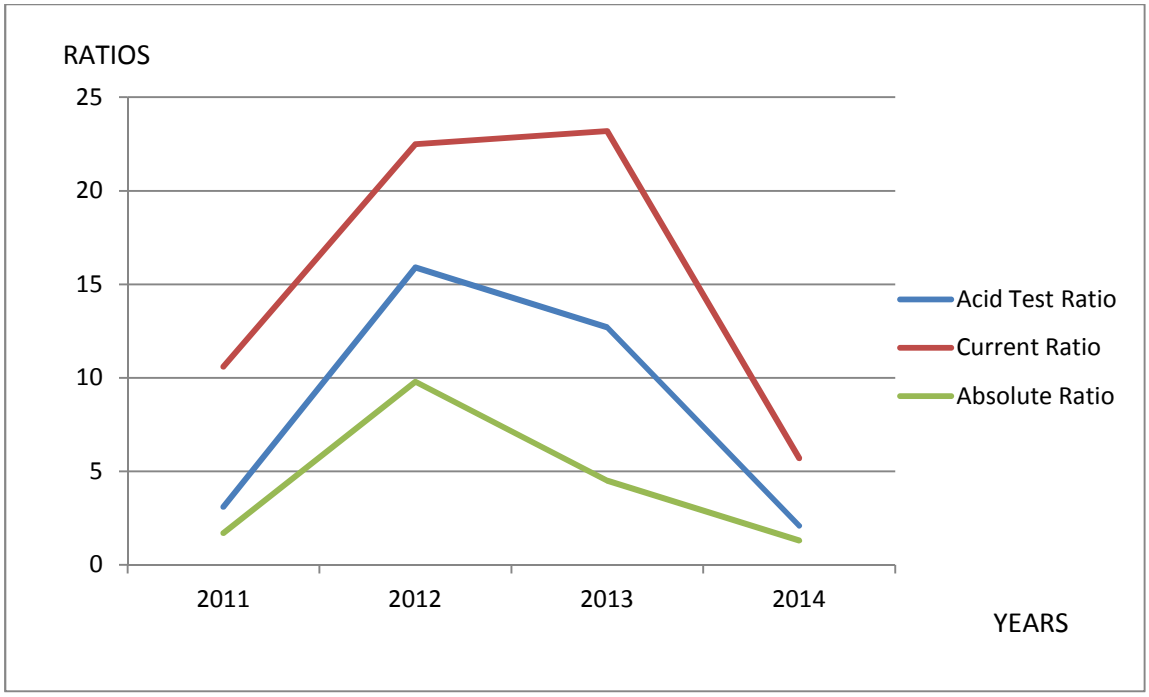


Fig 4.3 shows the liquidity of the public health facility for the four year trend thus 2011,2012, 2013 and 2014.

Liquidity is the ability of the firm to meet its short term liabilities given its assets. It also measures how quick the facility can quickly converts its assets to cash to pay its short term debt.

Current ratio measures the relationship between the current assets and the current liabilities of an organization as they fall due. From fig 4.3, the facility has a high current ratio therefore it can pay its short term debt. It can cover such debt 10.6, 22.53, 23.15 and 5.6 times for 2011, 2012, 2013 and 2014 respectively.

Acid test ratio or quick ratio measures the relationship between the liquid assets and current liabilities. From fig.4.3. The facility has been in better position to cover its short term liabilities. The facility has been able to cover its current liabilities with its liquid assets by 3.13, 15.95, 12.69 and 2.08 times for 2011, 2012, 2013 and 2014 respectively.

Absolute ratio measures the ability of the facility to use its cash to cover its short term financial obligation. From fig 4.3 the facility has managed its cash effectively and efficiently because it can use its cash to pay for its short term financial obligations as they fall due.

Generally the ability of the facility to cover its current liabilities has been increasing for the first three years but a sharp fall for 2014. This is due to increase in investment in inventory and a rise in accounts payables.

Figure 4.8 Operating and Cash Cycle

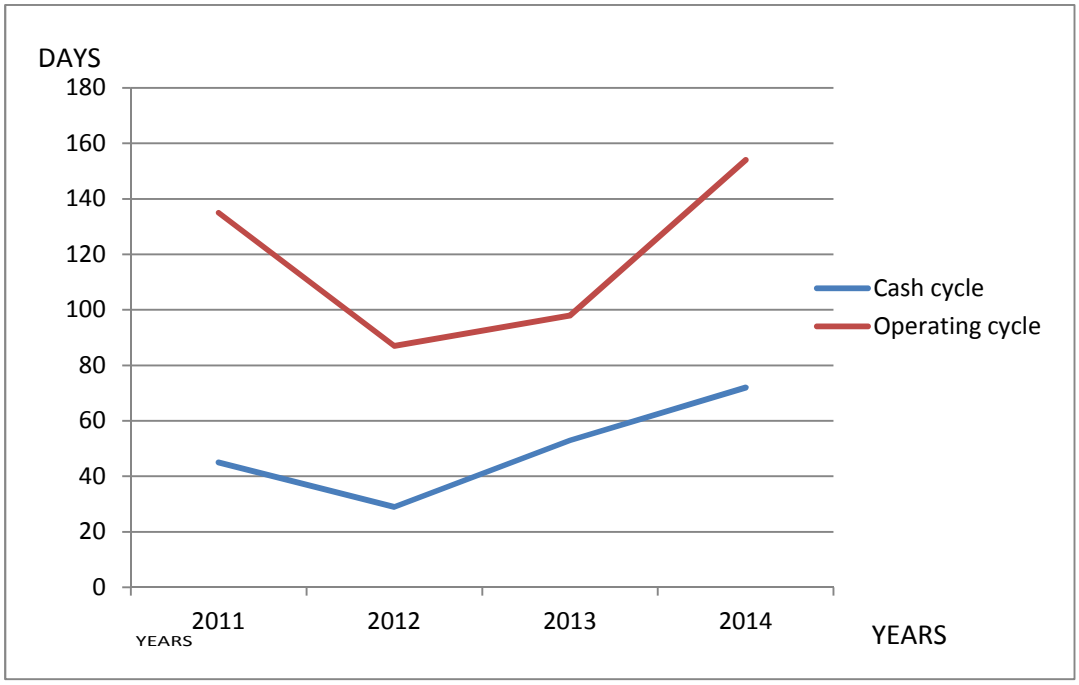


Fig 4.4, shows the operating and the cash conversion cycle of Kumasi South Hospital for the four year trend (2011, 2012, 2013 and 2014)

The operation cycle measures the time taken for the facility to converts its inventory to cash and collect money from its debtors. The facility had effective operation cycle period for 2011 and 2012 but the cycle deteriorated from 2013 to 2014. This was due to inability of the

facility to collect money from its accounts receivable (NHIS). The facility does not have control on the collection of such debt. This has increased the operation cycle of the facility. The cash cycle measures the differences between the operating cycle and the period taken for the facility to make payment to its suppliers or creditors. It also indicates the period for which the facility generates cash from its operational activities. From fig 4.4 the facility had a short period to generate cash from its activities for the year 2011 and 2012 but the period deteriorated from 2013 to 2014. Which indicates that, it will take longer period for the facility to generate cash from it activities.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This final chapter of our research reveals the findings and the recommendations that will enhance the effectiveness of the working capital management. The chapter also discusses the overall status and progress of public health facilities' working capital. The study also suggests appropriate measures to maintain and improve the liquidity of the facilities within Kumasi and Ghana as a whole in providing quality healthcare.

5.2 Summary of Findings

During our study we found out that, Public Health Facilities within Kumasi Metropolis are mainly financed by Internally Generated Fund, Government of Ghana Subvention (GOG) and Donation from both international and local partners. IGF remains the most reliable source of funding as far as working capital in public health facilities are concerned. In spite of these source of fund, they are still financially challenged in financing their inventories.

Public Health Facilities within Kumasi Metropolis have adopted operation management strategies including, Economic Order Quantity and Just In Time(JIT), which enable them to manage their inventory efficiently to provide effective healthcare delivery. However the use of software among public health facilities within the metropolis in managing inventory is very low.

The public health facilities within Kumasi metropolis use moderate and conservative working capital policy. The facilities use their long term funds to finance their non-current assets and short term to finance current assets. Few of the facilities use part of their long term funds to finance a certain portion of their current assets which makes them very liquid.Our study revealed that, from 2011 to 2012 the liquidity of public health facilities was increasing,

reached maximum in 2013 and decreased in 2014. This was because the overall operation cycle and the cash cycle kept on rising from 2013 to 2014.

Finally, the level of investment in net working capital was increasing and favorable between the year 2011 and 2012. The net working capital reached its maximum in 2013 and started decreasing in 2014.

Generally, the overall management of working capital of public health facilities has been favorably managed from 2011 to 2014, the facilities should focus on improving and sustaining the level of working capital for the coming years.

5.3 Conclusion

In conclusion, the source of funds available to public health facilities are not enough for their numerous activities and this makes it difficult for the facilities to provide their said objective of quality health care delivery. The delay of the claim payment of accounts receivables (NHIS) escalates the liquidity problem of the facilities. The Internally Generated fund has been instrumental in financing the working capital of public health facilities within Kumasi Metropolis. Public health facilities require more financing because both operating and cash cycle are increasing due to persistence rise in accounts receivables.

The management techniques in managing the component of working capital has tremendously facilitated the operation of the facilities. The use of the Economic Order Quantity, Just in Time and the ABC analysis have made the facilities effective and efficient in their services. The cost of services has been reduced to the minimum level with these management techniques. However, these techniques must be evaluated from time to time to ensure that the overall objective of the facilities' are achieved.

The use of moderate and conservative working capital policies have very significant impact on the short term liquidity and long term solvency. The moderate policy makes public health

facilities moderately liquid and solvent whereas the conservative policy makes the facilities very liquid but insolvent in the long run period. Therefore facilities using the conservative policy stand the risk being insolvent in future. Public health facilities with moderate working capital funding policy would be at risk at any shortfall in its short term and long term funds. The use of these policies have proven effective in managing working capital among public health facilities in Kumasi.

With regards to liquidity, Public health facilities within Kumasi have been very liquid over the past four years. The persistence increase in current assets over current liabilities has remarkably improved the general liquidity of the facilities. However the time taken to generate cash from their services has deteriorated as a result of consistence rise in the accounts receivables (NHIS). This has deteriorated both operating and cash cycle and this stands the chance of making the facilities illiquid by the year 2016. Notwithstanding this, public health facilities can turnaround their liquidity before the said year, given the fact that public facilities have strong cash generating ability and creditors give them enough period to pay their debt although this comes with extra unit cost items due to long term taken to pay their suppliers.

The overall investment in net working capital by public health facilities has been from moderate to high, then from high to moderate for the past four years. The facilities' control over the investment of working capital components has been impressive with the exception of the account receivables is out of control of various facilities. These are under the control of the government, hence, it is very difficult for the facilities to formulate debtors' collection strategies by chasing debtors, discounting debt for early or prompt payment or setting credit service limit to client. This component poses serious challenges in the overall services and the investment in working capital of public health facilities.

In summary the overall working capital management of Public health facilities within Kumasi has been very good but unstable. The effort of Public health staffs including Administrators, Head of Finance, Medical Directors, inventory management team and direct officers should commit themselves to improving and sustaining the effective level of working capital.

5.4 Recommendation

Although the overall investment of working capital has been moderately been effective but the facilities' managers should adopt the following strategies in improving and sustaining the overall level of working capital management.

First and foremost, Public health facilities within Kumasi Metropolis should increase their financing base for their working capital because the operating cycle and the cash cycle keep on rising. They should strengthen their revenue collection system, adopt effective way of accounting for daily cash receipts. The existing cash budget should be reviewed periodically to ensure that the causes, effects and solutions to liquidity trend variations of public health facilities' are dealt with to achieve a continuous high liquidity. This would improve the level of net working capital of the facilities.

Again, public health facilities within the Metropolis should adopt flexible financing policy which will enable them to review and evaluate the level of effectiveness of such policies. The last resort is, factoring its accounts receivables to the central bank or commercial banks. This will help the facilities to obtain adequate cash to ensure smooth provision of quality health care delivery to their clients.

In addition, the techniques used by the facilities in managing the current assets and the current liabilities should be evaluated regularly to ensure that the overall performance can be measured against the set standard to correct any deviations that may cost the facilities. The ABC analysis should be checked frequently to ensure that all the drugs and non-drugs are

bought based on priority. The facilities should focus on monitoring the A group of inventory on daily bases whiles the B group should be monitored on weekly or monthly bases. The Economic Order Quantities should be evaluated properly to ensure that total carrying cost and the holding cost are at their minimum. This strategy should be used to achieve the overall effective management of the A and B group of the inventories. The use of the Just In Time method should be evaluated to ensure that suppliers supply drugs and non-drugs inventory items referred as C group promptly. This will save the cost of holding these categories of inventory. (Lawrence .J . Gitman)

The population growth rate of Kumasi Metropolis is estimated to be 2.5 per annum according to 2010 population census, therefore public health facilities would require additional logistics to cope with growth rate. Public health facilities should strengthen their revenue collection base through installation of CCTV cameras and accounting software to reduce the issues that would reduce the cash generating ability of these facilities.

Finally the government should create favorable economic environment to pharmaceutical services providers of public health facilities to ensure that products are offered to facilities at affordable rate and allow discounts to their clients (public health facilities).

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APPENDIX

RESEARCH QUESTIONNAIRE

1) Age: 18-25yrs [ ] 26-35 [ ] 36 & above [ ]

2) Gender: Male [ ] Female [ ]

3) Background of Education: Primary [ ] Secondary [ ] Tertiary [ ]

4) How long have you worked within the public health?

   1month- 1 year [ ] 2- 3 years [ ] 4- 10 years [ ] above 10 years

5) When do you take stock?

   Monthly [ ] Quarterly [ ] semi- annually [ ] annually [ ]

6) What method do you use to value your stock?

   First in first out [ ] weighted average [ ] last in first out [ ] simple average [ ] others

   (please specify)…….

7) How would you rate the level of your stocks?

   Very High [ ] High [ ] Low [ ] Very Low [ ] Moderate [ ]

8) Do you run short/out of stock? Yes [ ] No [ ]

9) If Yes what is/are the cause(s)?.....

10) Do you use any software to manage inventories? Yes [ ] No [ ]

11) What inventory method do you use to manage the inventory?

   ABC Analysis [ ] Economic Order Quantity [ ] Just In Time [ ] None [ ]

   others specify……..

12) How do you finance your current assets?(please select as many that applies)

   GOG [ ] Donation [ ] IGF [ ] DPF/SBS [ ]

   Others (please specify) ……. ……..

13) How would you rate the internal cash generating ability?

   Very strong [ ] Strong [ ] low [ ] Very low [ ] Moderate [ ]

14) Do you record any cash surplus? Yes [ ] No [ ]

15) If Yes, what type of investment do you invest in?

Long term investment [ ] Short term investment [ ]

16) How often do you record cash surplus?

Frequently [ ] Sometimes [ ] Barely [ ] Not at all [ ]

17) How do you rate the revenue collection system?

Very Strong [ ] Strong [ ] Weak [ ] Very weak [ ]

18) Who is/are your major debtor(s)? Individuals [ ] NHIS [ ] Corporate bodies [ ]

19) How long does it take to collect money from debtors?

1-3 week(s) [ ] 1-3 months [ ] above 3 months [ ]

20) How would you rate the debtors' period?

Favorable [ ] Moderate [ ] unfavorable [ ]

21) How often do you record bad debt? Very often [ ] sometimes [ ] once a while [ ]

Not at all [ ]

22) What are the provisions made for bad debt?

Please specify.....

23) What is your working capital funding policy? Aggressive [ ] conservative [ ] moderate [ ]

24) When do you pay your suppliers?

Below 1 month [ ] 1-3 months [ ] above 3 months [ ]

25) How would you rate your payment to suppliers?

Prompt [ ] Late [ ] Moderate [ ]

26) Are you satisfied with your creditors' period? Yes [ ] No [ ]

27) How often do you default payment?

Always [ ] Sometimes [ ] Once a while [ ] Not all [ ]

28) How would you rate the difference between your current asset and current liability?

Very High [ ] High [ ] Moderate [ ] Very low [ ] Low [ ]

29) How often do you use Working capital management policies?

Always [ ] Sometimes [ ] Once a while [ ] Barely [ ]

30) What do you recommend for the organization in terms of working capital management policy?

Delay cash payment to suppliers [ ]

Increase cash collection from debtors [ ]

Moderate investment in inventory [ ]