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WORKING CAPITAL MANAGEMENT PRACTICES IN KENYAN SECONDARY SCHOOLS:  
THE CASE OF KIKUYU DIVISION, KIAMBU DISTRICT. //

BY

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I am indeed grateful to the many who have made the completion of this project successful. In particular, I feel greatly indebted to:

- (a) Mr. James M. Karanja my supervisor without whose constructive criticisms and much valued ideas this project would have been impossible.
- (b) Kenyatta University for having sponsored me for the course.
- (c) All the secondary school Heads of Kikuyu Division, Kiambu District for having provided me with the data.
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## ABSTRACT.

This study was aimed at determining the working capital management practices as practiced in secondary schools of Kikuyu Division, Kiambu District. The practices were in respect of cash, receivables, inventory and short term credit.

The study was a case study and therefore the population of interest comprised of all the twenty one (21) secondary schools of Kikuyu Division.

The findings of the study indicated that the following supported current theory on working capital management:

1. In cash management:

(a) There was preparation of cash budgets though the span reported of one year is too long to allow for effective management of cash.

(b) The major source of cash was fees.

(c) Cash collections were banked daily.

2. In receivables management, there were a variety of procedures employed to remind students of overdue debts. The most popular was sending letters to the parents.

3. The school Head was responsible for the management of working capital.

The study indicated that the following practices did not

support current theory of working capital management:

**CASH MANAGEMENT:**

(a) The majority of the schools did not have a policy on the amount of cash to hold.

(b) While theory contends that the major use of funds in schools is staff salaries, the study indicated that for boarding schools, the largest item of outflow was boarding expenses. For day schools, the largest item of cash outflows was books and stationery. However, the largest item of cash outflows for private schools was staff salaries therefore supporting theory.

(c) A majority of the schools did not invest their idles funds.

**RECEIVABLES MANAGEMENT:**

The schools did not evaluate the creditworthiness of students which practice could be explained as being strongly influenced by political and social considerations.

**INVENTORY MANAGEMENT:**

(a) A majority of the schools did not have an inventory policy.

(b) No school used any sophisticated inventory model.

**CREDIT MANAGEMENT:**

(a) A large number of the schools did not take short term loans.

(b) The majority of the schools did not take advantage of cash discounts.

As a major conclusion of the study therefore, there seems to be lack of professionalism in some areas of management of school finances. This calls for the qualified personnel to be employed in the management of school finances considering the huge expenditure involved in education. This would call for KESI to continually train all the managers in financial management not only training a few of them in procedures of financial accounting only.

# 1 CHAPTER ONE.

## 1.1 INTRODUCTION.

There exists various definitions or descriptions of management. Griffin (1984:4) defines it as the process of planning, leading, and controlling an organization's human, financial, physical and information resources to achieve organizational goals in an efficient and effective manner.

The various functions of management include finance, production, personnel and marketing. Specifically, financial management deals with the efficient allocation of financial resources within the organization. Financial management involves three functions viz: the mobilization of funds (financing); the channeling of the mobilized funds into areas where returns are maximized while risks are minimized (investment); and the distribution of the resultant earnings to the shareholders (dividends). In a typical business firm, the objective is to manage the finances so as to maximize shareholders wealth.

Financial management is not the domain of profit making firms only, but other not for profit organizations, specifically the public sector, can apply the same principles in ensuring effective and efficient utilization of resources. However, the finance techniques have to be modified to suit the unique cir-



cumstances that prevail in the public sector. That is, the financial decisions in the public sector can also be classified as financing (fund raising), investment and dividend.

The dividend decision is a trivial one in the public sector as no dividends are declared.

The size of and composition of the public sector is quite widespread especially in the developing countries.

Education is one of the main public activities where extensive resources are directed. This is best indicated by the huge budgetary allocation to this sector by the Government of Kenya. Spending in education rose from KPt 6 million in 1963 to KPt 194 million in 1983 which is a rise from 18 per cent to 30 per cent respectively of the public sector's recurrent budget. Education accounted for nearly 7.2 per cent of the Gross Domestic Product (GDP) in 1981.<sup>1</sup>

As of 1987 over 35 per cent of the total public sector recurrent budget was taken up by education alone.<sup>2</sup> These estimates exclude private sector resources devoted to both recur-

1. Republic of Kenya: Development Plan 1984-1988. Government printer. Nairobi. p 148

2. Republic of Kenya: Development Plan 1989-1993. Government printer. Nairobi. p 213



rent and development costs of education including harambee, private and mission sponsored programs, and the private support of Kenyan studies overseas which constitute substantial additional outlay. Private spending for the plan period 1989-1993 are estimated to be 25, 70, and 50 per cent of the total expenditures on primary, secondary and higher education respectively. In this period, both public and private sector allocation to education will range between 10 per cent and 15 per cent of the GDP.<sup>3</sup>

The fact that such resources are directed towards education implies that there is need for efficient management of these resources. Whereas tools of evaluating efficiency are difficult to come by or even understand, does not license the managers in this sector to carelessly and irresponsibly manage these resources. Of the total education budget, a huge chunk goes towards secondary education and some of the funds are managed by the school heads.

Schools like other public institutions have both financial and non-financial objectives. Some of the non-financial objectives are aimed at providing a service to the citizens at an affordable price. However, private schools offer the same service but with aims of maximizing the owners wealth. While in the

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3. Ibid p 213

private institutions the school managers have the responsibility of setting the financial goals and/or objectives, it is not the case in public sector institutions, where guidelines are issued by the Ministry of Education.

The investment decision is an important decision if resources are to be efficiently managed. The investment decision involves the decision as regards the management of assets, both fixed and current, of the organization. Proper management of fixed assets will necessarily require knowledge of capital budgeting tools. However, a large proportion of the schools total assets are held in the form of current assets (working capital). This therefore calls for their efficient management. Furthermore, since decisions regarding current assets are recurring in nature, managing them must take a lot of the school managers time. Added up, the total current assets of all secondary schools nationally would constitute a huge investment and therefore calls for their efficient management to ensure little or no wastage of scarce national resources. If managed inefficiently, the current assets held up in secondary schools would constitute a costly venture to the entire nation.

The Kenya Government realizes the importance of sound financial management ( which obviously includes working capital management) in schools. As a result, it has set up a training

institute (KESI: Kenya Education Staff Institute) for all school managers and other education staff. The functions of KESI include among others:

"... to design, produce, assemble, repair and maintain staff training materials and equipment for use in dissemination of managerial and administrative knowledge, skills and attitudes to all personnel working within the Ministry of Education with a view to setting and maintaining the highest possible standards of administration and management."

Working capital components are defined by Van Horne et al (1977: 333-345) as cash, accounts receivable, marketable securities and accounts payable. The concern in working capital management is the determination of the optimal ways of managing working capital components efficiently so as to contribute effectively to the maximization of shareholder wealth. However in secondary schools which are government maintained, government assisted, harambee and private, the goal of working capital management is to avoid premature closure during term periods which disrupt academic programs causing probably irreparable loss to the concerned students in addition to paying staff for work which they have not done.

4. Republic of Kenya: Kenya Gazette Supplement. Number 565 of 1988. Government Printer. Nairobi.

Archer et al (1977: 575-577) points that the relative importance of working capital management is dependent among others on size, industry and external factors such as inflation and the political legal environment. Working capital is thus of great concern in schools. Investments in working capital are sensitive to seasonal fluctuations and therefore requires careful planning to avoid a liquidity problem for the institution. Archer justifies working capital in that it helps the institution avoid future uncertainty and premium costs which may arise due to sudden changes in the institutions environment. However, it becomes necessary to determine the optimal levels of the working capital components. Large working capital positions are costly to the firm and these costs may outweigh the benefits accruing to the maintenance of working capital positions.

Therefore while current assets are a good measure of liquidity ('working capital'), it is also important to consider the obligations that mature in the short term i.e. current liabilities. Failure to pay up maturing obligations would earn the school a poor credit reputation which will reduce its accessibility to favorable credit terms. In other words, a more encompassing definition of working capital management would thus include the management of both current assets and current liabilities. Too much liquidity (current assets less current

liabilities) would mean less risk of technical insolvency but it would constitute poor investment as too much funds are held in non-earning assets (i.e. wastage of resources).

## 1.2 STATEMENT OF THE PROBLEM.

This study is an examination of working capital management as is practiced in selected secondary schools of Kikuyu Division, Kiambu District. The issues to be examined will be in respect of cash, receivables, inventory and payables management. By setting up KESI in 1988, the Ministry of Education hopes that KESI will from time to time come up with areas in which the school managers among others will need training. How do school managers carry out their working capital management practices (if any) and what problems do they encounter in doing so? It is only after these practices are established that appropriate policies can be drawn to help the school managers manage efficiently and effectively their working capital.

It therefore becomes imperative to conduct a study to determine the actual working capital management practices and the problems encountered in carrying out these practices.

### 1.3 OBJECTIVE OF THE STUDY.

This study has a single objective which is to identify the management of working capital practices. The practices to be identified relate to:

- (a) cash
- (b) receivables
- (c) inventory and
- (d) payables.

### 1.4 SIGNIFICANCE OF THE STUDY.

The study will be of significance to the following:

1. KESI will use the findings of the study to conduct their courses in financial management (since it includes working capital management) to current and would be secondary school managers.
2. Secondary school managers will be able to assess their individual practices viz a viz those of others and hopefully will adopt those practices that will benefit their institutions.
3. The school managers are ultimately answerable to the public at large and therefore the findings of this study will be of



importance to the public in that they will know how their working capital is being managed and hopefully take the appropriate action.

4. Scholars who may wish to pursue studies in this area.

## 1.5 DEFINITION OF TERMS USED IN THE STUDY.

### 1.5.1 A SCHOOL.

A school as defined by the Education Act Cap 211 is an institution in which not less than ten pupils receive regular instruction, or an assembly of not less than ten pupils for the purpose of receiving regular instruction by correspondence.

### 1.5.2 A SCHOOL MANAGER.

The Education Act Cap 211 defines a school manager as any person or body of persons responsible for the management and conduct of a school and includes the Board.

### 1.5.3 MAINTAINED SCHOOL.

As per the Education Act Cap 211, a maintained school means a school in respect of which the Ministry of a Local Authority accepts general financial responsibility for maintenance. Fees are paid in such a school at subsidized rates. The academic staff are supplied by the Teachers Service Commission. Funds to pay for services by other staff are supplied by the relevant authority as is funds for other expenditures. The day to day expenditure on these items is in the hands of the school management.

### 1.5.4 ASSISTED SCHOOL.

This is a school in which the Government or Local authority does not have total obligation in financial responsibility but partly provides for the needs of the school. These 'aids' may be in cash form or just supply of teachers by the Teachers Service Commission and so on.

### 1.5.5 HARAMBEE SCHOOL.

This is a school whose management is in the hands of the local community. Thus the Government or Local authority has little or no interference whatsoever.



### 1.5.6 PRIVATE SCHOOL.

This is a school established as a profit or charitable organization.

RESPONSIBILITY FOR THE SCHOOL IS WITH THE BOARD OF TRUSTEES.

The management of the school is vested in the Board of Trustees. The Board is responsible for the financial and administrative affairs of the school. The Board may also be responsible for the educational affairs of the school. The Board may also be responsible for the legal affairs of the school. The Board may also be responsible for the general affairs of the school.

The Board of Trustees is the governing body of the school. The Board is responsible for the financial and administrative affairs of the school. The Board may also be responsible for the educational affairs of the school. The Board may also be responsible for the legal affairs of the school. The Board may also be responsible for the general affairs of the school.

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## CHAPTER TWO.

### LITERATURE REVIEW.

#### 2.1 RESPONSIBILITY FOR THE SECONDARY SCHOOL'S WORKING CAPITAL MANAGEMENT.

The management of schools is legally in the hands of the Board of Governors (BOG).<sup>5</sup> The BOG is responsible for financial budgeting; fixing the amount of fees payable; receiving fees, grants and all donations given to the school. The Education Act also gives the BOG the authority to incur expenditure and hold property including shares, funds and securities. However, this will vary depending on the type of school.

The most conspicuous of the members of the BOG is the School Head. His style, personality and strength in leadership must be evident to both his internal and external environments. The School Head is "...therefore the legally responsible head.... has some power of position and is a designated leader who cannot

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5. Government of Kenya: Education Act Cap 211, Sections 10-12. Government Printer, Nairobi. 1970.

shirk his obligations."<sup>6</sup> This is irrespective of whether the Head hides behind the policies of the Government, BOG, Teacher Unions and the wishes of the community.

The most frequently mentioned tasks of the School Head in the literature are scheduling, budgeting, developing rules and regulation for supplies ( Heller 1975: 3-6).

Heller argues that the above tasks (among others) are proof enough of the complexity of the Head's job and hence a lot of difficulty arises in guaranteeing success for each task. He further argues that an institution cannot exist without rules and regulations and therefore managerial skills cannot be treated lightly. He asserts that the management tasks ranging from the collection of students fees to delegating sponsorship of activities must be handled personally or through delegation by the School Head.

Briault (1974:21) argues that responsibility comes back to one person (Head) but consultations to the extent that others participate in decision making are desirable. Therefore allocation of resources within the school are made by the School Head.

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6. Heller, P.M.: So Now You are a Principal. The National Association of Secondary School Principals. 1975.

Jacobson et al (1963: 405-432) also assigns the duties of supplies requisition, maintenance of inventory and budgeting of inventory to the School Head.

This view that the School Head is responsible for the management of working capital has been supported by Barry and Tye (1975: 158) who advocate that a School Head's responsibilities in the realm of finance are fully comparable to those of a fairly large enterprise in industry or commerce.

## 2.2 APPLICATIONS OF WORKING CAPITAL MANAGEMENT TECHNIQUES IN SECONDARY SCHOOLS.

As noted above by Barry and Tye, as long as it is permissible to compare management of finances between Secondary Schools and fairly large enterprises in industry and commerce, then it can be rightly argued that modern techniques of working capital management can be applied to Schools.

Gendt (1974: 5-36) argues that rapid change makes school management more susceptible to new management tools which strengthen the definition of objectives and evaluation criteria, the identification and analysis of alternatives, the implementa-

tion of decisions and the assessment of progress. Among the tasks he has identified in which management tools can be used is financing i.e. - allocation of financial resources to schools

- distribution of resources within the school
- budgeting and
- auditing control.

While appreciating the usefulness of the budget in that it guards against careless spending, Gendt advocates the use of a Planning Programming Budgeting System (PPBS). He defines the PPBS as a systematic approach to setting goals and objectives for an organization, considering alternative means to achieving them and allocating the financial resources in a way that is most likely to see the desired outcomes occur. In his view, the PPBS can be applied at any level i.e. national, local or institutional depending on the political structure existing in a given environment. Other techniques he advocates as useful in school management are simulation, delphi and network analysis. He singles out network analysis as very useful for scheduling and controlling the budgeting process in schools. The foregoing clearly shows that modern techniques of managing working capital can also be fruitfully applied to secondary schools.

### 2.3 CASH MANAGEMENT.

Cash management hinges on the effective ways of collecting and disbursing cash. On one hand it involves the acceleration of collections and on the other, the delay of payments. In speeding up collection, Van Horne et al (1977: 349) states that it is aimed at (1) speeding the mailing time of payments from customers to the (school) (2) reducing the time during which payments received by the (school) remain uncollected funds and (3) speeding the movement of funds to disbursement banks.

Gray (1980: 21) states that the customers, or clients (of a school) are the parents of the pupils and the 'consumer' or employer of the pupils when they leave. As such, in schools it is possible to arrange with parents or other customers to have their dues automatically deducted at source or from their bank accounts at specified times. The school may also require that students come with their dues at the beginning of the term and arrangements are then made to have these collections banked daily.

Slow disbursements accompanied by fast collections result in maximum availability of funds. The school can make its payments by use of a draft which takes a longer time to cash than ordinary

cheques. However, delaying payments may hurt the schools credit standing and therefore the resulting cost of the delay must be taken into consideration.

The levels of cash to hold will largely depend on the transactions, precautionary and speculative motives. Cash may also be held to take advantage of cash discounts. Cash here is taken to include both liquid cash and marketable securities. Several models which aim at the determination of an optimal cash balance have been developed. These include the Baumol model, Stochastic models and the Probability models.

Another aspect of cash management is the cash budget which is future oriented. The budget serves both the planning and control functions. The budget performs a planning role in that it shows the future times of excess cash ( as a tradeoff between inflows and outflows) or deficits and hence enabling management to take relevant measures i. e. arrange for financing in case of deficit and investments (short-term) in the case of a surplus. The cash budget is heavily dependent on past trends of customer behavior, the credit period and bad debts incurred, as well as the expected outflows.

Gendt (1974: 65) contends that the budget should display costs on a program by program basis. That is a program should be a well coordinated effort from the classroom to the national level. Once the program structure is completed, costs should be



calculated for individual sub-sub-programmes, sub-programmes and programs. This means that school Heads must submit their budgetary requests (or budget) on a program basis.

#### 2.4 RECEIVABLES MANAGEMENT.

While it is desirable to have the school collect all its fees and other dues promptly, it may not be possible. Receivables refer to these outstanding fees which are received at a period after services have been rendered.

The level of receivables is to a large extent determined by policy decisions (both credit and collection). However, the economic conditions which affect the debtors ability to pay also influence the level of accounts receivable, although these are not controllable by the school Head.

Extending credit in the school will involve several costs. These include, the costs of collecting the receivables arising thereof, the probable loss from bad debts, and the opportunity costs of holding receivables. Granting cash discounts for early payment is an area which schools should explore. This will have



to be traded-off with the costs associated with the collection of receivables and arising bad debts against the gains of holding the cash and probably investing it elsewhere.

In a business environment, it is common to evaluate the creditworthiness of customers. Certain criteria are set whose failure to satisfy disqualifies one from getting goods/services on credit. Unfortunately this is a futuristic decision and hence its full of uncertainties. The problem for the school here is to use objective facts and subjective information to predict the bill-paying behavior of the prospective customer and to reduce the risk of non-payment to an acceptable level. Each school has the discretion to set its own credit screen or none at all.

The school Head should not wait too long before initiating collection procedures. Procedures, whatever their nature should be firmly established. A letter is usually sent which may be followed by other letters more serious in tone and eventually a telephone call. If all this fails, the debtor may be sued or the debt turned over to a collection agency.

## 2.5 INVENTORY MANAGEMENT.

Inventories provide a very important link in the provision of education. These include food, stationery, cooking fuel and so on. It is important to maintain inventory in schools to avoid disruption of the smooth running of the school. A school could purchase stocks, even when not immediately needed so as to take advantage of quantity discounts which may be substantial. However, holding inventory has associated costs in storage, handling costs and the cost of capital tied up in the inventory. This means that for any inventory held there is a trade-off between the gains and the costs thereof.

There exists several systems of acquiring inventory in secondary schools. Firstly, the responsibility is given the school Head. Taylor (1970: 148-152) feels that different means of achieving the same ends must be carefully costed and the least expensive adopted meaning that school Heads must drive hard bargains to suppliers. In Taylor's view, this is one of the most effective ways of obtaining value for money i.e. delegating spending power to the school Head. He states that effective management at the school level must involve a certain freedom of choice to settle priorities in spending money and where necessary to exercise a degree of virement (technical power to transfer money provided for one purpose to another).

Secondly, schools in a certain area could team up and make purchases through a central system thereby making it possible to employ a qualified purchasing officer. This is more appropriate where schools are managed by the same authority.

Thirdly, the school Heads could be given a total budget which is not broken down into expenditure of sorts. They must not exceed this budget. This system would be accompanied by permission to carry forward balances of money from year to year as an encouragement for better management of funds hence inventory purchasing.

## 2.6 CREDIT MANAGEMENT.

Trade credit in a business organization is a form of short term financing. Like commercial organizations, trade credit is available to schools. This arises when schools buy goods and are not required to pay for them on delivery but are allowed a short deferment period before payment is due.

When a school decides to utilize trade credit as a mode of financing (→) it can adopt any one 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) a school can pay its bills beyond the credit period (i.e. credit stretching)

although it should take care not to adversely affect its credit rating in the market. When a cash discount is offered and not taken, there is an opportunity cost which the school Head should weigh against the cost of external borrowing. Delaying payment beyond the credit period has negative consequences in that it may affect the schools credit rating adversely. However, as may be the case in schools, the suppliers may not mind the extension of credit beyond the net credit period as the school's funds inflows are seasonal and there may be less risk to the supplier. For this extended credit, however, there may be an indirect charge in the form of higher prices therefore requiring the school to carefully consider the cost of stretching accounts payable.

## 2.7 EMPIRICAL FINDINGS ON FINANCIAL MANAGEMENT IN SCHOOLS.

Most studies have mainly dealt with both the financing and investment (of long term assets) decisions.

### 2.7.1 GENERAL FINANCIAL ADMINISTRATIVE PRACTICE.

Hager (1972) studied the current practices in the administration and supervision of student activity finances in public secondary schools in the Mid West. He set out to evaluate the practices and procedures as well as ascertaining the sources of revenue used to finance student activity programs and the amount of money received and expended. He used interviews in his research. His findings were that the practices conformed to those recommended by writers and that this was more pronounced in large than in small schools.

Kneale (1977) studied the effects of individual schools being allocated moneys in lump sum based upon the number of students enrolled at the school and then the principal is given great discretion to spend the funds as he sees fit. This is as opposed to an approach where the central office allocates individual school's moneys for categories of services, supplies, equipment and so on with very limited flexibility in spending permitted. He found that:

- (a) School based management enabled the schools to better serve the needs of the students.
- (b) Some principals involved parents and staff greatly in determination of the budget and this made parents feel more involved in the direction of the school. He thus recommended this approach highly.

Adams (1979) studied the finance practices in vocational centers (schools) and found that:

(a) The administrative district superintendent was having the prime responsibility of budget development while a minor role was assumed by participating district representatives.

(b) There was lack of planned system of equipment acquisition or renewal.

(c) Funds generated from sales of goods or services were frequently managed by the program instructor.

Lincoln (1981) studied the practices in the administration of student activity finances in public secondary schools and found that:

(a) Practices and procedures in business management of student activity funds had changed substantially toward conformity to practices recommended by writers and experts in the field of student activity finance.

(b) A majority of the schools do not adhere to all the practices established as sound financial business principles in the management of school activity finance.

(c) The aspects of business management for which the practice most nearly approaches the recommendations of authoritative writers in the field of school finance were:

- use of written policy statements

- use of central activity fund

- use of a central treasury system



- use of requisitions in the incurring of student liabilities and
- the use of periodical financial statements.

(d) Those that were not being followed were:

- use of a budget
- use of an internal audit.

Muganda (1986) studied the repercussions of financial mismanagement in secondary schools in Kenya and found that these were strikes, poor food, lack of facilities for learning, school fees hikes and inadequate teaching staff.

#### 2.7.2 INVESTMENT.

Welliver (1974) studied investment and related financial management practices in Pennsylvania school districts. He used secondary data from the education office, questionnaires and interviews. His findings were:

- (a) that the practices employed in the majority of school districts investment programs included most of those alleged by published professional opinion to be effective in maximizing investment earnings.
- (b) There was little or no difference in the incidence of use in more and less effective investment programs of eight to ten investment and related financial management practices ranked among

the most effective in maximizing investment earnings by investment officers who administered more effective management programs.

(c) Both the wealth and size of the school District were related to the effectiveness of investment programs.

(d) Local financial effort to support education had little or no relationship to the effectiveness of School district investment programs.

(e) There was little or no difference in the effectiveness of investment programs administered by investment officers who had college degrees or state certification in education and those who had neither of these qualifications.

(f) The incidence of use reported for various investment and financial practices by all districts, the less effective, and the more effective, although not identical, indicated an overall similarity rather than difference in practices employed by half or more of each group.

(g) Relative similarities in the practices employed in the investment programs of all districts and two sub-groups from the upper and lower quarters of a distribution rates of investment return indicates that the degree of effectiveness of an investment program was likely attributable to factors such as the philosophy of the board of education, quantitative and qualitative aspects of planning and the knowledge, ability initiative and diligence of the investment officer.



Elwood (1988) studied the financing of public school capital facilities in the Commonwealth of Virginia. He aimed at determining the alternative methods of financing capital facilities and considerations in the determination of school plant needs and implementation of capital improvement plans. He found that:

- (a) financing was based on a tradition of local responsibility
- (b) the state had made minimal provision for the costs to localities in financing public school capital outlay and
- (c) Federal aid for public school capital outlay was limited or non-existent.

### 2.7.3 FINANCING.

McClain (1974) studied financing practices in schools and used the findings to develop guidelines to evaluate alternative methods of financing schools.

Adams (1979) in his study also found out that there was wide variances in the percentages and sources of operational support. State and local funds were prime sources of area center support where state funds comprised a slightly larger percentage of the budget. Other sources of funds were:

- (i) Federal non-categorical
- (ii) Federal categorical
- (iii) Funds generated from sales and services

- (iv) Fees
- (v) Tuition
- (vi) Donations

(e) The receiving school district receives the operating funds directly from the financing source.

Harrison (1985) studied the finances in schools sponsored by the church of God in continental United States and found that the primary source and only source for many schools were student fees.

## CHAPTER THREE.

### 3.0 RESEARCH DESIGN.

This study was an exploratory study because the researcher is not aware of any related studies undertaken in Kenya. As a result hypothesis testing was not deemed necessary. Such a study will be useful in determining the current practices in working capital management from which other studies could be undertaken.

### 3.1 THE POPULATION.

All the secondary schools of Kikuyu Division (21) constituted the population. This area was chosen basically for two reasons viz:

1. the area was near to the researchers base therefore reducing the would be prohibitive travel expenses and
2. a preliminary survey indicated that in this area, it was possible to find the four types of schools viz government maintained, government assisted, harambee and private which would allow a comparison of the practices.

### 3.2 DATA COLLECTION METHOD.

The questionnaire was divided into four sections (see appendix II). These sections were meant to simplify analysis and the respondents work.

#### SECTION A.

The section collected information from all the respondents with regard to identification of the institution. The identification pertained to the category of the school; boarding, day or boarding/day and the type of the school; government maintained, government assisted, harambee and private.

#### SECTION B.

This section addressed itself to the management practices with respect to cash. The questions were specifically aimed at establishing whether schools have a formal policy of maintaining an amount of cash, budgeting practices, sources and uses of funds, investment of idle funds and the banking practices.

## SECTION C.

This was aimed at establishing the practices with regard to receivables. Specifically the collection procedures of overdue fees.

## SECTION D.

This section was aimed at establishing the practices in respect of inventory and credit management.

The questionnaire was pretested in a few schools before administering to all the schools. This led to incorporating changes into a final questionnaire ( appendix II).

The final questionnaire was accompanied by a covering letter (appendix I) which was addressed to the school Head.

Interviews were conducted with several of the school Heads, Bursars and some Officials at the District Education Department to gather the needed information to complete the study.

### 3.3 DATA ANALYSIS METHODS.

The collected data relating to each issue in the questionnaire was summarized to fit into the sections of:

- (a) cash management practices
- (b) receivables management practices
- (c) Inventory management practices and
- (d) credit management practices.

Tables were used to present the data for all the sections. Separate analysis was done for government maintained, government assisted, harambee and private schools.

TABLE 4.1: PERCENTAGE OF QUESTIONNAIRES ISSUED AND RETURNED.

CATEGORY OF SCHOOL	QUESTIONNAIRES COMPLETED	
	ISSUED	RETURNED
Government	10	15.7%
Government Assisted	12	16.3%
Harambee	3	16.7%
Private	1	17.2%
Total	26	16%

TABLE 4.1 shows that a total of 26 questionnaires were issued and 16 were returned. The response rate was 61.5%.

## CHAPTER FOUR

### RESULTS AND DATA ANALYSIS.

Twenty one questionnaires were issued to the schools listed in appendix III. The list of the schools was obtained from the District Education Department office. Of the twenty one questionnaires issued, nineteen were returned which represented 90.48% rate of return. This was considered ample for the purposes of the study.

TABLE 4.1 SUMMARY OF QUESTIONNAIRES ISSUED AND RETURNED.

CATEGORY OF SCHOOL	QUESTIONNAIRES COMPLETED	
	NUMBER	%
boarding	3	15.79
day	12	63.16
boarding/day	3	15.79
hostel/day	1	5.26
	19	100

From table 4.1 it can be seen that a majority of the schools i.e. 63.16% of the schools are day.



TABLE 4.2 TYPES OF SCHOOLS WHICH PARTICIPATED IN THE STUDY

TYPE OF SCHOOL	QUESTIONNAIRES COMPLETED	
	NUMBER	%
government maintained	5	26.32
government assisted	10	52.62
harambee	2	10.53
private	2	10.53
TOTAL	19	100

Government assisted schools were 52.62%, government maintained 26.32% and harambee and private schools being 10.53% each.

#### 4.1 CASH MANAGEMENT PRACTICES.

The responses summarized in tables 4.3.1 to 4.3.6 are in respect of questions 1, 4, 6, 7, 8, 9 and 12 of section B of the questionnaire (appendix II).

The following abbreviations will be used to refer to the respective schools:

- Government maintained school -- GM
- Government assisted school -- GA
- Harambee -- H
- Private -- P

TABLE 4.3.1 EXISTENCE OF FORMAL POLICY ON CASH TO HOLD.

	number of schools in the types of				TOTAL	%
	GM	GA	H	P		
policy exists	2	3	1	0	6	31.58
policy does not exist	3	7	1	2	13	68.42
Total	5	10	2	2	19	100

TABLE 4.3.2 RESPONSIBILITY FOR DECIDING ON THE AMOUNT OF CASH TO HOLD.

	number of schools in the types of				TOTAL	%
	GM	GA	H	P		
HEAD	1	3	0	1	4	21.05
BOARD	0	4	2	1	7	36.84
BURSAR	1	1	0	0	2	10.53
MINISTRY	1	1	0	0	2	10.53
HEAD/BURSAR	2	0	0	0	2	10.53
HEAD/BOARD	0	1	0	0	1	5.26
	5	10	2	2	19	100.00

TABLE 4.3.3 MODE OF INVESTMENT OF IDLE FUNDS.

	number of schools in the types of				TOTAL	%
	GM	GA	H	P		
NON-INVESTMENT	2	9	2	2	15	78.95
SAVINGS ACCOUNT	1	1	0	0	2	10.53
FIXED DEPOSIT	0	0	0	0	0	0
FIXED DEPOSIT/SAVINGS	2	0	0	0	2	10.52
	5	10	2	2	19	100.00

TABLE 4.3.4 PREPARATION OF CASH BUDGETS.

	number of schools in the types of				TOTAL	%
	GM	GA	H	P		
prepares budget	5	9	1	1	16	84.22
non-preparation of budget	0	1	1	1	3	15.78
	5	10	2	2	19	100.00

TABLE 4.3.5 RESPONSIBILITY FOR PREPARING THE CASH BUDGET.

	number of schools in the types of					TOTAL	%
	GM	GA	H	P			
BOARD	0	0	1	1	2	10.53	
HEAD	2	6	0	1	9	47.36	
BURSAR	1	1	0	0	2	10.53	
HEAD/BURSAR	0	1	0	0	1	5.26	
BURSAR/MINISTRY	1	1	0	0	2	10.53	
HEAD/BOARD/MINISTRY	1	1	0	0	2	10.53	
NO BUDGETING	0	0	1	0	1	5.26	
	5	10	2	2	19	100.00	

TABLE 4.3.6 TIME SPAN FOR THE CASH BUDGET.

	number of schools in the types of					TOTAL	%
	GM	GA	H	P			
NO BUDGETING	0	0	1	0	1	5.26	
< 1 MONTH	1	0	0	1	2	10.53	
1-3 MONTHS	0	3	1	1	5	26.32	
3-<6 MONTHS	0	0	0	0	0	0	
1 YEAR	4	7	0	0	11	57.89	
	5	10	2	2	19	100.00	

TABLE 4.3.7 FREQUENCY OF BANKING CASH COLLECTIONS.

number of schools in the types of

	GM	GA	H	P	TOTAL	%
DAILY	5	9	2	2	18	94.74
WEEKLY	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	1	<u>5.26</u>
	5	10	2	2	19	100.00

The tables shows that:

(a) 31.58% of the schools reported having a policy on the amount of cash to hold. However their responses were in respect of the petty cash amounts not the optimal amount. Although the Ministry of Education has set a policy on the amount of petty cash to hold, many school Heads interviewed expressed the view that it was not sufficient hence the need to devise their own.

(b) The responsibility of deciding on the amount of cash to hold, (the petty cash) was varying from one school to the other. In some cases, the decision was shared among two or more levels. In 5.26% and 10.53% of the schools, the Head/Board and Head/Bursar levels respectively were responsible. The largest share of decision on the amount of cash to hold was held by the Board represented by 36.84% of the schools.

(c) Likewise the responsibility for preparing the cash budget was more on the school Heads (47.36%) and 10.53% and 26.32% for both the bursar and the board respectively. This can be explained by the fact that the majority of the schools were the government assisted (52.62%) and many of them did not have a Bursar with 10% of these assisted schools reporting not even having an accounts clerk.

(d) The time span for the budget reported was not uniform. 57.89% of the schools budgeted for one year, 26.32% for a span of between one and three months, 5.26% of the schools reported preparing a budget for a period of one month or less. 5.26% of the schools did not report engaging in preparation of budgets.

(e) Only 15.79% of the schools reported investment of idle funds. Of these 66.67% invested idle funds both in savings accounts and fixed deposit accounts.

(f) A great majority of the schools (94.74%) reported banking their cash collections daily or at least where the cash collection exceeds five hundred shillings. Only 5.26% of the schools banked their cash collections weekly.

Several problems were reported as hindering the proper management of cash. These are analyzed in table 4.3.8 below:

TABLE 4.3.8 PROBLEMS HINDERING THE PROPER MANAGEMENT OF CASH.

PROBLEM	% OF SCHOOLS REPORTING
1. extreme delay in receiving grants for the schools eligible	33.33
2. inflation effects which take place after budgeting is done	5.26
3. lack of qualified accounts clerks or bursars	15.79
4. security while taking cash to bank	5.26
5. cash flows being infrequent and being received in small bits	26.32
6. inadequacy of funds	5.26
7. budgets are never realized although they consume a lot of time to make	21.05

The tables below (table 4.4.1 and 4.4.2) summarize the responses with respect to questions ten and eleven of section B of the questionnaire respectively.



TABLE 4.4.1 CASH INFLOWS.

TYPE OF SCHOOL	Fees	government grants	renting premises and school shamba	donations
	%	%	%	%
GM	53.8	44.8	3.5	0
GA	85.9	31.25	2.25	3.5
H	99.5	0	1	0
P	100	0	0	0

N/B: The percentages indicated above were obtained by calculating an average for the given source for the number of schools in each type which reported the particular source.

TABLE 4.4.2 CASH OUTFLOWS.

TYPE OF SCHOOL	books and stationery	boarding expenses	staff salaries	games	repairs	local travel
GM	28.2	40	36	5.8	20	6
GA	45.5	25	35.2	7	12	8.17
H	47.5	0	35	15	0	10
P	17.5	0	50	12.5	0	0

N/B: The percentages indicated above were obtained by calculating an average for the given source for the number of schools in each type which reported the particular source.

It is clear from tables 4.4.1 and 4.4.2 above that:

- (a) fees is the major source of cash for all the schools increasing in magnitude from the private, harambee, government assisted to the government maintained schools being 100, 99.5, 85.9 and 53.8 percent on average for each type of school respectively.
- (b) the government grants were only reported received by the government maintained and government assisted schools at 44.8% and 31.25% of their total revenues on average respectively.

(c) a small percentage of revenue was derived from the school shamba and rents for premises in both the government maintained and government assisted schools as 3.5% and 2.25% respectively. Twenty percent of the government assisted schools reported receiving donations and 10% of these assisted schools quoted the District Development Committee as a source of funds.

(d) For the government maintained schools, boarding expenses represented the largest percentage of expenditure (40%). Books and stationery represented the highest expenditure for both the government assisted and the harambee schools being 45.5% and 47.5% respectively.

(e) The private schools highest item of expenditure was reported to be staff salaries (50%). However, even in the government maintained, assisted and the harambee schools, staff salaries do come a close second being 36%, 35.2% and 35% respectively. In other words, they also compose a large part of the schools' outflows.

#### 4.2 RECEIVABLES MANAGEMENT PRACTICES.

Table 4.5.1 to 4.5.6 summarize the responses received from the respondents in respect of receivables management practices. These are responses to questions 1, 2, 3, 5, 6 and 7 of section C of the questionnaire (appendix II).

TABLE 4.5.1 TIME STUDENTS ARE EXPECTED TO PAY FEES.

number of schools in the types of

	GM	GA	H	P	TOTAL	
						%
BEGINNING OF TERM	5	10	2	1	8	94.74
MIDDLE OF TERM	0	0	0	1	1	5.26
END OF TERM	<u>0</u>	0	0	0	0	0
	5	10	2	2	19	100

TABLE 4.5.2 PERCENTAGE OF FEES NOT RECEIVED IN TIME.

number of schools in the types of

%	GM	GA	H	P	TOTAL	
						%
0 - 10	0	0	0	0	0	0
11 - 20	1	1	0	1	3	15.79
21 - 30	1	4	2	1	8	42.11
31 - 40	3	3	0	0	6	31.58
50 <	<u>0</u>	<u>2</u>	0	0	<u>2</u>	10.52
	5	10	2	2	19	100.00

TABLE 4.5.3 EVALUATING STUDENT CREDITWORTHINESS.

	number of schools in the types of				TOTAL	
	GM	GA	H	P		%
EVALUATION DONE	1	2	0	1	4	21.05
EVALUATION NOT DONE	4	8	2	1	15	78.95
	5	10	2	2	19	100.00

TABLE 4.5.4 RESPONSIBILITY FOR COLLECTING PAST DUE DEBTS.

	number of schools in the types of				TOTAL	
	GM	GA	H	P		%
BOARD	1	0	0	0	1	5.26
HEAD	3	7	1	0	11	57.89
BURSAR	0	1	1	2	4	21.05
HEAD/DEPUTY HEAD	0	1	0	0	1	5.26
BOARD/HEAD/BURSAR	1	1	0	0	2	10.53
	5	10	2	2	19	100.00

TABLE 4.5.3 EVALUATING STUDENT CREDITWORTHINESS.

	number of schools in the types of				TOTAL	
	GM	GA	H	P		%
EVALUATION DONE	1	2	0	1	4	21.05
EVALUATION NOT DONE	<u>4</u>	<u>8</u>	<u>2</u>	<u>1</u>	15	<u>78.95</u>
	5	10	2	2	19	100.00

TABLE 4.5.4 RESPONSIBILITY FOR COLLECTING PAST DUE DEBTS.

	number of schools in the types of				TOTAL	
	GM	GA	H	P		%
BOARD	1	0	0	0	1	5.26
HEAD	3	7	1	0	11	57.89
BURSAR	0	1	1	2	4	21.05
HEAD/DEPUTY HEAD	0	1	0	0	1	5.26
BOARD/HEAD/BURSAR	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>10.53</u>
	5	10	2	2	19	100.00

TABLE 4.5.5 TIME OF REMINDER OF PAST DUE DEBTS TO STUDENTS.

	number of schools in the types of				TOTAL	%
	GM	GA	H	P		
0 -30 DAYS	4	5	2	2	13	68.42
31 - 60 DAYS	0	2	0	0	2	10.53
61 - 90 DAYS	1	0	0	0	1	5.26
NO SPECIFIC TIME	0	2	0	0	2	10.53
WHEN STUDENTS COLLECT						
THEIR DOCUMENTS	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>5.26</u>
	5	10	2	2	19	100.00



TABLE 4.5.5 TIME OF REMINDER OF PAST DUE DEBTS TO STUDENTS.

	number of schools in the types of				TOTAL	%
	GM	GA	H	P		
0 -30 DAYS	4	5	2	2	13	68.42
31 - 60 DAYS	0	2	0	0	2	10.53
61 - 90 DAYS	1	0	0	0	1	5.26
NO SPECIFIC TIME	0	2	0	0	2	10.53
WHEN STUDENTS COLLECT THEIR DOCUMENTS	0	1	0	0	1	5.26
	5	10	2	2	19	100.00

TABLE 4.5.6 PROCEDURES OF REMINDING STUDENTS OF OVERDUE DEBTS.

		GM	GA	H	P	TOTAL	%
LETTER TO STUDENT (1)	0	1	0	0	0	1	5.26
PERSONAL INTERVIEW WITH STUDENT (2)	2	1	0	0	0	3	15.79
LETTER TO PARENT (3)	2	4	1	2	9	47.37	
VERBAL PARADE (4)	0	0	0	0	0	0	0
CLASS ANNOUNCEMENT (5)	0	1	0	0	1	5.26	
SENDING STUDENT HOME (6)	1	0	0	0	1	5.26	
(1) & (3)	0	0	1	0	1	5.26	
(2) & (3)	0	1	0	0	1	5.26	
(3) & (6)	0	1	0	0	1	5.26	
(4) & (5)	0	1	0	0	1	5.26	
	5	10	2	2	19	100.00	

From the tables above it can be concluded that:

- (a) nearly all the schools (94.74) expect the students to pay in their fees at the beginning of term. Only 5.26% of the total schools expected the students to have paid their fees by the middle of term.

(b) a huge chunk of fees not received lies between the percentages of twenty one to forty (21-40) represented by 63.18% of the schools.

All the harambee schools reported experiencing late payment of fees of between thirty one and forty percent (31-40). The private schools also experienced late payment of fees of between eleven and thirty percent (11-30).

(d) Most of the schools did not evaluate the creditworthiness of would be students (78.95). However, 20%, 20% and 50% of the maintained, assisted and private schools did report evaluating the creditworthiness of students. The procedures these schools employ to evaluate creditworthiness include:

- interview with the parents and or guardians
- outright refusal to enroll a student unless he/she pays his/her dues in full in the first term.

(d) The responsibility for collecting overdue debts lies across several levels of authority. In the maintained schools, 60%, 20% and 20% of the schools reported the Head, Board and Bursar respectively as being responsible for the collection of overdue debts. The government assisted schools reported 70%, 10%, 10% and 10% of the schools as having the Head, Bursar, Board/Head/Bursar and the Head/Deputy Head respectively as being responsible for the collection of overdue debts. In the harambee schools, it was a 50/50 affair between the Head and the Bursar. However in the private schools, the responsibility was reported

being solely in the hands of the Bursar. In total, in 57.89% of the schools, the Head was responsible for collection of overdue fees.

(e) The most popular procedures employed to remind the students of overdue debts were varied. In the government maintained schools, personal interview with the student and letter to the parent were employed by 40% of the schools. Eighty percent (80) of these schools did not send their students home for overdue fees. Forty percent (40) of the government assisted schools employed a procedure of sending a letter to the parent. The other procedures employed by these schools include letter to student (10% of the schools), personal interview with student (20% of schools), class announcements and verbal parade announcements (10% of schools).

The harambee schools employed only two procedures namely; letter to students (50% of the schools) and personal interview with the student (100% of the schools).

The private schools only employed one procedure i.e. letter to the parent.

After this first reminder was not heeded, some measures reported employed by the schools are shown in table 4.5.7 (in response to item 8 of the questionnaire Section C appendix II):

TABLE 4.5.7 MEASURES EMPLOYED AFTER THE FIRST REMINDER IS NOT HEEDED.

MEASURE	% OF SCHOOLS REPORTING
1. sending out second third e.t.c. reminders	21.05
2. summoning the parent to the school to explain his/her financial situation	57.89
3. sending students home	31.59

Several schools did report a few problems they experience in managing their receivables. These include:

- poor parents who are involved in several financial commitments presumably more students in schools than the can afford to educate comfortably

- parents unwillingness to understand how much a pupil loses when he/she is sent out of school for whatever period of time. This would mean that some parents are able but not willing to pay school fees in time and also that students are happy when they are sent away and therefore they extend their stay home

- false promises by parents and even politicians or administrative officials who recommend poor cases which may not be genuine, that fees will be paid only for the fees not to be paid later hence becoming bad debts

the harambee schools reported that parents did not expect school to enable their pupils perform well in academic work as a result used these schools as institutions where their children passed time while they looked for other better schools. therefore, they were not willing to pay in good time

- parents do refuse to come to school to explain their financial problems

- some schools use exam results as the 'collateral' for overdue fees but once students do not pass, they are unwilling to collect their results hence not paying their dues.

#### 4.3 INVENTORY MANAGEMENT PRACTICES.

Tables 4.6.1 and 4.6.2 summarize the practices with respect to inventory management practices being items 1, 2 and 4 of section D of the questionnaire. These practices as expected are few in secondary schools. Inventory can be in form of stationery, food, fuels and so on.

TABLE 4.6.1 EXISTENCE OF POLICY ON INVENTORY TO HOLD.

	number of schools in the type of				TOTAL	%
	GM	GA	H	P		
POLICY EXISTS	2	4	1	0	7	36.84
POLICY DOES NOT EXIST	3	6	1	2	12	63.16
	5	10	2	2	19	100.00

TABLE 4.6.2 RESPONSIBILITY REGARDING THE AMOUNT OF INVENTORY TO HOLD.

	number of schools in the type of				TOTAL	%
	GM	GA	H	P		
NO INVENTORY POLICY	3	6	1	2	12	63.16
BOARD	0	0	0	0	0	0
HEAD	1	3	1	0	5	25.32
BURSAR	0	0	0	0	0	0
HEAD/BURSAR	1	0	0	0	1	5.26
STORES CLERK	0	1	0	0	1	5.26
	5	10	2	2	19	100.00



TABLE 4.6.3 USE OF INVENTORY MODELS.

	number of schools in the type of				TOTAL	
	GM	GA	H	P		%
USE OF MODEL	0	0	0	0	0	0
DOES NOT USE MODEL	5	10	2	2	19	100
	5	10	2	2	19	100

From the tables above it can be seen that:

(a) many of the schools do not have inventory policy (63.16%). This implies that purchases for these items are adhoc and therefore can result to a wastage of resources. However, a sizeable number of the schools do have a policy on the inventory to hold. This trend is representative of both the maintained and assisted schools being 40% and 60% of the schools having and not having a policy on inventory to hold respectively for both types of schools.

(b) For those schools which had a policy on inventory to hold, the Head was responsible in deciding the amount of inventory to hold (40% and 20% of the maintained and assisted schools respectively) while the Bursar had the responsibility in 20% of the maintained schools. In 10% of the assisted schools the stores Clerk was responsible.

(c) Not a single school in all the types employed any of the sophisticated inventory models to determine the amount of inventory to hold.

Since many of the schools did not have a policy on the amount of inventory to hold, they took the factors summarized in table 4.6.4 below into consideration while deciding on the amount of inventory to hold:

TABLE 4.6.4 FACTORS TAKEN INTO CONSIDERATION WHILE DECIDING ON THE AMOUNT OF INVENTORY TO HOLD.

FACTOR	% OF SCHOOLS REPORTING
1. priority of inventory	15.79
2. gains of buying in bulk	5.26
3. funds available	36.84
4. availability of the goods	10.53
5. consumption rate	42.11
6. delivery period	15.79
7. durability of the stock	21.05

#### 4.4 CREDIT MANAGEMENT PRACTICES.

Summarized in tables 4.7.1 to 4.7.2 below are the practices in respect of credit management practices. They relate to questions 5-12 of section D of the questionnaire.

TABLE 4.7.1 PURCHASING ON CREDIT.

	number of schools in the type of				TOTAL	%
	GM	GA	H	P		
PURCHASED	5	8	2	2	17	89.47
DID NOT PURCHASE	0	2	0	0	2	10.53
	5	10	2	2	19	100.00

TABLE 4.7.2 PERCENTAGE OF PURCHASES MADE ON CREDIT.

	number of schools in the type of				TOTAL	%
	GM	GA	H	P		
NO CREDIT PURCHASES	0	2	0	0	2	10.53
0 - 20	0	1	0	2	3	15.79
21 - 40	0	4	1	0	5	26.32
41 - 60	5	1	1	0	7	36.84
60 <	<u>0</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>10.53</u>
	5	10	2	2	19	100.00

TABLE 4.7.3 TAKING CASH DISCOUNTS.

	number of schools in the type				TOTAL	%
	GM	GA	H	P		
TAKES	4	4	1	0	9	47.37
DOESN'T TAKE	<u>1</u>	<u>6</u>	<u>1</u>	<u>2</u>	<u>10</u>	<u>52.63</u>
	5	10	2	2	19	100.00

TABLE 4.7.4 TAKING OF SHORT TERM LOANS.

	number of schools in the type				TOTAL	%
	GM	GA	H	P		
TAKES	2	1	0	2	5	26.32
DOESN'T TAKE	3	9	2	0	14	73.68
	5	10	2	2	19	100.00

TABLE 4.7.5 TYPE OF SHORT TERM LOAN.

	number of schools in the type				TOTAL	%
	GM	GA	H	P		
OVERDRAFT	2	1	0	2	5	26.32
NO LOAN	3	9	2	0	14	73.68
	5	10	2	2	19	100.00

As can be seen from the tables above:

- (a) most of the schools (89.47%) purchase on credit with only 10.53% of the schools not purchasing on credit
- (b) the maintained schools all exercise credit purchases of between 41 and 60% of all their purchases. On the other hand, 40% of the assisted schools making credit purchases of between 21%

and 40%. Of these assisted schools 10% exercised credit purchases in the groups of 0-20% and 41-60% each while 20% of these schools made credit purchases of over 60% of their purchases.

100% of the private schools made credit purchases of between 0 and 20 percent while 50 percent of the harambee schools made credit purchases in each of the groups 21-40 and 41-60 percent.

(c) A large number of maintained schools (80%) reported taking cash discounts. However, a large number of assisted schools (60%) did not take cash discounts as compared to those who took the discounts (40%). All the private schools did not take cash discounts while the harambee schools were split into two between those who took and those who did not take cash discounts.

(d) With the short term loans, the trend was reversed in that 60% of maintained schools, 90% of the assisted schools and 100% of the harambee schools did not take short term loans. However all the private schools did report taking short term loans.

(e) The only type of short term loan taken by the schools is the bank overdraft.

## CHAPTER FIVE.

### SUMMARY AND CONCLUSIONS.

This chapter summarizes the findings of the study in relation to the objective of the study. It also gives conclusions drawn from the study, limitations of the study and recommendations for further research.

#### 5.1 SUMMARY AND CONCLUSIONS.

The study aimed at determining the current working management practices in secondary schools of Kikuyu Division, Kiambu District in respect of cash, receivables, inventory and short term credit.

##### 5.1.1 CASH MANAGEMENT.

It was found that the following practices and facts were present in management of cash:



(a) the majority of the schools did not have a policy on to cash/hold. This could be due firstly to lack of knowledge on the cost of idle funds by the school management in Private, Harambee and some of the Government assisted schools. No wonder then, there was little investment of idle funds reported. Secondly it could also be due to lack of qualified accounts personnel in the schools (where qualified means one who has done at least up to CPA II). In the Government maintained and some of the Government assisted schools, the Ministry does not allow the transfer of funds from one virement to another i.e. funds meant for one item of expenditure cannot be used for another item without the approval of the Permanent Secretary, Ministry of Education.

(b) There was preparation of cash budgets as 84.22% of the schools prepared cash budgets whose time span was mostly one year (57.89% of the schools). However, this period was too long to allow for effective cash management.

(c) The major source of cash for the schools was fees while other significant sources include government grants, renting of school premises and shamba and donations.

(d) The major uses of cash in schools vary depending on the category of school viz Boarding or Day. In boarding schools the major use of funds was boarding expenses while in day schools it was books and stationery. These findings did not support current theory which contends that staff salaries form the largest item of expenditure while the study revealed several expenditures

as summarized above. This could be explained firstly by the fact that in Kenya there are several categories of schools viz boarding, day or boarding/day (boarding in this case would also include hostel).

Secondly, the Kenya Government as noted earlier does spend large sums of its recurrent expenditure on education and most of this is in the form of Staff salaries which is largely under the auspices of the Teachers Service Commission for the government maintained schools, the government assisted schools and in most cases the harambee schools. In the government maintained schools, the non-teaching staff are paid by the Ministry. However in the private schools the findings conformed to theory.

(e) The study indicates that the school Head bears the most responsibility in preparing the cash budget. Other parties sharing the responsibility with the Head included the Board, Bursar and the Ministry. In a few cases the responsibility was shared between or among the said parties.

(e) The cash collections were banked daily in almost all the schools (94.74%).

(f) A majority of the schools (79.85%) did not invest their idle funds.

(g) For the schools receiving grants a third (33.3%) reported not receiving grants in time. Another problem of concern is the fact that the cash inflows are infrequent and are received in bits.

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(e) The study indicates that the school Head bears the most responsibility in preparing the cash budget. Other parties sharing the responsibility with the Head included the Board, Bursar and the Ministry. In a few cases the responsibility was shared between or among the said parties.

(e) The cash collections were banked daily in almost all the schools (94.74%).

(f) A majority of the schools (79.85%) did not invest their idle funds.

(g) For the schools receiving grants a third (33.3%) reported not receiving grants in time. Another problem of concern is the fact that the cash inflows are infrequent and are received in bits.

### 5.1.2 RECEIVABLES MANAGEMENT.

Schools do experience late payment of dues. Every school should decide on its own procedures of collecting overdue debts. Though this being the case, there was conformity with theory that the school Head was responsible for collecting overdue debts. However, the following practices were not supported by theory:

(a) that no attempt was made to evaluate the creditworthiness of students. This could be explained by the fact that the Kenya Government discourages this kind of act<sup>7</sup> and rightly so for its the right of every Kenyan to receive education and such evaluation would deny some Kenyans of this vital service. However, the school stands to suffer from this view in that eventually bad debts are experienced.

(b) there were a variety of procedures employed to remind students of overdue fees. This could be explained by the fact that size and environment (background of parents, type of school and the composition of the Board of Governors) of the school are important in determining the kind of procedure employed.

From several interviews held with some school Heads and Bursars of the maintained and assisted schools, once a parent is summoned to school to explain his/her financial position (which

7. Daily Nation: June 23rd, 1990

is the most popular procedure after the first reminder is not heeded), he is made to commit himself to pay the amounts due at a specified date. However, if this commitment is not fulfilled, the school management has little it can do. However, some schools detain the students leaving and exam certificates until he makes good his fees. This is an unfortunate situation in that eventually the school will have to write-off such debts especially if the student never comes to collect his/her certificates in future.

(c) It was also established in the study that the time of reminding students of past due debts was after the expiration of a period of thirty days or thereabouts i.e. at the end of the month. Also, a majority of the schools (78.95%) expected their students to pay their fees at the beginning of the term.

### 5.1.3 INVENTORY MANAGEMENT PRACTICES.

Inventory management practices were summarized as follows:

(a) the majority of the schools did not have an inventory policy (63.16%). This implies that the acquisition of inventory is left open to the risk of fraud between the acquiring and the selling agents or parties by say inflating prices and or supplying excessive stocks so as to cash in on 'kickbacks'. Infact

one of the interviews revealed that a school Head, on learning that he was to be transferred, bought large quantities of stock which will take long to be consumed.

(b) although many schools did not have an inventory policy, they took into consideration several factors in deciding on the amount of inventory to hold viz consumption rate (42.11% of the schools) and funds available (36.84% of the schools). Others were durability of the stock, priority of inventory, delivery period, availability of the goods and gains of buying in stock.

(d) for those schools which had an inventory policy the school Head bore the responsibility of deciding on the amount of inventory to hold in 71.43% of the cases

(c) no school used any sophisticated inventory models. This could be due to lack of knowledge of the models and more so considering that most of the factors the school managers take into consideration while determining the amount of inventory to hold agree with current theory with regard to inventory models (specifically the Economic Order Quantity).

(d) for those schools which had an inventory policy the school Head bore the responsibility of deciding on the amount of inventory to hold in 71.43% of the cases



5.1.4 CREDIT MANAGEMENT PRACTICES.

As far as credit management practices are concerned, the following practices and facts were established:

- (a) most of the schools made purchases on credit (89.47%).
- (b) the majority of schools did not take advantage of cash discounts (52.63%). This could imply that that the school management does not evaluate the potential gains of buying for cash against the higher prices of buying on credit. Other reasons that could explain this condition include the infrequent inflow of cash, delay in receiving grants where applicable and so on.
- (c) a large number of schools did not take short term loans (73.68%)
- (d) for the schools which took short term loans, only the bank overdraft was taken.

As a major conclusion of the study, there seems to be lack of professionalism in some areas of the management of school finances and this calls for the qualified personnel to be employed in the management of school finance considering the huge expenditure involved in education. This would call for KESI to continually train the school managers in financial management not merely procedures of financial accounting as is currently the case. This is because the sole effectiveness of the financial



management is not at the decision level above but at the point of incurring and controlling the expenditure of the particular institution. (schools managers here mean both the Board of Governors, the school Head and the school Deputy/Head).

### 5.3 LIMITATIONS OF THE STUDY.

This study like all others has its own limitations. There was a strong feeling of suspicion expressed by both the school Heads and the Bursars (where applicable) interviewed. However after explanations they later co-operated.

Like in all other exploratory studies, this study's findings do not provide a cause and effect relationship.

This study used a questionnaire and this implies that the findings could be opinions of the current school Heads and or Bursars and therefore the findings may not represent the real practices.

The results of any case analysis are always to be considered as suggestive rather than conclusive because the case analysis statistically should not be generalized to the whole population<sup>8</sup>.

Further, other explanations are possible for the observed behavior. That is, the findings of this study should be interpreted with this limitation in mind.

#### 5.4 RECOMMENDATIONS FOR FURTHER STUDY.

For any policies to be effective, the dedication, commitment and co-operation of all the parties involved is of extreme importance. Research is therefore needed to determine the attitudes (views) of both the school Heads and the Board of Governors of the schools on the management of working capital components.

Further, the proper personnel must be entrusted with the responsibilities of managing working capital. Several leaders in both politics and religion<sup>9</sup> have expressed deep concern to the level of financial mismanagement in secondary schools. This is

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9. Daily Nation, June 15th and 23rd, 1990.

not to say that in all. Heads (or all those responsible) mis-  
manage funds. This calls for a study to determine whether there  
is any relationship between the background training of a school  
Head or other members of the school Board and the existing work-  
ing capital management practices.

A similar study could be done in other Divisions. Districts  
and so on.

A study could be conducted to compare the practices among or  
between different types of schools. This would call for  
hypothesis testing.

Yours sincerely,

COVERING LETTER.

Dear Respondent,

I am a postgraduate student in the faculty of commerce of the University of Nairobi. I am currently collecting data to enable me write a financial management research project on the working capital management practices in secondary schools of Kikuyu Division. Kiambu District.

This is to kindly request you to assist in filling the attached questionnaire to the best of your knowledge as it applies to your institution. The information that you give will be treated in strict confidence and your name or that of your institution will not be mentioned anywhere in the report.

Your co-operation in this exercise will be highly appreciated. Thanking you in advance.

Yours sincerely,

NGABA. DOMINIC KINYA (M.B.A. STUDENT).

APPENDIX I  
FACULTY OF COMMERCE,  
UNIVERSITY OF NAIROBI,  
COVERING LETTER.

Dear Respondent,

I am a postgraduate student in the faculty of commerce of the University of Nairobi. I am currently collecting data to enable me write a financial management research project on the working capital management practices in secondary schools of Kikuyu Division, Kiambu District.

This is to kindly request you to assist in filling the attached questionnaire to the best of your knowledge as it applies to your institution. The information that you give will be treated in strict confidence and your name or that of your institution will not be mentioned anywhere in the report.

Your co-operation in this exercise will be highly appreciated. Thanking you in advance,

Yours sincerely,

NGABA, DOMINIC KINYA (M.B.A. STUDENT).

SUPERVISOR: Mr. JAMES M. KARANJA.  
FACULTY OF COMMERCE.  
UNIVERSITY OF NAIROBI.  
P.O. BOX 30197.  
NAIROBI.

The following information is provided for the purpose of providing you with the necessary information.

The following information is provided for the purpose of providing you with the necessary information.

#### ATTENTION

The following information is provided for the purpose of providing you with the necessary information.

Government of Kenya

Ministry of Education

Department of Education

The following information is provided for the purpose of providing you with the necessary information.

Government of Kenya

Ministry of Education

Department of Education

Ministry of Education

QUESTIONNAIRE.

To be filled by the school manager (head) or any other person with the necessary information.

Please put a tick ( ) in the box and where this is not so, write the answers in the spaces provided. If more space is needed, please use the back of the respective page.

SECTION A.

1. Please indicate herebelow the category of your institution?

Boarding ( )

Day ( )

Boarding/Day ( )

2. Please indicate herebelow the type of your school?

Government maintained ( )

Government assisted ( )

Harambee ( )

Private ( )



SECTION B.

1. Do you have any written statement of deciding on the amount of cash to hold (both petty cash and cash at bank which can be withdrawn at will) at any one particular time?

Yes ( )

No ( ) go to 3

2. Please briefly explain the salient features of the written statement you have indicated in (1) above e.g. we must hold shs. 10,000 at all times and petty cash must not exceed shs. 500 e.t.c.

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3. Please give some reasons as to why you don't have a written statement on the amount of cash to hold at any one particular time.

a

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b \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
c \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Who is responsible for deciding on the cash amount to hold at a particular time in your institution?

- Board ( )
- Headteacher ( )
- Bursar ( )
- Other (specify)

\_\_\_\_\_  
\_\_\_\_\_

5. Do you ever reach a situation where the school has idle funds i.e. funds which do not have immediate use?

- Yes ( )
- No ( ) go to 7.

6. How do you invest these idle funds (not necessarily at the end of the year)?

- place them in a Savings account ( )
- Place them in a Fixed deposit account ( )
- Other (specify)

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7. Does the school management prepare a cash budget i.e. a plan of cash inflows (mainly fees) and outflows (expenditures)?

Yes ( )

No ( )

8. Who is responsible for preparing the cash budget?

Board ( )

Headmaster ( )

Bursar ( )

Other (specify) \_\_\_\_\_

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9. What is the time span (plan horizon) for your cash budget?

less than one month ( )

three months ( )

six months ( )

one year ( )

over one year ( )

other please specify \_\_\_\_\_

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10. Please indicate below the approximate percentage of your cash inflows from various sources.

	percentage (%)
Fees	_____
Government grants	_____
Owner investments	_____
School investments	_____
Others please specify	_____

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11. Please indicate herebelow approximate percentages of your cash outflows (expenditures) to the various uses.

	percentage (%)
Boarding expenses	_____
Books and Stationery	_____
Games	_____
Staff Salaries	_____
Other(s) please specify	_____

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12. How frequently do you bank your cash collections?

Daily ( )

Weekly ( )

Other please specify

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13. Please indicate the problems (if any) you encounter in managing or administering cash in your institution?

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SECTION C.

1. When are students expected to pay up their school fees?

Beginning of term ( )

Middle of term ( )

End of term ( )

Other please specify

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12. How frequently do you bank your cash collections?
- Daily ( )
- Weekly ( )
- Other please specify
- 
- 

13. Please indicate the problems (if any) you encounter in managing or administering cash in your institution?
- 
- 
- 
- 
- 
- 

SECTION C.

1. When are students expected to pay up their school fees?
- Beginning of term ( )
- Middle of term ( )
- End of term ( )
- Other please specify
- 
- 
-

2. What percentage of the school fees is not received when it is due?

0-10 ( )

11-20 ( )

21-30 ( )

31-40 ( )

Other please specify

3. Are any attempts made to evaluate the creditworthiness of would be students before admitting them?

Yes ( )

No ( )

4. If yes please explain how this is done.

5. Who is responsible for collecting overdue debts (fees e.t.c.)

Board ( )

Headteacher ( )

Bursar ( )

Other please specify



6. At what point in time, after a students bill is past due will the student be reminded of the amount due?

0-30 days ( )

31-60 days ( )

61-90 days ( )

Other (specify)

7. How is this reminder done?

letter to student ( )

personal interview with student ( )

letter to parent ( )

Phone to parent ( )

Other please specify

8. What action(s) do you employ after the first reminder is not heeded?

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9. Please indicate the problems if any encountered in collection of overdue fees from the students and in determining the credit-worthiness of the students.

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SECTION D.

In this section the word inventory means the stock of consumables such as stationery (exercise books etc) and for schools with boarding facilities, it includes such items as cooking fuel, food and so on.

1. Do you have any written statement as to the amount of stock you should hold at any one particular time?

Yes ( )

No ( ) Move to 3.

2. Who is responsible for making decisions regarding the amount of inventory to hold?

type of stock	board	Headteacher	Bursar	Other (specify)
stationery	( )	( )	( )	( )
food	( )	( )	( )	( )
Cooking or				
other fuel	( )	( )	( )	( )
Others please specify				
	( )	( )	( )	( )
	( )	( )	( )	( )
	( )	( )	( )	( )

3. Please give some factors you take into considerations while determining the level of inventory to hold.

- a.
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

b \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
c \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Does your school use any of the sophisticated inventory control models e.g. the Economic Order Quantity model?

Yes ( )

No ( )

If yes, please indicate the model \_\_\_\_\_  
\_\_\_\_\_

5. Does the school purchase some of its requirements on credit?

Yes ( )

No ( )

6. If yes, what percentage of the purchases are made on credit?

0-20 ( )

21-40 ( )

41-60 ( )

Other please specify \_\_\_\_\_  
\_\_\_\_\_

7. Does the school take advantage of cash discounts that are offered by creditors?

Yes ( )

No ( ) go to 9.

8. If yes in (7) above, what considerations do you take into account?

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9. If no, why not?

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10. Does your institution get short term loans from the bank?

Yes ( ) move to 11

No ( ) move to 12

11. Please state the kind of short term loan

Overdraft ( )

Other (specify)

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12. THANK YOU VERY MUCH FOR YOUR MUCH VALUED CO-OPERATION.  
END.

SECONDARY SCHOOLS OF KIKUYU DIVISION, KIAMBU DISTRICT.

1. ALLIANCE BOYS' HIGH SCHOOL
2. ALLIANCE GIRLS' HIGH SCHOOL
3. KIKUYU DAY SECONDARY
4. KARAI MIXED SECONDARY
5. RUNGIRI SECONDARY
6. GICHURU MEMORIAL
7. MOI GIRLS' KAMANGU
8. KIKUYU TOWNSHIP
9. MUGUGA WA GATONYE
10. MUGUGA HIGH SCHOOL
11. UTHIRU HIGH
12. MARY LEAKEY GIRLS' HIGH SCHOOL
13. KIRANGARI HIGH SCHOOL
14. KAHUHO UHURU HIGH SCHOOL
15. KANYARIRI HIGH SCHOOL
16. KABETE SECONDARY
17. ST. KEVINS SECONDARY
18. GATHIGA SECONDARY
19. KERWA SECONDARY
20. MUSA GITAU SECONDARY
21. RENGUTI SECONDARY



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