



AN ASSESSMENT OF THE CRITICAL NEED AND ACID TEST RATIOS AS A MANUFACTURING FIRM LIQUIDITY MEASURE. A STUDY OF GOLDEN PENNY COMPANY IN SOUTH EAST NIGERIA

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Abstract: *This study assesses the critical need and acid test ratios as a manufacturing firm liquidity measure. a study of golden penny company in south east, Nigeria. the specific objective is to; i. investigates the effective use of acid test ratio as a firm liquidity measure and ii. examine if there is significant difference between critical need and acid test ratio as firm liquidity measure. The research design adopted for the study was ex-post facto as the study relied on historic data. The study makes use of secondary source of data. stratified random sampling method was also adopted. The SPSS (Statistical Package for Social Sciences) was used to test the stated and modeled hypotheses, adopting an independent sample t-test. The independent sample t-test was executed aided by the SPSS at 95% or 90% confidence interval thus giving a 5% or 10% margin of error. The study reveals that, there is no significant difference between critical need and acid test ratios as firm's liquidity measures and acid test ratio is effectively used as the firm liquidity measure.*

Keywords: *Critical Need, Acid Test Ratios, Manufacturing Firm And Liquidity Measure.*

Introduction

Generally, it is very important that a firm have sufficient fund to meet up with its financial obligation as when due. Only when a firm is enabled to meet up with its financial obligation that, the firm will keep growing. For a firm to know its financial ability to pay off, interest expense, accounts payable and others bills as when due, it's needs Acid Test Ratio. Basically, acid test ratio makes good uses of firm's balance sheet data to show whether the firm actually have enough short-term assets to cover its short-term liabilities. According to Duru, Okpe, and Chitor (2015), This metric is more useful in certain situations than

the current ratio which is also known as working capital ratio. And it avoided current asset such as inventory that may be difficult to quickly liquidate. The acid test ratio is well conservative and its metric of liquidity is very high. On like the current ratio, though both are similar. But the acid test ratio is more rigorous in assessment of the firm's ability to pay its current liabilities. It's does this by removing current asset such as inventory completely from the system because inventory is not easily sold or convert to cash when cash is urgently needed to pay off account payable or others bills. The greater the acid test ratio, the more a firm is financially secured. There is one common

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rule to observe, a firm with high Acid-Test ratio or quick ratio greater than 1.0 are always sufficiently able to meet with their short-term liabilities. A firm with low acid test ratio always indicates that, there is over leveraged and the firm will be struggling to grow. But when a firm acid test ratio is high, it gives hope to the firm rapid growth because the firm will quickly convert receivable into cash and will be able to cover its financial obligation. Also, the firm will experience fast inventory turnover and high cash conversion cycles.

Statement of the Problem

A firm need sufficient fund to run its daily activities, to pay off short term liabilities. But when the firm is having insufficient fund to cover it short term liabilities, it simplices means that, the firm acid test ratio is low. A firm with low acid test ratio always indicates that, there is over leveraged and the firm will be struggling to grow. The issued of a firm having over leveraged need to be work out in order to avoided low acid test ratio. Therefore, a firm need makes effective use of Critical Need and Acid Test Ratios as the Firm Performance Measure.

Objective of the Study

The main objective of this study is an Assessment of the Critical Need and Acid Test Ratios as a Manufacturing Firm Liquidity Measure. A study Golden penny company in South East, Nigeria. the specific objective is to;

- i. Investigate the effective use of acid test ratio as a firm liquidity measure
- ii. Examine if there is significant difference between critical need and acid test ratio as firm liquidity measure.

Statement of Hypotheses

- i. **H₀**: Acid test ratio are not effectively significantly used as firm liquidity measure.
- ii. **H₀**: there is no significant difference between critical need and acid test ratio as firm liquidity measure.

REVIEW OF THE RELATED LITERATURE

2. Conceptual framework

The acid-test, or quick ratio, tries to compares a firm's most short-term assets to its most short-term liabilities in orders to check if the firm have enough cash at its disposal to settle its urgent debts, such as short-term debt. The acid-test ratio does not regard current assets such as inventory because it is difficult to liquidate.

- The acid-test, or quick ratio, compares a firm's most short-term assets to its most short-term liabilities in order to check if firm have enough cash to pay its immediate liabilities, such as short-term debt.
- The acid-test ratio does not regard current assets such as inventory because it is difficult to liquidate.
- The acid-test ratio does not really give a true picture of a firm's financial condition because if the firm have any accounts receivable that take longer than usual to collect or current liabilities that are due but have no immediate payment needed. Therefore, it is not reliable.

It is calculated as;

$$\text{Acid-Test Ratio} = \frac{\text{cash \& cash equivalents} + \text{marketable securities} + \text{account receivables}}{\text{Current liabilities}}$$

liabilities

Those items can be found in the firm's statement of financial position;

- **Cash and cash equivalents** are the most liquid current assets on the firm's statement of financial position, such as savings accounts, a term deposit with a maturity of fewer than three months, and T-bills.
- **Marketable securities** are liquid financial instruments that can be readily converted into cash.
- **Accounts receivables** are the money owed to the company from providing customers with goods and/or services.
- **Current liabilities** are debts or obligations due within one year.

Or

It can be calculated as;



Acid-Test ratio = $\frac{\text{current assets} - \text{inventories}}{\text{Current liabilities}}$

Current liabilities

Where:

- **Current assets** are assets that can be reasonably converted into cash within a year.
- **Inventories** are the value of materials and goods held by a company with the intention of selling them to customers.

The logic here is that inventory can often be slow moving and thus cannot readily be converted into cash. Additionally, if it were required to be converted immediately into cash, it would mostly likely to be sold below price.

The numerator of the acid-test ratio can be defined in various ways, but the main consideration should be gaining a realistic view of the company's liquid assets. Cash and cash equivalents should definitely be included, as should short-term investments, such as marketable securities.

Accounts receivable are generally included, but this is not appropriate for every industry. In the construction industry, for example, accounts receivable may take much more time to recover than is standard practice in other industries, so including it could make a firm's financial position seem much more secure than it is in reality.

Another way to calculate the numerator is to take all current assets and subtract illiquid assets. Most importantly, inventory should be subtracted, keeping in mind that this will negatively skew the picture for retail businesses because of the amount of inventory they carry. Other elements that appear as assets on a balance sheet should be subtracted if they cannot be used to cover liabilities in the short term, such as advances to suppliers, prepayments, and deferred tax assets.

The ratio's denominator should include all current liabilities, which are debts and obligations that are due within one year. It is important to note that time is not factored into the acid-test ratio. If a firm's accounts payable are nearly due but its receivables won't come in for months,

that firm could be on much shakier ground than its ratio would indicate. The opposite can also be true.

Firms with an acid-test ratio of less than 1 do not have enough liquid assets to pay their current liabilities and should be treated with caution. If the acid-test ratio is much lower than the current ratio, it means that a company's current assets are highly dependent on inventory. This is not a bad sign in all cases, however, as some business models are inherently dependent on inventory. Retail stores, for example, may have very low acid-test ratios without necessarily being in danger (Matthew Hudson, 2019). This is one of the factors banks consider when reviewing an application for a small business loan or line of credit is an acid test ratio. This is a measurement of how well your business can meet its short-term financial obligations without selling any inventory.

Concept of Critical Need vs Acid Test Ratio:

Critical need ratio, measure a company's ability to meet/settle its short-term obligations and pay dividends as and when due from its available cash/bank balance without having to sell assets while Quick Ratio or Acid-test Ratio measures the immediate liquidity position. It relates the most liquid assets to current liabilities Bahnsen (1996).

Theoretical Framework

Pecking order theory of Myers and Majluf (1984) posits that firms prefer internal financing if it proves to be sufficient but resort to external source where the internal financing is insufficient. For the external source, the order of preference based on the cost of each source is as follows: long-term borrowing, short-term borrowing and equity as a last option. However, for developing countries, a new Pecking order theory (Reverse Pecking Order) has been considered and it is characterised by a reassessment of the financing preference thus; retained earnings, equity, long-term debt and lastly short-term borrowing. Trade-off theory suggests that firms determine their optimal financial structure by maintaining a balance between the costs of



taking additional debt (bankruptcy) and the benefits derivable (tax deductibility of interest).

Empirical Review

Critical Need and Acid Test Ratios

Ryu & Jang, (2006) in their study performance measurement through cash flow ratios and traditional ratios: a comparison of commercial and Casino Hotel Companies. The objectives are to compare some cash flow with their equivalent traditional ratios using SPSS. Findings revealed that there is no statistical significant difference between critical need ratio and current ratio as a measure of firm performance.

Gepp & Kumar (2008) incorporated the time “bias” factor into the classic business failure prediction model. Using Altman (1968) and Ohlson’s (1980) models to a matched sample of failed and non-failed firms from 1980’s, they found that the predictive accuracy of Altman’s model declined when applied against the 1980’s data. The findings explained the importance of incorporating the time factor in the traditional failure prediction models.

Saleem & Rehman (2011) studied the kinship between liquidity and profitability of oil and gas companies of Pakistan. The results reported that there is a significant effect of only liquid ratio on ROA while there is insignificant effect on ROE and ROI; thus, the study found that liquidity and profitability are closely related because as one increases the other decreases.

A study by Qin, Xuezhi & Pastory, (2012) entitled "Comparative Analysis of Commercial Banks Liquidity Position: the case of Tanzania." This study gives an overview picture of commercial banks liquidity position in Tanzania for the period of ten years (2000–2009). The ratios used to measure the strength of liquidity position in commercial banks include the following: critical need and current ratios, cash interest cover and interest cover etc. The finding revealed that commercial banks under study have strong liquidity position.

Kirkharm, (2012) examine the value in analysis of the liquidity of companies using the traditional ratios as compared to the more recently devised cash flow ratios. The research involves the comparison between the traditional ratios and cash flow ratios of twenty-five in the same industry over companies a five-year period. The companies were all from the telecommunications sector and the data was obtained from the Fin Analysis database. The ratios examined were – the current ratio, quick ratio, interest coverage ratio – the cash flow ratio, critical needs cash coverage ratio, and cash interest coverage ratio. The study revealed that differences existed between the traditional liquidity ratios and the cash flow ratios. Her conclusion based solely on the traditional ratios could lead to an incorrect decision regarding the liquidity of a number of companies. In certain instances, it may have been that a company was deemed to be liquid when it faced cash flow problems or that a company was not liquid when in fact it had sufficient cash flow resources.

A study by Dwolabi & Obida,(2012) entitled "Liquidity Management and Corporate Profitability’s": Case study of selected Manufacturing Companies listed in Nigerian Stock Exchange". The study show relevance degree of relationship between liquidity management and profitability. This study concluded that liquidity management especially at the wake of the global financial crisis has become a major source of concern for business managers. Effective cash optimization is critical to all organizations. An organization having a proper set of liquidity management policies and procedures will improve profits, reduce the risk of corporate failure, and significantly improve its chances of survival.

A study by Nyabwarga, Ogera & Nyakurdi (2013), entitled "An Empirical Analysis of the liquidity, solvency, and financial Health of Small and Medium Sized Enterprises in kisii municipality, Kenya, ". The purpose of this study was to carry out a financial diagnosis of small and medium enterprises (SMES) financial performance by focusing on



their liquidity. Solvency and profitability positions using ratio analysis. Data for the study covered the period (2009–2011), and was obtained from financial statements of a sample of SMEs. The findings of the study showed that the liquidity position of SMEs, their solvency and financial health were low. Also, the result of the study shows that there is a significant impact of current ratio, quick ratio and debt to total assets on return on assets (ROA). The recommendations of this study include that liquidity, solvency, and financial health of SMEs should be an integral part of their policy frameworks.

A study by Armen, (2013) entitled "Performance Assessment of Major U.S. Airlines via Cash Flow Ratios". This study conducted cash flow analysis for major U.S. Airlines. The result of this analysis shows that airlines Companies have liquidity problems. The U.S. Airlines have difficulties in generating cash to fully cover unavoidable expenditures and current liabilities. The corruption of cash flow ratios, such as: adequacy ratio, cash to total debt ratio, and total free cash ratio that evaluate the company's viability as a going concern indicates that U.S. airlines are likely to face financial difficulties when it comes to meet future ongoing operational and financial commitments. Difficulties in generating sufficient cash flow result from slowly growing demand for air travels, increasing operating expenses mainly driven by continuously rising fuel prices and high labor cost, specially U.S. airlines financial condition and operations were highly affected by recent economic crisis began in late 2007 in the United States.

Kajananthan, & Velnampy, (2014) Did a study, Liquidity, Solvency and Profitability Analysis Using Cash Flow Ratios and Traditional Ratios: The Telecommunication Sector in Sri Lanka. Major findings of the study were drawn from the liquidity, solvency, and profitability condition performance. First, as mentioned earlier, two traditional and one cash flow liquidity ratios did not show that there were statistically significant differences between

Dialog Axiata PLC and Sri Lanka Telecom PLC. Second, both traditional and cash flow liquidity ratios indicated that the Dialog Axiata PLC was not in a healthy liquidity condition. They further concluded that flow ratios provide a more holistic approach to the analysis of the liquidity position of companies and in doing so becomes a means for making better decisions based on the data.

Sulayman (2014) studied liquidity analysis using cash flow ratios as compared to traditional ratios in the pharmaceutical sector in Jordan. He calculated the both ratios independently and applied independent T-test analysis to test the outcome. Findings indicated that there are significant differences between some cash flow ratios and some traditional ratios, such as cash flow ratios and current ratio. Also, it was found that there are no significant differences between other cash flow ratios and traditional ratios such as cash interest coverage ratio and interest coverage ratio.

Research Methodology

The research design adopted for this study is the *ex-post facto* as the study relied on historic data. Adam & Schvaneveldt (2005) opined that a research design is a blueprint that guides the researcher in his or her investigation and analyses. The adoption of this research design is based on the reason that the study relied on historic data obtained from the annual financial statements and accounts of Golden Penny manufacturing firm as one of the manufacturing firm listed in Nigeria Stock Exchange. The area of study is Enugu state Nigeria. The study makes use of secondary source of data. The data are from the Firm's annual statements and reports are deemed to be a reliable source of data since public firms are statutorily required to be audited by a recognized auditing firm and yearly performance made known to shareholders through the publication of annual statements of accounts. The population of the study consists of all the Golden Penny branches in Enugu state. A sample from the population of the study was drawn from Golden Penny



head office Enugu state. However, because of the need for availability, reliability and accuracy of data, only Golden Penny head office is considered. And the sampling technique that was adopted in this study is stratified random sampling method.

Definition of Variables

Formulae of determining the ratios

$\frac{\text{Acid Test Ratio}}{\text{Current assets-inventory}} = \frac{\text{Critical need}}{\text{OCF+Tax paid}}$	$\frac{\text{Current liability}}{\text{Current liability}}$
---------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------

Source: Amuzu(2010), Sulayman (2014), Kirkham(2012)

Critical needs Cash Coverage ratio: This ratio measures the company's ability to meet its obligations and pay dividends.

Hypothesis two which states that there is no significant difference between critical need for cash and acid test ratios as a performance measure was modelled as:

$$mCNC - mATR$$

$$t = \sqrt{\frac{S^2}{nCNC} + \frac{S^2}{nATR}}$$

$$S^2 = \frac{\sum(x-mCNC)^2 + \sum(x-mATR)^2}{nCNC+nATR - 2}$$

Where:

t = t- calculated

CNC = Critical Need for Cash Ratio

ATR = Acid Test Ratio

X = Scores of the Individual Groups

The SPSS (Statistical Package for Social Sciences) was used to test the stated and modeled hypotheses adopting an independent sample t-test. This is to significant differences exist between critical need and acid test ratios in measuring liquidity of the firms while adopting firms classified in the Consumer Goods sector of the Nigerian Stock Exchange.

The independent sample t-test was executed aided by the SPSS at 95% or 90% confidence interval thus giving a 5% or 10% margin of error. The decision to accept or reject the null hypotheses was based on the t-statistics and the significance of the t-statistics. Thus, the null hypotheses were accepted if the t-statistics is > 2 in absolute values and the significance of the t-statistics > 0.05/0.10 as the case may be. Otherwise, the null hypotheses were rejected and the alternate hypotheses accepted accordingly.

Presentation of data analysis

Table 4.1.4 below presents raw data from which the critical need and acid test ratios of Golden penny were calculated.

TABLE 4.1.4 Golden Penny

	Inventory N'000	Current assets N'000	Current liabilities N'000	Share capital N'000	Turnover N'000	Interest N'000	Profit after taxation N'000	Dividend N'000	Taxation N'000	Net cash flow N'000
1993	601,261	2,112,620	501,162	97,000	4,562,758	223,264	209,166	49,620	298,176	206,136
1994	750,280	2,474,076	568,219	97,000	5,974,958	260,726	296,570	68,250	301,400	248,198
1995	1,361,407	2,383,330	834,743	97,000	4,508,660	218,228	342,427	78,000	380,340	45,557
1996	2,248,704	3,904,258	3,393,713	97,000	10,193,480	247,931	471,164	97,500	397,112	(1,056,857)



1997	2,987,245	4,635,645	3,986,012	130,000	13,078,536	247,931	412,444	156,000	88,099	43,534
1998	4,235,402	6,126,128	5,499,738	130,000	16,712,311	390,370	673,963	182,000	138,990	831,260
1999	5,326,624	7,674,189	8,063,869	195,000	21,456,312	796,321	379,816	195,000	156,419	(564,221)
2000	5,287,953	7,681,749	7,502,213	273,000	23,735,633	1,070,267	602,818	327,600	184,641	2,382,071
2001	5,100,130	8,886,548	9,449,846	273,000	30,922,902	908,559	390,828	382,200	138,330	2,352,182
2002	6,255,228	11,323,894	12,557,736	273,000	43,306,511	1,188,084	1,537,104	409,500	272,400	4,371,038
2003	8,416,079	14,403,696	17,072,570	364,00	42,250,029	1,652,491	254,995	291,200	468,092	3,327,522
2004	11,419,941	18,903,501	4,621,483	364,000	53,563,211	1,531,384	1,461,845	815,360	292,183	2,531,319
2005	8,497,897	15,539,681	6,799,750	582,400	66,805,656	1,718,673	1,370,485	509,600	340,364	7,570,454
2006	11,921,461	23,195,605	24,771,553	582,400	86,571,665	1,304,258	4,667,612	990,080	354,996	7,726,666
2007	17,987,411	32,139,780	34,296,296	776,533	105,668,669	2,203,126	7,474,468		593,581	4,831,880
2008	20,306,166	58,272,362	52,522,977	776,533	127,661,809	3,062,774	6,363,082	1,006,412	1,279,414	4,347,105
2009	30,672,086	67,347,140	65,181,213	854,186	180,068,194	4,118,418	3,891,754	883,142	1,880,020	29,752,720
2010	31,310,775	53,095,447	52,732,142	854,186	206,608,017	9,141,237	16,947,986		1,880,020	29,752,720
2011	46,634,442	74,644,365	56,238,468	939,605	238,796,940	6,237,620	9,450,204		4,065,810	18,664,095
2012	50,565,384	107,355,581	74,823,638	1,167,388	258,268,251	8,151,393	8,376,656	1,275,180	5,906,244	3,770,449
2013	64,366,539	108,968,231	114,536,327	1,192,842	301,941,329	11,407,268	7,726,671	2,017,635	4,178,085	18,661,551
2014	69,359,298	112,067,156	157,682,144	1,202,542	358,672,215	13,676,162	8,067,129	-	5,026,172	20,116,789
2015	72,315,621	130,568,112	201,167,582	1,362,698	398,216,512	15,767,116	8,561,798	-	5,226,786	23,062,121

Source: Annual report.



Table 4.1.4 show an impressive increase in profit from ₦209,166,000 in 1993 to ₦8,561,000 in 2015. Though current liabilities also increase in the same progression but the cash flow and inventory figures indicate that the company is in safe position.

Table 4.2.4 below presents the calculated Critical Need Ratio and Acid Test Ratio, of the Golden Penny.

TABLE 4.2.4 GOLDEN PENNY

Trad. Ratios	Net Profit Margin	Acid Test Ra	Interest Cover	Dividend Ratio	Cash Ratios	Cash S. Ratio	Critical Need R.	Suff. Ratio	Cash Div. Ratio
1993	5%	3.02	3.23	0.23		5%	0.41	2.22	0.23
1994	5%	0.72	2.77	2.30		4%	0.10	2.11	0.28
1995	8%	0.48	3.28	2.27		1%	0.02	1.95	1.74
1996	5%	0.49	3.42	2.07		-10%	-0.31	-5.86	-0.09
1997	5%	0.41	5.52	3.77		2%	0.06	1.35	0.64
1998	3%	0.34	3.57	2.70		5%	0.15	2.49	0.22
1999	1%	0.29	1.87	0.51		-3%	-0.07	-0.90	-0.25
2000	3%	0.32	1.72	5.45		10%	0.32	2.40	0.14
2001	1%	0.40	1.75	0.97		8%	0.25	2.74	0.14
2002	4%	0.40	2.27	2.66		10%	0.34	3.91	0.08
2003	0.6%	0.35	-	1.14		8%	0.19	-	0.09
2004	3%	0.38	-	0.37		6%	0.17	-	0.16
2005	2%	0.33	-	5.56		11%	0.35	-	0.11
2006	5%	0.46	-	.212		9%	0.31	-	0.13
2007	7%	0.41	-	-		5%	0.14	-	-
2008	18%	0.36	-	1.43		27%	0.73	-	0.09
2009	17%	0.37	-	0/49		23%	0.87	-	0.04
2010	8%	0.41	3.22	-		15%	0.57	3.54	-
2011	4%	0.50	3.22	-		9%	2.99	3.64	-
2012	3%	0.59	2.45	1		3%	0.07	1.48	0.11
2013	3%	0.39	1.59	1		6%	0.16	2.00	0.04
2014	2%	0.27	1.96	-		6%	0.13	1.84	-
2015	2%	0.29	1.87	-		6%	0.11	1.79	-

Source: Table 4.2.4, Author's computation.

Comments:

The company recorded the lowest net profit margin of 0.6% in the year 2003 and maintained a low level between 1% and 5% for most of the years. But there was a

tremendous increase of 18% and 17% net profit margin in 2008 and 2009 respectively. However, despite the low net profit margin, the company maintained an impressive net income to dividend payout ratio for the most of the period.



The years, 2005 and 2008 indicate that the company can pay ₦5.45kobo and ₦5.56 dividend to the ordinary shareholders from the amount of the net profit of the year. This was not the case for the operating cash flow to dividend payout ratio. The period under review witnessed a significant drop from 1.74 in 1994 on operating cash to dividend payout ratio to -0.09 in 1995 and maintained below 0.5 throughout the other years under review.

Both the interest cover and sufficiency ratio indicate that the solvency state of the firm may be in doubt as none of the relevance years under review meet up to the ideal standard of 5 times. Though, the sufficiency ratio indicated a better solvency situation when compared with the interest cover.

Test of Hypothesis

In hypothesis, we seek to determine if there is a significant difference between critical need for cash and acid test

ratios as firm liquidity measures. Data from the firm Annual report was used in an independent t-test statistic to test hypothesis one at 95% confidence interval.

Step one: Statement of the hypothesis in both null and alternate forms

H₀: There is no significant difference between critical need for cash and acid test ratios as firm liquidity measures.

H₁: There is a significant difference critical need for cash and acid test ratios as firm liquidity measures.

Step Two: Statement of the decision criteria

In accepting or rejecting the null hypothesis, the decision rule is to accept the null hypothesis if the significance (2 tailed) of the t-statistics is > 0.05. Otherwise, the null hypothesis is rejected and the alternate hypothesis accepted accordingly.

Step Three: Presentation of the Independent Samples T-Test results for the test hypothesis

Table 4.8: Independent Samples T-Test Result for Test of Hypothesis

	Levene's Test for Equality of Variances		t-test for Equality of Means					
	F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	
NIDR	Equal variances assumed	2.930	.090	.699	98	.486	18.82456	26.91317
	Equal variances not assumed			.920	69.384	.361	18.82456	20.46753

Source: Author's SPSS 17.0 Output, 2016

Step Four: Decision

The decision rule is to accept the null hypothesis if the significance (2 tailed) of the t-statistics is > 0.05 otherwise, the null hypothesis is rejected and the alternate hypothesis accepted accordingly. Table 4.8 indicates a t-Statistics of .699 with the probability of .486 > 0.05. Therefore, we accept the null hypothesis and conclude that there is no significant difference between critical need for cash and acid test ratios as firm liquidity measures. The implication

is that information from statement of financial position (current assets - inventory) can be equated with critical need ration as a liquidity measure.

2 Discussion of the finding

The independent t-test analyses result arising from the study indicate that there is no significant difference between critical need and acid test ratios as firm's liquidity measures. This result is in contrast with Sulayman (2014) whose finding indicate that the mean differences between



critical need cash coverage ratio and quick ratio is (0.3333) towards critical need cash coverage ratio, the significance value of the t statistic ($t = 3.218$) is (Sig = 0.002) less than 0.05, which means that the difference is significant. The implication is that acid test ratio which uses information from the Statement of Financial Position i.e (total current assets – inventory/ total current liabilities) is a reliable liquidity measure.

5. Conclusion

The findings of this study indicate that there is no significant difference between critical need and acid test ratios as firm's liquidity measures. and there is effectively used of acid test ratio as a firm liquidity measure.

5.3 Recommendations

Based on the findings of this study, the researchers made the following recommendations:

There is need for the directors to make good use of critical need and acid test ratios as firm's liquidity measures. Because, there is no significant difference between critical need and acid test ratios as firm's liquidity measures. This will harmonize the trade- off between the quest for profit making and cash generation.

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