Effect of Cash Accounting Practice on Performance of Commercial Banks in Kenya

Wilson Aggrey Ogama Kitere, Gregory Simiyu & Elizabeth Nambuswa Makokha Jomo Kenyatta University of Agriculture and Technology

wilkitere@gmail.com

Abstract

The purpose of the study was to analyze the effect of cash accounting practice on performance of commercial banks in Kenya. The study was based on Portfolio theory of Cash Management, Cash Management theory, Transaction Cost theory, Free Cash Flow theory and pecking order theory. The study used mixed research design which involves collecting and analyzing both qualitative and quantitative data. The target population of the study comprised of the 6913 employees in management and supervisory cadres in commercial banks in Kenya. Stratified sampling technique was used. Data collection instruments were both structured and unstructured questionnaires. The data was analyzed using Statistical Program for Social Sciences (SPSS) windows version 21. Multiple linear regression analysis was carried out to analyze the effect of cash accounting practice on performance of commercial banks in Kenya. Pilot test was carried out for validity and reliability of research instruments. Regression analysis was carried out to test the significant levels of one variable to the other in the study. ANOVA was carried out to test the hypotheses of the study. The study is significant to the banking sector and the government of Kenya in formulation of different financial decisions and in policy making. The results of the study indicate that cash accounting practice has a significant positive effect on performance of Commercial banks Kenya. The findings reveal that commercial banks in Kenya carry out cash accounting practice. Cash accounting practice was found to be positively related to performance of commercial banks in Kenya. The study recommends that commercial banks in Kenya should a carry out cash accounting practice to evaluate cash performance in these commercial banks. The firms should have plans for their cash needs and requirements during a projected period, particularly one year and above to enable them achieve their set goals in advance and reduce the cost of capital and increase the returns of excess cash. They should also make sure that the banks' cash funds are in the optimal utilization and there are no extra borrowings. They should also maintain the minimum liquidity requirement as stated by the Central Bank of Kenya as both illiquidity and excess liquidity are financial diseases that can easily erode the profit base of a bank as they affect banks' attempt to attain high profitability level.

Key Words: Cash Accounting, Performance