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CASH HOLDINGS AS A DETERMINANT OF CORPORATE LIQUIDITY –
A CASE OF ZIMBABWE’S CASH CRISIS.

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ABSTRACT

Zimbabwe has faced the multicurrency regime since 2008 but then the adoption of this system left the country under crippling liquidity crisis with a number of listed companies experiencing working capital challenges and low liquidity levels in this environment. The study aimed at determining the extent to which cash holdings affect corporate liquidity as well as the factors affecting cash holding levels in the prevailing financial crisis in Zimbabwe. Using a sample of 34 non-financial firms listed on the Zimbabwe stock exchange, the study empirically investigated the factors affecting cash holdings for periods 2013 to 2016. Financial data was collected from secondary sources (company annual reports) and analysed through the use of descriptive statistics, Pearson correlation, regression analysis and ANOVA. From the results it is notable that the cash crisis affects cash holding policies of the firms significantly. The results suggest that the cash crisis affect the relationship of cash holdings and net working capital with corporate liquidity. Furthermore, firm size acid test ratio, cash flow variability, growth opportunities, current ratio, net working capital were found to be the major determinants affecting cash holding level for the 4-year period from 2013 to 2016. The significant variables to cash holdings for the same period were found to be return on assets, debt structure, payable payment period, receivables collection period, inventory days, inventory turnover, asset turnover, inflation and GDP. Results of this study provide valuable information to government decision makers to understand the impact of both firm specific and external factors affecting cash holdings, investors seeking to invest in Zimbabwe and also raids corporate finance managers on factors affecting cash holdings and policy decisions to implement to hedge against economic risk and ensure the longevity of a firm. Furthermore, it is suggested that more macroeconomic variables can be explored to determine their impact on cash holding level rather than the commonly used firm specific determinants.