Assets and Reported Profits of Oil and Gas Companies in Nigeria

Iwene, Samuel Ojo
Accounting Department, Novena University, Ogume,
Delta State Nigeria
samueliwene@gmail.com; siwene@novenauniversity.edu.ng

Edori D. S.
Business Department, C. S. S. Mgbuoshimini, Port Harcourt,
Rivers State, Nigeria
Corresponding author's Email: edssdern@yahoo.com
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Abstract

Assets are needed in any organisation that is into profit making, hence this study accessed how assets and reported profits relates in the Nigeria's companies that are quoted in the oil and gas industry. Using the "ex-post facto" method on the population and five sampled. "Secondary data" were collected from the financial statement of the sampled companies. Analyses on the secondary data were made using the linear regression method. The findings show that non-current assets have no significant relationship with both profits before tax and profit for the year with significant values of 0.638 and 0.882 respectively. The study also found that inventory has significant relationship with profit before tax but insignificant relationship with profit for the year with probability values of 0.05 and 0.550 respectively. Recommendations made are that management of the quoted oil and gas companies in Nigeria should investigate why the insignificant relationship and put policies in place to ensure that the positive relationship becomes significant. The study concluded that a assets, on the average, has no significant relationship with reported profits.

Key words: *Non-Current Assets, Inventory, Profit Before Tax, Profit for The Year*

Introduction

1.1 Background to the Study

The Nigerian oil and gas industry stands as the nation's economy cornerstone and plays a fundamental role in its socio-economic development and global energy landscape. Quoted oil and gas companies, serve as key players within this dynamic sector, wielding significant influence over the country's economic trajectory and investor sentiment. Understanding the interplay between these companies' assets and their reported profits provides invaluable insights into the sector's performance, financial health, and broader implications for Nigeria's economy.

Many firms in Nigeria have ceased operation as a result of poor profitability return. Accordingly, Poor performance has caused many companies in Nigeria to stop their operations. And there is no gainsaying that many firms are still winding up as a result of poor performance

and it will not end as far as profits are not made. Failure of some manufacturing firms to poor assets utilization by management which is a factor that is significant. The problem of liquidity, inability to meet up obligations as at when due (insolvency), inadequate assets utilization among others are responsible for poor performance which includes the profitability of such firms. Against this backdrop, analyzing the assets and reported profits of quoted oil and gas companies in Nigeria unveils a multifaceted narrative encompassing industry dynamics, regulatory frameworks, market fluctuations, and geopolitical influences. These companies' asset portfolios, comprising exploration and production assets, refining facilities, distribution networks, and strategic investments, reflect their operational footprint and growth strategies within Nigeria's energy landscape. Moreover, examining the reported profits of these companies offers crucial insights into their financial performance, profitability drivers, and management effectiveness. Factors such as oil prices, production volumes, operational efficiencies, taxation policies, and regulatory compliance exert profound impacts on their bottom-line results, shaping investor perceptions and market dynamics.

Assets and reported profits are the variables of the study hence ascertaining their relationship is what propelled this study.

1.2 Research Hypotheses

Looking at the study purposes, four hypotheses in respect of the oil and gas companies quoted in Nigeria were formulated as follows:

Ho_1. Significant relationship does not exist between non-current assets and profit before tax.

Ho_2. Significant relationship does not exist between non-current assets and profit for the year.

Ho_3. Significant relationship does not exist between inventory and profit before tax.

Ho_4. Significant relationship does not exist between inventory and profit for the yea.igerian

2. Conceptual Framework

2.1 Concept of Assets

Assets are the main economic resources in any business organization hence the need for its effective and efficient control and management cannot be overemphasized. Every organization invests heavily on assets because it plays a crucial part in the survival and continuous existence of any organization. Assets are seen to be an entity’s controlled resources resulting from events that are past but economic future benefits flow to the entity are expected. Therefore, the recognition of an asset in financial statement can be done by an entity even if they are not the owners of the asset. This means that the asset is not defined in terms of ownership but in terms of control. Generally control is evidenced via ownership, but it may not be in all cases. Aside meeting the definition, before recognising an asset in the financial statement, IASB framework gave the following advice as recognition criteria an entity has to meet:

i. The economic benefits inflow to entity in probable and
ii. The measurement of cost/value must be reliable.

2.2 Non-Current Assets

Non-current assets are typically held for productive use within a company and include items such as long-term investments, intangible assets, and PPE (property, plant, and equipment). Assets that are not held for sale during an entity's regular business operations are known as non-current assets. They are long term investment of companies and their full value will be unrealized in one accounting year. Purba and Bimantara (2019) defined non-current assets as assets that are concrete or real (physically visible). It includes investments of the company in other business entities, intellectual property such as patents, and PPE (Kenton 2020). They are tangible assets that are not expected to be turned to cash within a year, or an accounting period. There useful life span over a period of one year and are described as items of PPE. Non-current assets are capitalized and not expensed. That is, it is shown on the "statement of financial position" of companies and not shown in profit or loss statement as expenses as a result when not accounted for accurately either by omission or commission; it can lead to failure of audit. The "non-current asset" value is allocated to the asset useful life. That is to say they are depreciated or they depreciate over time. Lane (2019) asserts that if non-current assets are not used, stolen, not accounted for accurately, and not maintained properly, the impact on the business will be negative and can be enormous but if properly and well managed, and also accounted for properly, non-current assets considerably contributes to business growth, compliance, profitability and productivity.

2.3 Inventory

The term "inventory" refers to both the finished goods (goods available for sale) and the raw materials that are used for the finished goods. They are referred to as assets that held for resale or use in the production of goods or services. Inventory is the stock of goods a business maintain in anticipation for demand in the future. Inventory management plays an important part in every firm because inventory system that is ineffective will result in customer loss, loss of sales, and also profit loss as the ultimate. Edori and Ohaka (2018) assert that inventory is one of the most as well as largest current assets valuable to business entities that are into manufacturing or trading. In the normal course, they are held assets purely for sale, in the process of production; or in the form of material or supply that will be consumed in the process of production service rendering. Inventory can represent up to 40% of an organizations total capital, 33% of firms assets, and 90% working capital (Kakeeto et al, 2017). In India's majority companies, current assets most significant parts are constituted by inventories (George, 2019). The reason for this is that firms maintains size of inventories that are large, an amount of funds considerable that is needed to be committed to inventories. The policy of inventory will maximize the value of a firm in a given point in which marginal (incremental) return for investment inventory equals to the marginal (incremental) cost of finance used in funding it.

There are possibilities of problem arising when inventory is not correctly tracked as it may result to wastefulness and extra cost. Holding large inventories mean tying down resources and increasing costs. Excessive inventories on one hand can put a burden that will be heavy on business scarce resources but on the other hand insufficient inventories can end up in reduced sales, delaying of customers etc. (Pristine, 2018). A lot of space is consumed as a result of excess inventory, which can lead to increased spoilage possibility, financial burden and loss, but inventory that is insufficient has the potential to interrupt the operation of the business. Inventory must be properly managed in order to ensure that raw materials supply is continuous

for the avoidance of interruptions during the production process, maintenance of stock (raw materials) sufficient during scarcity and during price change anticipation, carrying cost minimisation and timing and keeping of investment in inventories at optimum level.

2.4 Reported Profits

Investments are undertaken with a careful motive of earning returns on such investment. Therefore one of the company's main goals is making a profit that is good. Kurawa (2009) put it that profit cash backing enables management to distribute dividend to those that invest on it. A company must earn profit for it to survive and experience growth overtime. Profit is the ultimate output of a business entity and such business entity will have no future except it makes sufficient profit. It is the balance of earnings from revenue generated by a company after expenses incurred has been deducted, that is, the difference in revenues and expenses for a period specified, normally one year. Horton (2019) opined that in spite of size or scope of a business concerns and operations, to make profit remains its objective. The income statement is where profit is always reported, and this provides more detail on company's income and expenses incurs over a given time (Williams, 2020). Whether a business entity is owned privately or owned publicly, profit is seen as its life wire.

Reported profits refer to the net income or earnings that a company declares on its financial statements for a particular period. They are the financial gains that a company declares on its income statement. These profits represent revenues earned minus the expenses incurred during a specific accounting period, typically a quarter or a year. Reported profits are crucial for stakeholders, investors, and analysts as they provide insights in respect to the reporting company's financial performance and the company's capability to generating returns for its shareholders. However, it's essential to note that reported profits can sometimes be subject to adjustments or manipulation due to accounting practices or management decisions. These profits are arrived at after removing all expenses from the total revenues of the reporting entity. The income statement shows various profit figures, hence the understanding what line items represents is important (Williams, 2020). Various profits reported in the statement of comprehensive income included, gross profit, operating profit, profit before tax and finally the net profit (profit for the year or profit after tax).

2.5 Profit before Tax (PBT)

PBT also known as pre-tax profit, measures a company's profitability ant shows its earnings before accounting for taxes. It represents the company's operating profit minus any interest expenses but before deducting taxes. Profit before tax (PBT) is referred to as financial metric and represents the amount of money companies earn before it pays taxes. In calculating it, all expenses are subtracted from total revenue, excluding taxes. These expenses typically include the cost of goods sold (COGS), operating expenses, depreciation, and other non-operating expenses. PBT is a crucial indicator in terms of operational efficiency as well as profitability of a business concern before the impact of taxes.

2.6 Profit for the Year / Profit after Tax (PAT)

PAT is the net income of a company after accounting for taxes. It's calculated by subtracting the total tax expenses from the profit before tax. The tax expenses deducted comprises of current income tax and deferred tax expenses. PAT represents the actual earnings available to

shareholders after all expenses, including taxes, have been deducted. Profit for the year, also referred to as "net profit" or "net income", is the last bottom-line value (figure) that represents the company's earnings after all expenses are deducted from its total revenues for a specific accounting period, typically a fiscal year. It is the total sum of money that the company has earned after all expenses incurred have been accounted for, and it is often distributed to shareholders as dividends or reinvested into the business.

While PBT provides insight into a company's profitability from its core operations, PAT gives a clearer picture of the bottom-line performance available to shareholders. Both metrics are important for investors, shareholders, analysts and other stakeholders in assessing a company's financial health and profitability.

3. Empirical Review

Farooq (2019) undertook a study looking at how inventory impacts profitability. The study was conducted in Pakistan on firms in the non-financial sector. Data used was from 2006 – 2015 and 79 companies were selected. The variables of the study were ROA, ROE, NPM and ITO. The result showed that ROA is unaffected by the change in ITO, ITO is insignificant and does not affect ROE and also NPM is not dependent on ITO.

Ejoh (2017) looked into the association between manufacturing companies listed on the Nigerian Stock Exchange between 2010 and 2016 and their claimed profits and circulating assets. Cash, inventory, and receivables are examples of circulating assets or current operational assets; gross profit (GP) and net profit (NP) are used for profit. The models for evaluating formulated hypotheses were described as univariate regressions. According to the results cash has positive but negligible association with profitability, relationship between accounts receivables and net profits is negatively significant while firm profitability and inventory levels relationship is significant and positive.

In an empirical study by Okobo et al (2017) on non-current asset investments' effect on particular Nigerian banks' financial results. The study focused on the effects of additions, impairments, and maintenance and repair costs on banks' return on assets (ROA). Data were gathered from financial statements of eight chosen Deposit Money Banks between 2002 and 2021 using an ex post facto study design. Multiple regressions were employed for the data analysis. The study's conclusions demonstrate that the cost of upkeep and repairs significantly and negatively affects banks' return on assets. The study's findings also showed a statistically significant and negative correlation between banks' return on assets (ROA) and further non-current asset acquisition. Additionally, the analysis demonstrates a negative and noteworthy correlation between return on asset (ROA) and impairments of non-current assets.

Thevaruban (2016) empirically undertook a study on cash impact on financial performance base the study on Sri Lankan manufacturing firms from 2010/11 to 2014/15. Using cash and cash turnover ratios as cash management proxies and ROE and ROA as financial performance proxies based the study on secondary data. Using descriptive and inferential statistics (correlation and regression analysis) found that Cash Ratio has negative impact with ROE and ROA. However, Cash Turnover Ratio was not significant with ROE and ROA.

Mawih (2014) did a study on effects of assets structure on the financial performance: evidence from Sultanate of Oman. The main objective of this study was to examine the effects of assets structure (fixed assets and current assets) on the financial performance of some manufacturing companies listed on Muscat Securities Market (MSM). The methodology of the study was content analysis of annual reports of a sample of 28 out of 70 (40%) companies for the period 2008-2012. The assets structure was measured by fixed assets turnover and current assets turnover while the financial performance is measured by return on assets (ROA) and return on equity (ROE). The overall result for the study was that the structure of assets does not have a strong impact on profitability in terms of ROE. This result means that if the structure of assets is changing then the ROA will not change. Another result of the study indicated that only the fixed assets have impact on ROE unlike ROA. Another result of the study suggests that the effect of asset structure has an impact on ROE only in petro-chemical sector.

Mawih (2014) conducted a study that investigated the impact of asset structure on the financial performance in the Sultanate of Oman. The primary aim of the research was to assess how non-current assets and current assets affect the financial performance of selected manufacturing companies listed on the Muscat Securities Market (MSM). The study utilized content analysis of annual reports from a subset of 28 out of 70 (40%) companies over the period 2008-2012. The asset structure was evaluated using non-current assets turnover and current assets turnover, while financial performance was assessed using return on assets (ROA) and return on equity (ROE). The study's overall finding was that asset structure does not significantly affect profitability as measured by ROE. Additionally, the study revealed that only non-current assets affect ROE, unlike ROA.

In their 2014 study, Olatunji and Adegbite examined how investment in non-current assets impacts the profitability of selected banks in Nigeria. They used data from the annual reports of these banks and employed Pearson product moment correlation and multiple regression models to analyze the relationship between the dependent variable (Net Profit) and independent variable (such as building, land, etc). The study's results indicated a significant relationship between the dependent variable (Net profit) and the independent variables (building, information communication and technology, machinery, household, land, and fixtures and fittings), with an adjusted R^2 of 96%. The study ultimately concluded that investment in non-current assets has a positive and strong statistical impact on the profitability of the banking sector in Nigeria.

In the study of Okwo, et al. (2012), they utilized data from the Nigerian Brewery industry spanning eleven years to determine the correlation between non-current asset investment and the reported profits of Nigerian breweries. They utilized a regression statistical model for their analysis. The study found a positive association between investment in non-current assets and the operational profits of chosen brewery companies in Nigeria, although the outcome did not hold statistical significance. Ultimately, the study concluded that there is no substantial positive effect of fixed asset investment on the profitability of brewery firms in Nigeria.

4. Knowledge Gap

From the empirical analysis, there seems to be substantial content and evidence linking assets and profitability outcomes. Based on the empirical review, there is no known study to this study

that has studied asset and reported profit using oil and gas companies that are quoted in Nigeria and covering the thirteen years period from 2010-2022 This study will therefore address these gaps as it will extend its enquiry on the relationship between assets and reported profits covering a 13 years period from 2010 – 2022.

5. Methodology

Methodology refers to an approach used that is systematic and also structured in conducting a study or enquiry. It covers the various techniques, methods, and procedures employed in the collection, and in the analyses of data, and include the underlying philosophical assumptions that guide the study. The ex-post facto design was adopted because the data used are past data. The population comprises of all oil and gas companies quoted in Nigeria. Using purposive sampling method, five were selected. The study used linear regression technique to analyse the data gathered. Data were sourced from selected firms' financial statements from 2010 – 2022. The five companies are Eterna Plc, MRS Plc, Oando Plc, Conoil Plc, and Ardova Plc

6. Test of Hypotheses

Ho_1. Non-current assets and profit before tax has no significance relationship in quoted oil and gas companies in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.059[a]	.004	-.012	19566003.43792

a. Predictors: (Constant), NCA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85533774581312.000	1	85533774581312.000	.223	.638[b]
	Residual	24118194903560164.000	63	382828490532701.000		
	Total	24203728678141476.000	64			

a. Dependent Variable: PBT

b. Predictors: (Constant), NCA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	840940.830	3341327.021		.252	.802
	NCA	-.042	.090	-.059	-.473	.638

From the Model Summary, R (correlation coefficient), indicative of the strength and direction of the relationship between the predictor variable (NCA) and the dependent variable (PBT).

Here, it is very low (0.059), suggestive of a linear relationship that is weak. R^2 value (0.004) represents the ratio of the discrepancy in PBT that is expected from NCA. Any value that is close to zero suggests that the variation in PBT is not explained well by NCA. The ANOVA result showed the model overall fitness. The p-value associated with the F-statistic (0.638) is quite high, indicating that the model as a whole is not statistically significant.

From the Coefficients table, these coefficients represent the regression line slope and intercept. The regression line intercept, indicating the estimated value of PBT when NCA is zero. In this case, it is 840940.830, but with a high standard error (3341327.021), making it statistically unreliable. The slope of the regression line is, indicating change in PBT for a one-unit change in NCA. It is negative (-0.042), suggesting a decrease in PBT as NCA increases, but it is not statistically significant (p = 0.638).

Overall, based on these results, it seems that the model never provide a fit good for predicting PBT based on NCA, as evidenced by the low R Square value, non-significant p-values, and large standard error of the estimate.

H_{O2}. Non-current assets and profit for the year has no significance relationship in quoted oil and gas companies in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.019[a]	.000	-.016	19987627.84656

a. Predictors: (Constant), NCA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8847502178136.000	1	8847502178136.000	.022	.882[b]
	Residual	25168831816746416.000	63	399505266932482.800		
	Total	25177679318924552.000	64			

a. Dependent Variable: PFTY

b. Predictors: (Constant), NCA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	856887.513	3413328.696		.251	.803

	NCA	-.014	.092	-.019	-.149	.882

a. Dependent Variable: PFTY

From the model summary, R, which is the correlation coefficient, indicates the potency as well as direction as in respect of the relationship between NCA and the PFTY. In this case, it is very low (0.019), which suggests a linear relationship that is weak. R^2 value (0.000) stands for the proportion of variance in PFTY that can be predicted from NCA. It is extremely low, suggesting that the variation in PFTY is not explained by NCA. The ANOVA (Analysis of Variance) is use in assessing the model's overall fitness. Looking at the p-value's association with F-statistic (0.882), it is seen to be high; this is an indication that the model as a whole is not significant

Ho_3. Inventory and profit before tax has no significance relationship in quoted oil and gas companies in Nigeria

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.245[a]	.060	.045	19005065.37601

a. Predictors: (Constant), Inventory

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14486005515 10504.000	1	14486005515 10504.000	4.011	.050[b]
	Residual	22755128126 630972.000	63	36119250994 6523.400		
	Total	24203728678 141476.000	64			

a. Dependent Variable: PBT

b. Predictors: (Constant), Inventory

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5038366.584	3537788.248		1.424	.159
	Inventory	-.782	.390	-.245	-2.003	.050

a. Dependent Variable: PBT

From the Model Summary, the value of R-square is 0.060 and indicates that about 6.0% of the discrepancy in profit before tax can be explained or caused by inventory. The adjusted R-square adjusts for the number of predictors in the model, providing a slightly lower value than R^2. The

estimate of the standard error (approximately 19005065.37601) indicates the average amount that the dependent variable's actual values deviate from the predicted values by the regression equation. The F-statistic in the ANOVA tests if the regression model is significant as a whole. The F(1, 63) = 4.011 with a significance level of 0.050, suggesting that the regression model may be significant. From the coefficients table, the coefficient for the constant term (intercept) is 5038366.584. This means that when the inventory is zero, the estimated profit before tax is approximately 5038366.584. The "Inventory" coefficient is -0.782. This indicates that for each unit increase in Inventory, the profit before tax is expected to decrease by 0.782 units. The standard error of the coefficient estimates is provided under "Std. Error." Here, the t-value for Inventory is -2.003 with P-value of 0.050, suggesting that the Inventory variable may be significant in predicting Profit before Tax.

In conclusion, the model suggests that Inventory has a statistically significant but relatively weak negative effect on Profit before Tax. However, considering the low R-square value, other factors not included in the model might be influencing Profit before Tax significantly.

H_{O4}. Inventory and profit for the year has no significance relationship in quoted oil and gas companies in Nigeria

Model Summary

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.076[a]	.006	-.010	19933947.93642

a. Predictors: (Constant), Inventory

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	143855658016416.000	1	143855658016416.000	.362	.550[b]
	Residual	25033823660908136.000	63	397362280331875.200		
	Total	25177679318924552.000	64			

a. Dependent Variable: PFTY

b. Predictors: (Constant), Inventory

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2172575.684	3710699.508		.585	.560
	Inventory	-.246	.409	-.076	-.602	.550

a. Dependent Variable: PFTY

The Model Summary shows R-square value to be 0.006 indicating that only around 0.6% of the difference in PFTY (Profit for the Year) can be explained by the independent variable (Inventory). However, the adjusted R^2 is negative, presenting that the model is probably not a good fit for the data. The estimate standard error is approximately 19933947.93642, suggesting

the average amount that the dependent variable's actual values deviate from the predicted values by the regression equation. The ANOVA is used in testing particularly the regression model significance. F (1, 63) = 0.362 with a significance level of 0.550, which is an indication of insignificant regression model.

The coefficient for the constant term (intercept) is 2172575.684. This means that when the inventory is zero, the estimated profit for the year is approximately 2172575.684. The coefficient for the "Inventory" variable is -0.246. The indication is that when inventory increase by a unit, it is expected that profit for the year will decrease by 0.246 units. The standard error of the coefficient estimates is provided under "Std. Error". Here, inventory's t-value is -0.602 with 0.550 p-value suggesting that the Inventory variable is not statistically significant in predicting Profit for the Year.

8. Summary

i. Non-current assets and profit before tax has no significance relationship in quoted oil and gas companies in Nigeria
ii. Non-current assets and profit for the year has no significance relationship in quoted oil and gas companies in Nigeria
iii. Inventory and profit before tax has no significance relationship in quoted oil and gas companies in Nigeria
iv. Inventory and profit for the year has no significance relationship in quoted oil and gas companies in Nigeria

9. Conclusion and recommendations

The result of the four hypotheses tested formed the bases for the conclusion. The conclusion is made on asset and reported profits which are the variables of the study. Out of the four hypotheses tested, three were accepted while one will rejected showing a mixed result.

The study advanced the following recommendations;

i. Evaluate how effectively non-current assets are being utilized. If they are not generating sufficient revenue or contributing to production, consider selling or leasing them out to generate income or reduce expenses.
ii. Look for ways to enhance operational efficiency to maximize the output from non-current assets. This could involve optimizing production processes, reducing downtime, or streamlining workflows.
iii. While Inventory has a statistically significant effect, its impact is relatively weak. It might still be worth exploring other factors that could contribute more substantially to Profit before tax.
iv. Considering the low explanatory power of the models, it is important to investigate and incorporate additional relevant factors that could better explain variations in profitability. This might involve gathering more data or considering other variables that could impact profit outcomes

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