ASSESSMENT FINANCIAL PERFORMANCE AND ANALYSIS OF BGI BREWERY FACTORY (2016-2018)

Wolkite University

We Strive for Wisdom!

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

A RESEARCH PROPOSAL SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE FOR PARTIAL FULFILLMENT OF BACHELOR OF ART (BA) DEGREE IN ACCOUINTING AND FINANCE

BY: NIGIST TESFAYE

ADVISOR; Mr. DAGNACHEW A. (MSc)

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ABSTRACT

This study entitled 'Assessment of Financial Performance and Analysis of BGI Brewery Factory' is conducted on BGI Ethiopia PLC. Comparative financial analysis approach is used to analyze the data. Three years audited financial reports from 2016-2018 of the company's were taken for analysis purpose.The researcher has assessed different researches worked on financial performances of brewery factories in Ethiopia, but there are inadequate researches which show the real financial performance of BGI Ethiopia PLC. As a result the researcher has tried to assess the exact financial performance of BGI Ethiopia PLC by using different accounting techniques. In addition to assessing the financial performance of the industry the researcher has identified problems related to the financial performance of the industry such as insufficient profit, cash shortage, loan repayment, and shortage of inventory etc. This paper has used quantitative research approach to examine. The researcher has also used different accounting tools such as ratio analysis; including liquidity ratio, debt ratio, profitability ratio and asset management ratio, horizontal analysis, and vertical analysis. The analysis is presented in the form of tables, percentages, and graphs. Finally, Secondary data sources are used by the researcher.

ACRONYMS

BGI = Brasseries et Glaciers Internationals

COGS= Cost of Goods sold

DER=Debt to Equity Ratio

EBIT=Earnings before interest and tax

FAT= Fixed asset turnover

LIFO=Last in first out

NFA=Net fixed asset

NI=Net income

NS=Net sale

ROA=Return on Asset

ROD=Return on Deposit

ROE=Return on Equity

ROEC=Return on equity capital

PLC =private limited company

Table of Contents

Acknowledgment iii

ABSTRACT iv

ACRONYMS v

CHAPTER ONE 9

1. INTRODUCTION 9

1.1 Background of the Study 9

1.2 Statement of the Problem 10

1.3 Objectives of the Study 11

1.3.1 General Objectives 11

1.3.2 Specific Objectives 11

1.4 Significance of the Study 11

1.5 Scope of the study 12

1.6 Limitation of the study 12

1.7 Organization of the Paper 12

CHAPTER TWO 13

2. LITERATURE REVIEW 13

2.1 FINANCAIL PERFORMANCE 13

2.1.1 Definitions of Important Terms 13

2.1.2 Important Concepts 14

2.1.2.1 Financial Statement Analysis 14

2.1.2.2 Types of Financial Analysis 14

2.1.2.3 Role of Financial Analysis 15

2.1.2.4 Users of financial statements 16

2.1.2.5 TECHNIQUES/TOOLS OF FINANCIAL PERFORMANCE ANALYSIS: 17
2.1.2.5.1 Ratio Analysis 18
2.1.2.5.2 Common-Size Financial Analysis 23
2.1.2.5.3 Trend Analysis 23
2.1.2.6 Advantages of Financial Statement Analysis: 23
2.1.2.7 Limitations of Financial Statement Analysis: 23
2.2. Empirical review 24
CHAPTER THREE 26
3. Research Methodology and Design 26
3.1 Area of the Study 26
3.2. Research Approach 26
3.3 The Research Design 26
3.4 Data Source and Collection Methods 27
3.5 Method of Data Analysis 27
3.6 Methods of Data Presentation 27
CHAPTER FOUR 28
4. Data analysis, Interpretation and presentation 28
4.1 Liquidity Ratios 28
4.1.1 Current Ratio 28
4.1.2 Quick Ratio (Acid Test) 29
4.1.3 Cash Ratio 29
4.2 Asset Turnover Ratio (Activity Ratio) 30
4.2.1 Receivables Turnover 30
4.2.2 Inventory Turnover/Stock Turnover 31
4.2.3 Fixed Assets Turnover Ratio 31

4.3 Profitability Ratio 32

4.3.1 Gross profit Ratio 32

4.3.2 Net Profit Ratio 32

4.3.3. Return on Equity Capital (ROEC) 33

4.3.4 Return on Asset (Investment) 33

4.4 Financial Leverage Ratio (insolvency) 34

4.4.1 Debt to Equity Ratio 34

4.4.2 Debt Ratio 34

4.4.3 Time Interest Earned 35

CHAPTER FIVE 48

5. Summary of Finding, Conclusions and Recommendation 48

5.1 Summary of Findings 48

5.2 Conclusion 49

5.3 Recommendation 50

Reference 3

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Beer is the most popular industrial alcoholic beverage in Ethiopia with lager being the most consumed types of beer. In the rural sector the home –brew tella is still dominant. Beer has been widely consumed in Ethiopia for a while and as a result the country enjoys a variety of beer brands. Historically the most popular of these brands is St. George Beer (named after the country's patron saint) which is the country's oldest brewery, established in 1922. Brands like Meta and Bedele are also older brands in Ethiopia but have since been acquired by foreign companies and re-branded. (En. Wikipedia.org)

Beer in Africa, especially lager, is produced commercially in most African countries, and varieties of beer are also made by indigenous people. Many countries have standardized beer bottle sizes, which are cleaned and re-used, and so when buying beer at a store often people must pay a deposit on the bottle as well as the price of the beer. South Africa consumes the most beer of any African country, with an average of 60 liters of beer consumed per person annually. (En. Wikipedia.org)

Beer is currently the highest consumed alcoholic beverage in the world. The bigger beer manufacturer have surprisingly reported strong growth and earning in 2018. Anheuser –busch in Bev, based in Belgium, has surpassed growth expectation compared to its competitor and consequently sits atop the global beer market, making it one of the largest beer companies in the world. (En.Wikipedia.org)

BGI ETHIOPIA PLC has been operating in Ethiopia since 1998 and engaged in the production and distribution of beer, wine and beverages. BGI owns five breweries including the ionic St. George brewery (established 1922, and in December 1988 became part of BGI Ethiopia). The Kombolcha brewery (established in 1998, and it is the first brewery built from the ground up by BGI), The Hawassa (established inaugurated in 2011, this is the largest brewery built by BGI Ethiopia), Zebidar brewery (established in 2012 by Jemar Hulegeb Industry share company, it means a share company established by prominent local

businessmen and women. The Belgian brewing UNIBRA (the owner of the SKOL brand) and started operation in 2017. In 2018 Zebidar brewery and Zebidar beer joined the BGI brand family when the company acquired the share of UNIBRA). Raya brewery, which is established in 2012 by Raya Share Company and BGI Ethiopia (60%-40% share structure) and started operation in 2016, is also a member of BGI Ethiopia. In 2017 BGI Ethiopia managed to acquire all individual share and assumed full ownership of Raya brewery). (BGI Ethiopia.com)

BGI Ethiopia PLC also owns and manages the Castel winery and vineyard located in the town of Zeway. BGI Ethiopia products are distributed by partner agents in all corners of the country and export internationally. (BGI Ethiopia.com)

BGI Ethiopia has donated 3.5 million birr to support the fight against corona virus. (BGI Ethiopia.com)

1.2 Statement of the Problem

Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the feasibility, stability and profitability of a business, sub – business or project. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. Those reports are usually presented to top management as one of their bases in making business decisions such as to continue or discontinue its main operation or part of its business, make or purchase certain materials in the manufacturing of its product, Acquire or rent/ lease certain machineries and equipment in the production of its goods, make decisions regarding investing or lending capital and other decisions that allow management to make an informed selection on various alternatives in the conduct of its business. (En. Wikipedia.org)

Generally, when the researcher has assessed different researches worked on financial performances of Brewery factories in Ethiopia there are scanty of researches that show the real financial performance of BGI Ethiopia. As a result the researcher has assessed the exact financial performance of BGI Ethiopia by using different accounting techniques. In addition to assessing the financial performance of the industry the researcher has tried to find out any problem related to the financial performance of the industry such as insufficient profit, cash shortage, loan repayment and shortage of inventory etc. Thus in order to know the exact

performance of BGI Ethiopia related to finance the following three questions are needed to be carefully answered:-

1) Is BGI Ethiopia able to earn income and sustain growth in both short term and long term? (Profitability).
2) Up to what extent BGI Ethiopia is able to pay the obligation to creditors and other third parties in the long term? (Insolvency).
3) Is BGI Ethiopia able to maintain in positive cash flow, while satisfying immediate obligations? (Liquidity).

1.3 Objectives of the Study

1.3.1 General Objectives

The overall objective of this study is to assess the financial performance and evaluate financial healthiness of BGI Ethiopia by using different analytical tools.

1.3.2 Specific Objectives

A careful review of the main objectives leads to the development of the following specific objectives.

- To evaluate BGI Ethiopia profitability.
- To measure the short term liquidity position of BGI Ethiopia.
- To analyse the long term liquidity position of BGI Ethiopia.
- To find out the attractiveness of BGI Ethiopia as investment by examining the ability to meet the current and expected financial obligation.

1.4 Significance of the Study

The significance of this study under the title Assessment of Financial Performance Analysis of Brewery Factories in Ethiopia is to show the current position of BGI Ethiopia, identify BGI Ethiopia's current strengths and weaknesses, give information for the creditors for their investment decision and help the management to take corrective actions for the problem faced relating to the profitability, the solvency, the liquidity and the stability. In general the researcher is confident that the managers of BGI Ethiopia will find it useful in overcoming the problems that they face related to the financial performance of the company. Last but not least, this study also will help as secondary source for other researchers who conduct their research on the same title.

1.5 Scope of the study

The scope of this study covers the financial performance analysis of BGI Ethiopia in the period between 2016 and 2018.

1.6 Limitation of the study

There were some constraints which had impact on the quality of the study.

- Since the study dealt much on the secondary data which was quantitative, primary data is not entertained in depth.
- Shortage of time due to pandemic disease (COVID-19), affected the study.
- Absence of information (data), also affected the quality of the study.
- Limited experience, this study is the researcher's first paper.

1.7 Organization of the Paper

This paper is composed of five chapters. The First chapter presents the introduction part of the study which includes Background of the study, Statement of the problem, Objective of the study, and Significance of the study. The Second chapter presents review of literatures. Chapter three is all about research methodology and design, data type and source, method of data collection, analysis and presentation. Chapter four is all about data analysis, interpretation, and presentation. Finally, chapter five contains summary of the findings, conclusion, and recommendations which are be taken from the analysis part.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 FINANCAIL PERFORMANCE

In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. (Www.Shodhganaginflibnet.ac) Jan1,2019

2.1.1 Definitions of Important Terms

A financial statement is written report which quantitatively describes the financial health of a company. This includes an income statement and balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis. (www.financial_statement.html)Jan1,2019

A balance sheet is a quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets accompany owns, and the second part shows all the financing methods.

An income statement, also referred as profit and loss statement (P&L), earnings statement, operating statement or statement of operations, is a company's financial statement that indicate show the revenue (money received from the sale of products and services before expenses are taken out, also known as the "top line") is transformed into the net income (the result after all revenues and expenses have been accounted for, also known as the "bottom line"). It displays there venues recognized for a specific period, and the cost and expenses charged against these revenues, including write-offs (e.g., depreciation and amortization of various assets) and taxes.

(www.financial_statement.html) Jan 1,2019

Statements of retained earnings show changes in a company's or an organization’s retained earnings over a specific period of time. These statements show the beginning and final

balance of retained earnings, as well as any adjustments to the balance that occur during the reporting period. This information is sometimes included as part of the balance sheet or it may be combined with an income statement. However, it is frequently provided as a completely separate statement. (www.financial_statement.html) Jan 1, 2019

2.1.2 Important Concepts

2.1.2.1 Financial Statement Analysis

Financial statement analysis is important to boards, managers, payers, lenders, and others who make judgments about the financial health of organizations. One widely accepted method of assessing financial statements is ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning. (George, 2005)

The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of a company's earnings, and the strengths and weaknesses of its financial position. (Charles, 2003)

Financial statement analysis begins with establishing the objective(s) of the analysis. After the objective of the analysis is established, the data is accumulated from the financial statements and from other sources. The results of the analysis are summarized and interpreted. Conclusions are reached and a report is made to the person(s) for whom the analysis was undertaken. (Charles, 2003)

2.1.2.2 Types of Financial Analysis

Horizontal Analysis

When an analyst compares financial information for two or more years for a single company, the process is referred to as horizontal analysis, since the analyst is reading across the page to compare any single line item, such as sales revenues. Alternatively, in comparing financial statements for a number of years, the analyst may prefer to use a variation of horizontal analysis called trend analysis. Trend analysis involves calculating each year's financial

statement balances as percentages of the first year, also known as the base year. (Hyytinen, 2003)

Vertical Analysis

When using vertical analysis, the analyst calculates each item on a single financial statement as a percentage of a total. The term vertical analysis applies because each year's figures are listed vertically on a financial statement. This approach to financial statement analysis, also known as component percentages, produces common-size financial statements. Common-size balance sheets and income statements can be more easily compared, whether across the years for a single company or across different companies. (Hyytinen, 2003)

Ratio Analysis

Ratio analysis enables the analyst to compare items on a single financial statement or to examine the relationships between items on two financial statements. After calculating ratios for each year's financial data, the analyst can then examine trends for the company across years. Since ratios adjust for size, using this analytical tool facilitates intercompany as well as intra company comparisons. (Hyytinen, 2003)

2.1.2.3 Role of Financial Analysis

Financial managers not only prepare financial statements but also analyze the same to get further insight on the performance of the Organization. They need to examine the organization from the perspective of several users so that they can follow the needs of them and satisfy several stakeholders. Sometimes, profitability might be affected when the managers try to satisfy the needs of various stakeholders but if you focus too much on profitability, it might affect the organization in other ways. For instance, we would expect that our deposit holders need liquidity. If we plan for more liquidity, it might affect profitability. (www.vpatras.blogspot.com) Jan 1, 2019

On the other hand, if we continue to have low liquidity, we may not get funds or we need to pay more interest to attract funds. While financial analysis is often used for evaluating current or historical performance, management uses the input of such analysis for future planning. (www.vpastra.blogspot) Jan 1, 2019

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For instance, in preparing budgets, the inputs of financial analysis are extensively used. Financial analysis provides linkage between operating activities and funding activities. Normally, top management sets the goal and operational managers then determine the level of operations required to achieve the goal. (www.vpatras.blogspot.com) Jan 1, 2019

Financial analysis, which provides historical linkage between various financial components, is useful. Suppose the top management fixes a goal to increase the net income by another twenty percent for the coming year. Using profit to sales linkage, we can estimate additional turn over required to achieve the goal. Once we know additional turnover, it is possible for us to assess how much of additional assets are required (fixed and current assets in the case of manufacturing companies) and then additional funds that are required to buy the assets. Thus financial analysis is a prerequisite for financial planning. (www.vpastras.blogspot.com) Jan 1, 2019

2.1.2.4 Users of financial statements

There are different kinds of users of financial statements. The users of financial statements may be inside or outside the business. They are classified and detailed as follows: (contactus@mapssoftworld.com) Jan 4, 2019

1. Internal Users

The internal users are the individuals who have direct bearing with the organization and include the following: (contactus@mapssoftworld.com) Jan 4, 2019

Managers and Owners

For the smooth operation of the organization the managers and owners need the financial reports essential to make business decisions. So as to provide a more comprehensive view of the financial position of an organization, financial analysis is performed with the information supplied in the financial statements. The financial statement is used to formulate contractual terms between the company and other organizations. (contactus@mapssoftworld.com) Jan 4, 2019

Employees

The financial reports or the financial statements are of immense use to the employees of the company for making collective bargaining agreements. Such statements are used for discussing matters of promotion, rankings and salary hike. (contactus@mapssoftworld.com) Jan 4, 2019

2. External User

Institutional Investors

The external users are basically the investors who use the financial statements to assess the financial strength of a company. This would help them to make logical investment decisions. (contactus@mapssoftworld.com) Jan 4, 2019

Government

The financial statements of different companies are also used by the government to analyze whether the tax paid by them is accurate and are in line with their financial strength. (contactus@mapssoftworld.com) Jan 4, 2019

Customers

The relationship between a firm and its customers can extend over many years. In some cases, these relationships take the form of legal obligations associated with guarantees, warranties, or deferred benefits. In other cases, the long-term association is based on continued attention to customer service. (contactus@mapssoftworld.com) Jan 4, 2019

Financial Ratios

A financial ratio (or accounting ratio) is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. (www.financial ratios.com) Jan 4, 2019

2.1.2.5 TECHNIQUES/TOOLS OF FINANCIAL PERFORMANCE ANALYSIS:

An analysis of financial performance can be possible through the use of one or more tools/techniques of financial analysis. One of the most common techniques is accounting techniques. It is also known as financial techniques. Various accounting techniques such as

comparative financial analysis, common-size financial analysis, trend analysis and ratio analysis may be used for the purpose of financial Analysis. (Modern corporate finance, 1994)

2.1.2.5.1 Ratio Analysis

In order to evaluate financial condition and performance of a firm, the financial analyst needs certain tools to be applied on various financial aspects. One of the widely used and powerful tools is ratio or index. Ratios express the numerical relationship between two or more things. This relationship can be expressed as percentages (25% of revenue), fraction (one-fourth of revenue), or proportion of numbers (1:4). Accounting ratios are used to describe significant relationships, which exist between figures shown on a balance sheet, in a profit and loss account, in a budgetary control system or in any other part of the accounting organization. Ratio analysis plays an important role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. The analysis also reveals whether the company's financial position has been improving or deteriorating over time. Ratios can be classified into four broad groups on the basis of items used: (1) Liquidity Ratio, (2) Capital Structure/Leverage Ratios, (3) Profitability Ratios, and (4) Activity Ratios. (Pamela P, 2010).

1. Liquidity Ratios

Liquidity ratios provide information about a firm’s ability to meet its short-term financial obligations. These ratios are calculated to comment up on the short-term paying capacity of a concern or the firm’s ability to meet its current obligations. Two frequently used liquidity ratios are the current ratio (or working capital ratio) and the quick ratio cash ratio is the most conservative liquidity ratio. (Pamela P, 2010)

A. Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as ‘working capital ratio’. It is a measure of general liquidity and is most widely used to make the analysis for short term financial position or liquidity of a firm. It is calculated by dividing the total of the current assets by total of the current liabilities. (Pamela P, 2010).

Formula: Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time and when they become due. On the other hand, a relatively low

current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties. An increase in the current ratio represents improvement in the liquidity position of the firm while a decrease in the current ratio represents that there has been deterioration in the liquidity position of the firm. A ratio equal to or near 2:1 is considered as a standard or normal or satisfactory. The idea of having doubled the current assets as compared to current liabilities is to provide for the delays and losses in the realization of current assets. However, the rule of 2:1 should not be blindly used while making interpretation of the ratios. Firms having less than 2:1 ratio may be having a better liquidity than even firms having more than 2:1 ratio. This is because of the reason that current ratio measures the quantity of the current assets and not the quality of the current assets (Pamela P, 2010).

B. Quick Ratio (Acid Test)

It is an instrument to measure the liquidity position of the company. This ratio is the same as the current ratio except that not include inventory account and prepaid expenses. The two components of quick ratio are liquid assets and liquid liabilities. Liquid asset include all current asset except inventory and prepaid expenses. Inventories can't be termed as liquid assets because it can't be converted into cash immediately without a loss of value. In the same manner, prepaid expenses are also excluded from the list of liquid assets because they are not expected to be converted into cash similarly, liquid liabilities means current liabilities. (Pamela P, 2010).

Formula: Quick Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

C. Cash Ratio

The cash ratio is the most conservative liquidity ratio. It excludes all current assets except the most liquid cash and cash equivalents. (Pamela P, 2010).

Formula: - Cash Ratio = $\frac{\text{Cash + Marketable securities}}{\text{Current Liabilities}}$

2. Financial Leverage Ratio (insolvency)

Long term solvency or leverage ratios convey a firm's ability to meet the interest costs and payment schedules of its long term obligations. (Pamela P, 2010)

A. Debt to Equity Ratio (DER)

It is a significant measure of solvency since a high degree of debt in the capital structure may make it difficult for the company to meet interest charges and principal payment of a maturity. This ratio reflects the relative claims of creditors and shareholders against the asset of the company. (Pamela P, 2010).

Formula: Debt to Equity = $\frac{\text{Total Debt}}{\text{Total Equity}}$

B. Debt Ratio

The debt ratio compares total liabilities from total asset. It shows the percentage of total funds obtained from creditors. Creditors would rather see low debt ratio because there is a great cushion for creditor's losses if the firm goes bankrupt. It tells the amount of other people's money being used in attempting to generate profits. A high ratio indicates more of firms asset are provided by creditors relative to owner. (Pamela P, 2010).

Formula: Debt Ratio = $\frac{\text{Total debt}}{\text{Total Asset}}$

C. Time Interest Earned

This ratio serves as one measure of firm's ability to meet its interest payment and thus avoid bankruptcy. The higher the Time Interest Earned ratio, the great the probability that the company could cover its interest payment without difficulty. It also shows light on the firm's capacity to take on new debt. (Pamela P, 2010).

Formula: Time Interest earned = $\frac{\text{EBIT}}{\text{Interest Expense}}$

3. Profitability Ratio

Profitability ratios measure the results of business operations or overall performance and effectiveness of the firm some of the most popular profitability ratio are:- (Pamela P, 2010).

A. Gross profit Ratio

Gross profit ratio is the ratio of gross profit to net sates expressed as a percentage. It expresses the relationship between gross profit and sales. (Pamela P, 2010).

Formula: - Gross profit ratio = $\frac{\text{Gross Profit}}{\text{Net sales}} \times 100$

B. Net Profit Ratio

Net profit ratio is the ratio of net profit (after taxes) to net sales. (Pamela P, 2010).

It is expressed as percentage.

Formula: – $\frac{\text{Net profit}}{\text{Net sales}} \times 100$

C. Return on Equity Capital (ROEC)

ROEC is the relationship between profits of accompany and its equity. It is the bottom line measure for shareholders, measuring the profits earned for each birr invested in the firm's stock. (Pamela P, 2010).

Formula: - Return on Equity = $\frac{\text{NI}}{\text{Shareholder equity}}$

D. Return on Asset (Investment) (ROA)

It is the ratio of net income to shareholder's investment. It is the relationship between net income and shareholder's. This ratio establishes the profitability from the share hobbler's point of view. The ratio is generally calculated in percentage. (Pamela P, 2010).

Formula:- Return on asset = $\frac{\text{Net profit after tax}}{\text{Total assets}}$

4. Asset Turnover Ratio (Activity Ratio)

Asset turnover ratios indicate of how efficiently the firm utilizes its assets. They sometimes are referred to so efficiency ratios, asset utilization rations, or asset management ratios. Two commonly used asset turnover ratios are receivables turnover and inventory turnover (Pamela P, 2010).

A. Receivables Turnover

Receivables turnover is an indication of how quickly the firm collects its account receivables. In simple words it indicates the number of times average debtors (receivable) are turned over during a year. (Pamela P, 2010).

Formula: - Receivable Turnover = $\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$

B. Inventory Turnover/Stock Turnover

Every firm has to maintain a certain level of inventory of finished goods so as to be able to meet the requirements of the business. But the level of inventory should neither be too high

nor too low. A too high inventory means higher carrying costs and higher risk of stocks becoming obsolete whereas too low inventory may mean the loss of business opportunities. It is very essential to keep sufficient stock in business inventory turnover ratio indicates the number of time the stock has been turned over during the period and evaluates the efficiency with which a firm is able to manage its inventory. This ratio indicates whether investment in stock is within proper limit or not. (Pamela P, 2010).

Formula:- Inventory Turnover Ratio = $\frac{\text{COGS}}{\text{Inventory}}$ or $\frac{\text{NS}}{\text{Inventory}}$

C. Fixed Assets Turnover Ratio (FAT)

Fixed assets turnover ratio is also known as sales to fixed assets ratio. This ratio measures the efficiency and profit earning capacity of the concern. Higher the ratio, greater is the intensive utilization of fixed assets. Lower ratio means underutilization of fixed assets. (Pamela P, 2010).

Formula: - FAT = $\frac{\text{Sales}}{\text{NFA}}$

Limitations of Ratio Analysis

Ratio analysis is widely used and useful technique to evaluate the financial position and performance of any business unit but it suffers from a number of limitations according to Kieso, etal(2012). The reader of financial statements must understand the basic limitations associated with ratio analysis. (kieso, etal 2012).

One important limitation of ratios is that they generally are based on historical cost, which can lead to distortions in measuring performance. Inaccurate assessment of the enterprise's financial conditions and performance can result from failing to incorporate fair value information. Also investors must remember that where estimated items (such as depreciation and amortization) are significant, income ratios lose their credibility. (kieso, etal 2012).

Finally, analysts should recognize that a substantial amount of important information is not included in company's financial information. Events involving such things as industry changes, management changes, government actions, union activities ,technological

developments, competitors actions, and union activities are often critical to company's successful operation. These events occur continuously, and information about them must come from careful analysis of financial information in media and other sources (kieso, etal 2012).

2.1.2.5.2 Common-Size Financial Analysis

Common-size statement is also known as component percentage statement or vertical statement. In this technique net revenue, total assets or total liabilities is taken as 100 per cent and the percentage of individual items are calculated likewise. It highlights the relative change in each group of expenses, assets and liabilities. (Pamela P, 2010).

2.1.2.5.3 Trend Analysis

Trend analysis indicates changes in an item or a group of items over a period of time and helps to drown the conclusion regarding the changes in data. In this technique, a base year is chosen and the amount of item for that year is taken as one hundred for that year. On the basis of that the index numbers for other years are calculated. It shows the direction in which concern is going. (Pamela P, 2010).

2.1.2.6 Advantages of Financial Statement Analysis:

There are various advantages of financial statements analysis. The major benefit is that the investors get enough idea to decide about the investments of their funds in the specific company. Secondly, regulatory authorities like International Accounting Standards Board can ensure whether the company is following accounting standards or not. Thirdly, financial statements analysis can help the government agencies to analyze the taxation due to the company. Moreover, company can analyze its own performance over the period of time through financial statements analysis. (Www.accounting for management.com) Jan 4, 2019

2.1.2.7 Limitations of Financial Statement Analysis:

Although financial statement analysis is highly useful tool, it has two limitations. These two limitations involve the comparability of financial data between companies and the need to look beyond ratios. (www.accounting for management.com) Jan 4, 2019

A) Comparison of Financial Data

Comparison of one company with another can provide valuable clues about the financial health of an organization. Unfortunately, differences in accounting methods between companies sometimes make it difficult to compare the companies' financial data. For example if one firm values its inventories by LIFO method and another firm by the average cost method, then direct comparison of financial data such as inventory valuations and cost of goods sold between the two firms may be misleading. Sometimes enough data are presented in foot notes to the financial statements to restate data to a comparable basis. Otherwise, the analyst should keep in mind the lack of comparability of the data before drawing any definite conclusion. Nevertheless, even with this limitation in mind, comparisons of key ratios with other companies and with industry average often suggest avenues for further investigation. (www.accounting for management.Com) Jan4,2019

B) The Need to Look Beyond Ratios:

An inexperienced analyst may assume that ratios are sufficient in themselves as a basis for judgment about the future. Nothing could be further from the truth. Conclusions based on ratios analysis must be regarded as tentative. Ratios should not be viewed as an end, but rather they should be viewed as starting point, as indicators of what to pursue in greater depth. They raise many questions, but they rarely answer any question by themselves.

In addition to ratios, other sources of data should be analyzed in order to make judgment about the future of an organization. The analyst should look, for example, at industry trends, technological changes, changes in consumer tastes, changes in broad economic factors, and changes within the firm itself. (www.accounting for management.Com) Jan4,2019.

2.2. Empirical review

Peter B. Shobayo(2017) performance analysis of Nigerian brewery industry assessed the financial performance of brewery factory using financial ratio. It adopted a descriptive ex post facto research design by using brewery firm of Nigeria stock exchange from 2011-2015.

Mengesha (2014) Financial Performance Analysis In the case Of Addis Home Depot PLC. The findings the researcher showed that based on the computed liquidity ratios, mainly current ratio, quick ratio and cash ratio the company did not satisfy the conventional rule; this shows the company’s weakness in terms of paying its short-term debt when it compared with the standards.

Abreham (2007) conducted the study on Outreach and Sustainability of the Amhara Credit and Saving Institution (ACSI), Ethiopia by using both primary and secondary data the operational and the audited financial reports for the period 2001 to 2005

Befekadu (2007) conducted the study on entitled outreach and financial performance analysis of microfinance institutions in Ethiopia. It aims to assess the financial performance of micro finance institutions in Ethiopia from different angles using data obtained from primary and secondary sources. Both secondary and primary data (obtained from questionnaire distributed to representative sample MFIs) has been employed in the study.

Mulugeta(2015) has studied the financial performance of 14 commercial banks using CAMEL approach for the period 2010 -2014.

Minyahil (2013) measured the Performance of seven Commercial Banks of Ethiopia over the period 2004/5-2010/11. The result of the study showed that, during the study period, the performance of Commercial banks in Ethiopia mainly changes in accordance with NBE directives.

CHAPTER THREE

3. Research Methodology and Design

3.1 Area of the Study

Because of their proximity to the researcher and years of their experience in the brewery industry BGI Ethiopia Financial Performance will be assessed. The head quarter of BGI Ethiopia is in Addis Ababa. The report is proposed based on secondary data. The secondary data will be collected from the annual financial statement of BGI Ethiopia PLC. Particularly income statement and balance sheet not include statement of retained earnings and statement of cash flow for the period of (2016 – 2018 GC). In addition to this extra secondary information will be taken from recent audit report. The study is conducted on the assessment of financial performance of BGI Ethiopia PLC.

3.2. Research Approach

As noted in Creswell (2003), in an investigative study there are three familiar types of research approaches to business and social research namely, quantitative, qualitative and mixed methods approach. Creswell (2009) defined quantitative research as a formal, objective and systematic process in which numerical data are utilized to obtain information. Mmuya (2007) stated that qualitative research is an investigative methodology that is grounded in a philosophical position that focuses on making sense of the social world through a process involving how it is experienced, understood and interpreted. The qualitative method takes a theoretical and methodological focus on complex relations between personal and social meanings, individual and cultural practices and the material environment or context. Whereas, mixed research is characterized as the combination of both qualitative and quantitative research approaches. Considering the research problem and objective along with the philosophy of the different research approaches, the quantitative nature of the data collected, quantitative research approach will found to be appropriate for this study. Besides, this study will use quantitative research approach to examine a stated objective because quantitative research is a systematic and scientific investigation of quantitative properties and phenomena their relationships (Abiy, 2009).

3.3 The Research Design

For this research project comparative design type of research is used.

3.4 Data Source and Collection Methods

For this study, the researcher has used secondary sources of data. The secondary data were collected by reviewing BGI annual audited financial statement and audit report.

3.5 Method of Data Analysis

After all the relevant data were collected from BGI financial statement, in order to describe the real financial performance of the company, the researcher has used different accounting tools such as ratio analysis; including liquidity ratio, debt ratio, profitability ratio and asset management ratio, horizontal analysis and vertical analysis.

3.6 Methods of Data Presentation

Finally, the analyses are presented in the form of tables, percentages and graphs in order to compare the financial performance of BGI Ethiopia in different year.

CHAPTER FOUR

4. Data analysis, Interpretation and presentation

This chapter is devoted to present action, analysis and interpretation of financial statement of BGI Ethiopia S.C. For this purpose the balance sheet and income statement of three years (From 2016 to 2018) have been used. The data are then tabulated and also discussed the performance by using ratio horizontal and vertical analysis. The detailed analysis is given in the following paragraphs.

I. Ratio Analysis

Financial ratios are useful indicators of a firm's performance and financial situation. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms.

4.1 Liquidity Ratios

4.1.1 Current Ratio

This ratio is general and quick measure of liquidity of a firm. It represents the margin of safety or cushion available to the creditors. It is an index of the firm's financial stability. It is also an index of technical solvency and an index of the strength of working paper. The year wise details about the current ratio of the company are given in the table 4.1

Table 4.1 Current Ratio

Year	2016	2017	2018	AVG
Current ratio	1.98	2.33	1.85	2.05

Source: Financial statement of BGI Ethiopia S.C

From the above table the current ratios for the three years are highly fluctuating at high rate. The lowest CR in sample years was 1.85 in 2018 and the highest CR was 2.33 in 2017 on an average the CR of the company was 2.05. From this we conclude that the BGI Ethiopia S.C has ability to meet its short term financial obligations.

4.1.2 Quick Ratio (Acid Test)

The quick ratio is very useful in measuring the liquidity position of firm. It measures the firm's capacity to pay off current obligations immediately and is more rigorous test of liquidity than current ratio. It is used as a complementary ratio to the current ratio. Liquid ratio is more rigorous test of liquidity than the current ratio because it eliminates inventories and prepaid expenses as a part of current assets. Usually high liquid ratios are indication that the firm is liquid and has the ability to meet its current or liquid liabilities in time and on the other hand a low liquidity ratio represents that the firm's liquidity position is not good. As a convention, generally, a quick ratio of one to one (1:1) is considered to be satisfactory.

Table 4.2 Quick Ratio

Year	2016	2017	2018	AVG
Quick ratio (QR)	0.23	0.34	0.56	0.38

Source: Financial statement of BGI Ethiopia S.C

Table 4.2 gives clear picture about the quick ratio of the company for the periods of three years. The lowest QR in sample years was 0.23 in 2016 and the highest QR was 0.56 in 2018. On average the QR of the company was 0.38. From this we conclude that the QR of the company is less than the standard (1.1)

4.1.3 Cash Ratio

The cash ratio is an indication of the firm's ability to pay off its current liabilities if for some reason immediate payment were demanded.

Table 4.3: Cash Ratio

Year	2016	2017	2018	AVG
Cash ratio	0.02	0.09	0.04	0.05

Source: Financial statement of BGI Ethiopia S.C

The table 4.3 explains the amount of cash ratio. The lowest cash ratio was 0.02 in 2016 and the highest cash ratio was 0.4 in 2017. This indicates in 2017 the company was high ability to pay immediate payment when demanded the others especially comport to 2016 performance.

4.2 Asset Turnover Ratio (Activity Ratio)

4.2.1 Receivables Turnover

Account receivable turnover ratio indicates the number of times the debtors are turned over a year. The highest the value of debtor's turnover the more efficient in the management of debtors or more liquid the debtors are. Similarly low debtor's turnover ratio implies inefficient management of debtors or less liquid debtors. These in no rule of thumb which may be used as a norm to interpret the ratio as it may be different from firm to firm.

Table 4.4 Account Receivable Turnover

Year	2016	2017	2018	AVG
ART	14.23	18.74	7.49	13.49

Source: Financial statement of BGI Ethiopia S.C

The table 4.4 shows that the ART of the company highly fluctuate. The largest ART was 18.74 in 2017 and the lowest ART was 7.49 in 2018 on average the ART was 13.49 times.

The receivables turnover often is reported in terms of the number of days that credit sales remain in accounts receivable before they are collected. This number is known as the collection period.

Table 4.5 Average Collection Period

Year	2016	2017	2018	AVG
ACP	66.31	66.28	66.23	66.27

Source: Financial statement of BGI Ethiopia S.C

The table 4.5 indicates almost in the sample year the ACP is 66 days. This means the company has 66 days wait before its debtors are converted into cash.

4.2.2 Inventory Turnover/Stock Turnover

Inventory turnover ratio measures the velocity of conversion of stock into sales. Usually a high inventory turnover indicates efficient management of inventory because more frequently the stocks are sold; the lesser amount of money is required to finance the inventory. A low inventory turnover ratio indicates an inefficient management of inventory. A low inventory turnover implies over investment in inventories, poor quality of goods, stock accumulation and low profits as compared to total investment. The ITO ratio is also an index of profitability, where a high ratio signifies more profit; a low ratio signifies low profit.

Table 4.6 Inventory Turnover Ratio

Year	2016	2017	2018	AVG
ITO	1.38	1.75	2.73	1.65

Source: Financial statement of BGI Ethiopia S.C

Table 4.6 clearly shows the inventory turnover ratio is too low (i.e. there is over investment in inventory). So the company must modify their inventory maintenance program.

The ITO often is reported as the inventory period, which is the number of day's worth of inventory on hand.

Table 4.7 Inventory period

Year	2016	2017	2018	AVG
Inventory period	264.5	203.6	133.7	200.60

Source: Financial statement of BGI Ethiopia S.C

The above table explains the number of day's worth of inventory on hand. The lowest day was 133 in 2018 and the largest day was 264.50 in 2016. These indicate the company is not in a good position in inventory management.

4.2.3 Fixed Assets Turnover Ratio

Table 4.8 Fixed Asset Turnover Ratios

Year	2016	2017	2018	AVG
FAT	4.56	8.03	2.02	4.87

Source: Financial statement of BGI Ethiopia S.C

Table 4.8 indicates the lowest FAT was 2.02 in 2018 and the largest FAT was 8.03 in 2017 on average the company FAT was 4.87. This indicates the company uses the fixed asset properly.

4.3 Profitability Ratio

4.3.1 Gross profit Ratio

Gross profit ratio may be indicated to what extent the selling prices of goods per unit may be reduced without incurring losses on operations. It reflects efficiency with which a firm produces its products. As the gross profit is found by deducting cost of goods sold from net sales, higher the gross profit better it is.

Table 4.9: Gross Profit Ratio

Year	2016	2017	2018	AVG
GPR	19.49	21.22	10.02	16.91

Source: Financial statement of BGI Ethiopia S.C

Table 4.9 shows that the company GPR on average was 16.91. So the status of the company is in good position.

4.3.2 Net Profit Ratio

NP ratio is used to measure the overall profitability and hence it is very useful to proprietors. The ratio is very useful as if the net profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment. This ratio also indicates the firm's capacity to face adverse economic conditions such as price competition, low demand, etc. obviously, higher the ratio the better is the profitability.

Table 4:10 Net profit Ratio

Year	2016	2017	2018	AVG

NPR	10.35	10.81	4.7	8.62

Source: Financial statement of BGI Ethiopia S.C

The table 4:10 explain the percentage of NPR. The lowest NPR was 4.7 in 2018 and the highest NPR was 10.81 in 2017. On average the company NPR was 8.62. This indicates from time to time the profitability of the company increase except in 2018.

4.3.3. Return on Equity Capital (ROEC)

This ratio is more meaningful to the equity shareholders who are interested to know profits earned by the company and those profits which can be made available to pay dividends to them. The ROEC ratio is high, the better the profitability and vice versa.

Table 4.11 ROEC

Year	2016	2017	2018	AVG
ROEC	0.18	0.26	0.09	0.18

Source: Financial statement of BGI Ethiopia S.C

The return on equity presented on the measure of profitability table 4.11 has an increasing trend except in 2018. The ROEC decreased from 0.26 in 2017 to 0.09 in 2018. But in 2016 the company ROEC was 0.18 (i.e. It shows gradual change). The highest ROEC was 0.26 in 2017. On average the company gets 0.18 birr from each birr invested in the firm's share.

4.3.4 Return on Asset (Investment)

This ratio is one of the most important ratios used for measuring the overall efficiency of a firm. As the primary objective of business is to maximize its earnings, this ratio indicates the extent to which this primary objective of businesses being achieved. This ratio is of great importance to the present and perspective shareholders as well as the management of the company. As the ratio reveals how well the resources of the firm are being used, higher the ratio, better are the results.

Table 4.12 Return on Asset Ratio

Year	2016	2017	2018	AVG
ROA	0.11	0.16	0.05	0.11

Source: Financial statement of BGI Ethiopia S.C

The above table 4.12 clearly shows that, from time to time ROA of the firm's change. The lowest ROA ratio was 0.05 in 2018 and the higher ROA ratio was 0.16 in 2017. On average the company ROA was 0.11.

4.4 Financial Leverage Ratio (insolvency)

4.4.1 Debt to Equity Ratio

Debt to equity ratio indicates the proportionate claims of owners and the outsiders against the firm's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. The owners want to do the business with maximum of outsider's funds in order to take lesser risk of their investment and to increase their earnings by paying a lower fixed rate of interest to outsiders. The outsiders on the other hand want that shareholders should invest and risk their share of proportionate investments. A ratio of 1:1 is usually considered to be satisfactory ratio although there cannot be rule of thumb or standard norm for all types of business.

Table 4.13 Debt to Equity Ratio

Year	2016	2017	2018	AVG
Debt to Equity	0.62	0.63	0.95	0.73

Source: Financial statement of BGI Ethiopia S.C

The table 4.13 gives clear picture about the debt to owner's equity ratio. The lowest debt to equity ratio was 0.62 in 2016 and the highest debt to equity ratio was 0.95 in 2018. On average the company debt to equity ratio was 0.73. Generally the debt to equity ratio of the company increase time to time. This shows claim of creditors increase as a result for share holders the risk minimized.

4.4.2 Debt Ratio

Table 4:14 gives a detail about the year wise debt to total asset ratio of the company.

Year	2016	2017	2018	AVG
Debt Ratio	0.38	0.38	0.49	0.42

Source: Financial statement of BGI Ethiopia S.C

As shown in the above table 4.14 the debt ratio of BGI Ethiopia Share Company was increasing from time to time. The lowest debt ratio was 0.38 in 2016 and 2017 and the highest debt ratio was 0.49 in 2018 on average the company debt ratio was 0.42.

4.4.3 Time Interest Earned

Table 4:15 Time interest earned ratio

Year	2016	2017	2018	AVG
TIER	15.52	16.38	6.67	12.86

Source: Financial statement of BGI Ethiopia S.C

From the above table 4.15 we can understand that the time interest earning ratio of BGI Ethiopia S.C was 15.52, 16.38 and 6.67 for the year 2016, 2017 and 2018 respectively. This shows the time interest earned not improved as compared to the base year.

Vertical analysis

In vertical analysis, a significant item on a financial statement is used as a base value and all other items on the financial statement are compared to it. In performing vertical analysis for balance sheet total assets are assigned 100 percent. Each assets account is then expressed as percentage of total asset. The liabilities and stockholders' equity is also assigned 100 percent. Each liability and equity account is then expressed as a percentage of total liabilities and stockholders' equity. In the income statement net sales is given the value of 100 percent and all other accounts are evaluated in comparison to net sales. A competitive common size of financial statement of the last three years (2016-2018 GC) of BGI Ethiopia S.C is made. This is shown below by using the two financial statements (i.e. Balance sheet and Income statement).

Table 4.16 Vertical analysis of (balance sheet)

Items	2016	2017	2018	Percentage		
				2016	2017	2018
Current asset						
Stocks and goods in transit	30,534,706	43,391,921	49,130,213	100	142.11	160.90
Debtors and prepayments	3,669,611	5,146,703	19,902,756	100	140.25	542.37
Cash at bank and on hand	389,738	1,929,478	1,544,839	100	495.07	396.38
Total current asset	34,594,055	50,468,102	70,577,808	100	145.89	204.02
Fixed assets (net)	11,456,589	12,006,149	73,702,181	100	104.80	643.32
Lease hold land	1,498,495	1,663,369	6,544,287	100	111	436.72
Balance			80,246,468	-	-	-
Total Asset	47,549,139	64,137,620	150,824,276	100	134.89	317.20
Current liabilities				-	-	-
Creditors and accruals	5,944,985	5,136,886	3,858,174	100	86.41	64.90
Bank overdraft	7,983,739	9,151,077	26141648	100	114.62	327.44
Provision for taxation	1,459,911	3,698,261	111,181	100	253.32	
Dividend payable	778,243	306,551	-	100	39.39	
Payable to major stockholders			-			
Term loan –current maturity	1,096,440	3,015,240	7,580,568	100	275	691.38
Lease payable –current maturity	164,874	329,748	4946,21	100	200	300
Total current liability	17,428,192	21,637,763	38,186,192	100	124.15	219.11

Long term loan	794,937	2,742,181	35,324,145	100	344.96	4,443.64
Total liability	18,223,129	24,379,944	73,510,337	100	133.79	403.39
Total capital	29,326,010	39,757,676	77,313,939	100	135.57	263.64
Total liability and capital						

Source: Financial statement of BGI Ethiopia S.C

Vertical Analysis of Balance Sheet

Balance sheet items are usually expressed as a percentage of total asset or total liability and owner's equity to apply vertical analysis. Table 4.16 shows the three year balance sheet of BGI Ethiopia S.C with each items expressed as a percentage of total assets or liability and owners' equity. In all three year accounting periods, the total current assets balance as percentage of total asset was 145.89 % and 204.02 % in 2016 to 2018, Beside that the total current liability of BGI Ethiopia S.C during the three accounting periods was less than the current assets according to the analysis table 4.16 shows that the total liabilities as percentage of total asset was 124.15 % and 219.11 % in 2016 to 2018.

Total long term loan as a percentage of total assets according to the analysis was 344.96% and 4,443.64 % in the year 2017 and 2018 respectively. This figure implies that large part of BGI Ethiopia S.C total asset was financed by long term loan. The cumulative effect of long term loan and current liabilities together gave the percentage of total liability form total asset of BGI Ethiopia S.C. The balances were 133.79 % and 403.39% in 2017 and 2018 respectively.

Table 4.17 Vertical Analysis (Income Statement)

Items	2016	2017	2018	Percentage in year		
				2016	2017	2018
Sales	5,856,931,423	6,879,782,131	8,242,254,020	100	117.46	140.73
COGS	3,065,447,597	3,572,114,249	4,528,954,536	100	116.53	147.74
GP	2,838,027,211	3,420,691,220	3,816,319,292	100	120.53	134.47
Other Income	46,543,385	113,023,338	103,019,808	100	242.83	221.34
Expenses					-	-
Selling and Distribution	787,220,983	948,537,395	1,165,896,765	100	120.49	148.10
Salary and Wages	154,374,316	196,626,761	339,745,248	100	127.37	220.08
Other Employee Benefits	11,403,163	-	-	-	-	-
Repair and Maintenance Expenses	22,979,089	33,843,741	38,200,878.00	100	147.28	166.24
Investment/Participation Expenses	26,581,317	-	-		-	-
Foreign Technical Services Expenses	66,316,891	-			-	-
Utilities Expenses	5,312,450	7,318,866	9,835,520	100	137.77	185.14
Travel Expenses	21,397,493	45,967,163	74,652,981	100	214.82	348.89
Rent Expenses	5,311,882	10,304,294	7,642,603	100	193.99	143.88
Interest Expenses	94,677,845	57,767,585	220,904,852	100	61.01	233.32
Depreciation Expenses	62,646,848	67,765,913	69,275,617	100	108.17	110.58
Amortization Expenses	4,021,852	4,021,853	4,021,853	100	100.00	100.00
Deductible Taxes and License Fees	13,275,666	2,397,421	4,305,087	100	18.06	32.43
Other Deductions	68,663,569	175,660,429	270,345,066	100	255.83	393.72

Total Expenses	1,335,183,364	1,550,211,421	2,204,826,470	100	116.10	165.13
Net Profit Before Tax	1,502,843,847	1,870,479,799	1,611,492,822	100	124.46	107.23
Provision For Taxation	114,993,010	486,561,952.70	483,447,846	100	117.46	140.73
Net Income	1,387,850,837	1383917864.30	1,128,044,976	100	116.53	147.74

Vertical analysis of Income Statement

Income statement items are expressed as a percentage of net sales when vertical analysis is applied. Table 4.17 demonstrates the three years income statement of BGI Ethiopia S.C with each item of income statement account expressed as a percentage of sales.

Cost of goods sold as percentage of sale increased from 116.53 percent to 147.74 percent in 2018, during which gross profit increased from 120.53 percent 134.47 percent and net income also increased from 116.53 percent to 147.74 percent in this accounting period. But in 2018 the cost of goods sold increase to 147.74 percent

The reason for this increase is the sale of the company in high rate when compare to the cost of goods sold. During 2018 gross profit increased to 134.47 percent due to the increase of the sale balance. The net income of the company increases from 116.53 percent to 147.74 percent in 2018. The reason for the increasing of net income was that the amount by which total expense decreased was greater than the amount by which total revenue increased. Total expenses increased from 116.10 percent in 2017 to 165.13 percent in 2018.

Horizontal Analysis (Trend Analysis)

Trend analysis also called horizontal analysis which is used to evaluate the trend in the accounts over the years. Trend analysis stresses the trend of the various accounts. It is relatively easy to identify areas of wide divergence that require further attention. It is important to know and to show the extent and direction of changes.

In this method of analysis, the year 2016 was chosen as a base year. Each account of the base year is assigned an index for each respective account’s by the base year amount and multiplying by 100.

Table 4.18 Trend Analysis (Balance Sheet)

Items	2016	2017	2018	Percentage in year		
				2016	2017	2018
Current Asset						
Stocks and goods in transit	30,534,706	43,391,921	49,130,213	100	142.11	160.90
Debaters and prepayment	3,669,611	5,146,703	19,902,756	100	140.25	542.37
Cash at bank and on hand	389,738	1,929,478	1,544,839	100	495.07	396.38
Total Current Asset	**34,594,055**	**50,468,102**	**70,577,808**	100	145.89	204.02
Fixed Asset(Net)	11,456,589	12,006,149	73,702,181	100	104.80	643.32
Lease hold land	1,498,495	1,663,369	6,544,287	100	111.00	436.72
Total Fixed Asset balance	12,955,034	13,669,518	80,246,468	100	105.52	619.42
Total Asset	47,549,139	64,137,620	150,824,276	100	134.89	317.20
Current Liability						
Creditors and Accruals	5,944,985	5,136,886	3,858,174	100	86.41	64.90
Bank overdraft	7,983,739	9,151,077	26,141,648	100	114.62	327.44
Provision for taxation	1,459,911	3,698,261	111,181	100	253.32	7.62
State dividend payable					0	0
Payable to major shareholders	778,243	306,551		100	39.39	-
Term loan current maturity	1,096,440	3,015,240	7,580,568	100	275.00	691.38
Lease payable current maturity	1,648,874	329,748	494,621	100	20.00	30.00
Total current liability	17,428,192	21,637,763	38,186,192	100	124.15	219.11

Long term loan	794,937	2,742,181	35,324,145	100	344.96	4,443.64
Total Liability	18,223,129	24,379,944	73,510,337	100	133.79	403.39
Total Capital	29,326,010	39,757,676	77,313,939	100	135.57	263.64
Total liability and capital	47,549,139	64,137,620	150,824,276	100	134.89	317.20

Source: Financial statement of BGI Ethiopia S.C

Trend Analysis – Balance Sheet

The extent and direction of changes in the three years balance sheet items of BGI Ethiopia S.C of the base year, 2016 are compute and directly presented below. Based on the analysis the total current assets increase by 145.89 %, and 204.02 % in 2017 and 2018 respectively. The cash on hand and at bank balance of BGI Ethiopia S.C decrease by 495.07 % and 396.38 % in 2017 and 2018 respectively.

The total current liabilities of BGI Ethiopia S.C increased from 124.15 % and 219.11 % in 2017 and 2018. According to table 4.18, the capita balance increased throughout the year continuously by 135.57 % and 263.64 % in 2017 and 2018 respectively.

Table 4.19 Trend Analysis (Income Statement)

Items	2016	2017	2018	Percentage in year		
				2016	2017	2018
Sales	5,856,931,423	6,879,782,131	8,242,254,020	100	117.46	140.73
COGS	3,065,447,597	3,572,114,249	4,528,954,536	100	116.53	147.74
GP	2,838,027,211	3,420,691,220	3,816,319,292	100	120.53	134.47
Other Income	46,543,385	113,023,338	103,019,808	100	242.83	221.34
Expenses					-	-
Selling and Distribution	787,220,983	948,537,395	1,165,896,765	100	120.49	148.10
Salary and Wages	154,374,316	196,626,761	339,745,248	100	127.37	220.08
Other Employee Benefits	11,403,163	-	-	-	-	-
Repair and Maintenance Expenses	22,979,089	33,843,741	38,200,878.00	100	147.28	166.24
Investment/Participation Expenses	26,581,317	-	-		-	-
Foreign Technical Services Expenses	66,316,891	-			-	-
Utilities Expenses	5,312,450	7,318,866	9,835,520	100	137.77	185.14
Travel Expenses	21,397,493	45,967,163	74,652,981	100	214.82	348.89
Rent Expenses	5,311,882	10,304,294	7,642,603	100	193.99	143.88
Interest Expenses	94,677,845	57,767,585	220,904,852	100	61.01	233.32
Depreciation Expenses	62,646,848	67,765,913	69,275,617	100	108.17	110.58
Amortization Expenses	4,021,852	4,021,853	4,021,853	100	100.00	100.00
Deductible Taxes and License Fees	13,275,666	2,397,421	4,305,087	100	18.06	32.43

Other Deductions	68,663,569	175,660,429	270,345,066	100	255.83	393.72
Total Expenses	1,335,183,364	1,550,211,421	2,204,826,470	100	116.10	165.13
Net Profit Before Tax	1,502,843,847	1,870,479,799	1,611,492,822	100	124.46	107.23
Provision For Taxation	114,993,010	486,561,952.70	483,447,846	100	117.46	140.73
Net Income	1,387,850,837	1383917864.30	1,128,044,976	100	116.53	147.74

Source: Income Statement of BGI Ethiopia S.C

b) Trend analysis – Income Statement

According to table 4.19 the trend percentage indicates the BGI Ethiopia S.C sales increased from 117.46 % and 140.73 % in 2017 and 2018.

The trend analysis of total expenses also shows continuous increase by 116.10 % and 165.13 % in 2017 and 2018. On the other hand, the Gross profit of the BGI Ethiopia S.C shows high increment in 2018 (134.47%). The minimum increment was 120.53% in 2017.

The net income of BGI Ethiopia S.C was increasing from time to time especially in 2018 (147.74%). The minimum increment was 116.53 % in 2017. On average the net income increase by 132.14%. The reason is that the amount by which the total revenue increased was somewhat higher than the amount by which total expenses increased during this accounting period.

CHAPTER FIVE

5. Summary of Finding, Conclusions and Recommendation

5.1 Summary of Findings

The financial performance of BGI Ethiopia S.C (from 2016 to 2018 G.C) is assessed by using ratio analysis, trend analysis and vertical analysis. The profitability, liquidity, solvency and activity of the company are examined with ratio analysis. All changes in total sales, total cost of goods sold, gross profit and net income are studied with both trend analysis and vertical analysis.

Profitability

The profitability in relation to sales indicates that the company covers its all operating expenses and income taxes as indicate in the net profit ratio. Thus, the ability of the company in generating profit from sales is high; Even though the net profit ratio is declining in 2017.

The profitability in relation to return on equity and investment is very good in 2018 when compare to the other sample year. But it indicates an improvement.

Liquidity

When you see the company current ratio and quick ratio on average the company meets short term obligation easily. But when immediate payment needed the ability of the company was less.

Insolvency

The debt to asset ratio is used to analysis the debt utilization of the company. The debt ratios of the company were less than 50% (i.e. the enterprise not depends on loan). The time interest of the company is also in a good position especially in 2017 to pay the debt to its creditors.

Activity Ratio

Receivables turnover, inventory turnover and fixed asset turnover is used as indicator. The receivable turnover of the company decrease time to time but the inventory turnover increase. Thus the company credit sale increase but the company cannot collect the credits quickly.

The fixed asset turnover of the company in generating profit is in a good position even though is show little decline in 2018.

Generally when you see the net income, cost of goods sold and gross profit of BGI Ethiopia S.C in relation to sale increase time to time with some exception. But the common feature declined in 2017.

5.2 Conclusion

The study examines the financial performance of BGI Ethiopia S.C. The financial statement analysis to BGI Ethiopia S.C was used to indicate the performance of its financial position for management, creditors and other interested parties.

- The performance of BGI Ethiopia S.C is attractive and performance gap is no highly widened from year to year.
- According to the study, all variables used as an indicator of the financial performance of the company, some of them indicate on increasing trend and the remaining part indicates the amount fluctuate from one year to another year.
- As examined in ratio analysis, the company ability in meeting both short term and long term obligation was good but for immediate payment demand the company performance need some improvement. When you see the trend of profitability from time to time; the company profit increase. On the other hand the firm's ability to use its assets is less efficient.
- The performance of BGI Ethiopia S.C is relatively attractive and it has an increasing trend in revenue, gross profit, and net income and in other performance factory.
- To sum up the performance of BGI Ethiopia S.C in terms of liquidity, insolvency and profitability is in good position with some improvement needed in some indicators relatively.

5.3 Recommendation

As indicated in the analysis part of this paper the company faces different difficulty regarding solvency, liquidity, profitability and asset management. In order to overcome these difficulties the researcher recommends the following points:-

- The liquidity position of BGI Ethiopia S.C is relatively high but for the immediate payment some modification is needed. In order to modify the researcher advice the managers to improve the cash management practice of the firm
- Although the profitability of the company is satisfactory, the firm must try to improve by decreasing different operating as well as administrative expenses
- The ability of the firm in fulfillment of long term obligation is satisfactory so the firm expect to go in this trend
- BGI Ethiopia S.C was less efficient in utilizing its asset. In order to use its asset efficiently, the researcher advices to increase the sales volume of the company by applying different marketing strategies.
- The inventory turnover of BGI Ethiopia S.C is too low. This is because of over investment in inventory. So the manager of the company is advised to decrease investment in inventory. On the other hand the receivable turnover of the firms is somewhat good but it need some modification including changing of credit term.

1. **Liquidity Ratio**

Year	Current Asset	Current Liability	Current Ratio
2016	34,594,055	17,428,192	1.984948008
2017	50,468,102	21,637,763	2.332408484
2018	70,577,808	38,186,192	1.848254678

Year	Current Asset	Inventory	Current Liability	Quick Ratio
2016	34,594,055	30,534,706	17,428,192	0.232918538
2017	50,468,102	43,391,921	21,637,763	0.327029231
2018	70,577,808	49,130,213	38,186,192	0.561658387

Year	Current Asset	Current Liability	Cash Ratio
2016	389,738	17,428,192	0.022362503
2017	1,929,478	216,37,763	0.089171787
2018	1,544,839	38,186,192	0.040455435

2. **Asset Turnover Ratio**

Year	COGS	Inventory	Inventory Turnover
2016	420,303,490	30,534,706	1.376482551
2017	75,987,460	43,391,921	1.751189121
2018	134,189,737	49,130,213	2.731307861

Year	Sales	Account Receivable	Receivable Turnover
2016	52,211,659	36,69,611	14.22811818
2017	96,457,309	5,146,703	18.74157281
2018	149,130,546	19,902,756	7.492959568

Year	Sales	Net fixed Asset	Fixed Asset Turnover
2016	52,211,659	11,456,589	4.557347654
2017	96,457,309	120,06,149	8.033992332
2018	149,130,546	73,702,181	2.023421071

3. Profitability Ratios

Year	Net Income	Sales	Net Profit Margin
2016	5,402,874	52,211,659	0.103480221
2017	10,431,666	96,457,309	0.10814801
2018	7,016,390	149,130,546	0.047048644

Year	Net Income	Total Asset	Return on Asset
2016	5,402,874	47,549,139	0.113627168
2017	10,431,666	64,137,620	0.162645044
2018	7,016,390	150,824,276	0.046520296

Year	Net Income	Total Equity	Return on Equity
2016	54,02,874	29,326,010	0.184234882
2017	10,431,666	39,757,676	0.262381181
2018	7,016,390	77,313,938	0.090751942

4. Financial Leverage Ratio (Insolvency)

Year	Total Asset	Total Equity	Debt Ratio
2016	47,549,139	29,326,010	0.383248349
2017	64,137,620	39,757,676	0.38011925
2018	150,824,276	77,313,938	0.487390624

Year	Total Liability	Total Equity	Debt Equity Ratio
2016	18,223,129	29,326,010	0.621398172
2017	24,379,944	39,757,676	0.613213509
2018	73,510,337	77,313,938	0.950803166

Year	Total Asset	Total Equity	Debt Ratio
2016	8,271,057	533,018	15.51740654
2017	17,067,582	1,042,151	16.37726395
2018	11,828,055	1,774,836	6.664308702

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www.vpatras.blogspot.com

contactus@mapssoftworld.com

www.financialratios.com

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