DETERMINANTE OF FINANCIAL PERFORMACE OF ETHIOPIAN IRON AND STEEL FACTORY

A RESEARCH PAPER SUBMITTED TO

ACCOUNTING AND FINANCE DEPARTMENT FOR THE PARTIAL FULFILMENT OF BA DEGREE IN ACCOUNTING AND FINANCE

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I ABSTRACT

The essence of managing risk is making good decision. Correct decision making depends on accurate information and proper analysis. But information is not enough by themselves and need to be analysed. The research is conducted on determinant of financial performance of EISF in assessing a position to meet its current obligation, managing and utilizing its asset, to what extent the borrowed funds are used and its profitability over period of time. Although few studies conducted on manufacturing environment the aim is to close the gap in literature and add some more knowledge in these areas. The research is designed to answer the research question posed. The researcher use predominantly secondary and to some extent primary data in order to reach the aim of the study.

Finally, EISF is good liquidity position to meet its current obligation, partially good in managing and utilizing of assets, but shows unsatisfactory profitability position.

II ACKNOWLEDGEMENT

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IV ABBREVIATIONS

EISF – Ethiopian Iron and Steel Factory

CR – Current Ratio

QR- Quick Ratio

I To – Inventory Turn Over

ARTO – Account Receivable Turn Over

FATO – Fixed Asset Turn Over

TATO – Total Asset Turn Over

GP – Gross Profit

NP- Net Profit

ROE – Return on Equity

ROA – Return on Asset

CHAPTER ONE

1 .Introduction

1.1 Backgrounds of the Study

Financial analysis is the determinant of firms past, present and anticipated future financial condition. It is a base for intelligent decision making and starting point for planning the future courses of events for the firm. Its objective is to determine the firm's financial strength and to identify its weaknesses. The focus of financial analysis is on key figures in the financial statement and the significant relationship that exist between them (Anteneh & Kenenisa, 2010).

Financial analysis involves the use of financial statement. A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose was to convey understanding of financial aspects of business firm. It show apposition at a moment of time as a balance sheet or reveal a series of activities over a given period of time as an income statement. Thus the two basic financial statements are balance sheet and income statement. The most widely used financial analysis technique is ratio analysis. It is the analysis of relationship between two or more like items on the financial statement. The use of this technique in decision making reduces reliance on guess work and intuition and establishes a basis for a sound research. (Chandra, 1998).

There are four basic categories of financial ratios, each represents important aspect of firms financial condition. The categories consist of liquidity, activity, and leverage and profitability rations. Liquidity ratio is the ability of a firm to meet its short term financial obligation when they come due; activity ratio measures the speed at which assets are being converted in to sales. Leverage ratio measure a firm's ability to pay long term debt as they come due profitability ration measure ability of a business to each profit over a period of time (Gitman, 1997).

Interest of various related group was affected by the financial performance of a firm. Therefore, these groups analyzes the financial performance of the firm. The type of analysis varies according to the specific interest of the party involved. Trade creditors interested in the liquidity of the firm. Bond holders interested in cash flow ability of the firm. Investors interested in present and expected future earning as well as stability of these earning. Management for internal control, better financial condition and performance of company.

The ability to analyses and understand financial statement is as much an art form as it is an application of several technique. The technical side of financial analysis is straight forward. We calculate a variety of common financial ratio to provide in sight in to the financial condition of company. (Simon and Schuster). The artistic dimension of financial analysis is important because the accounting process relies to a great extent up on the application of judgment which introduce subjectivity values. Different, yet valid view and interpretation of the economic consequences of a specific transactions action often exist. (van Horne, 1998).

1.2 Statement of the Problem

Regular Chekiang of affirms financial performance status is a basic task of a business firm to know where the firm exactly is, Financial performance analysis enables affirm to identify its area of weakness.

The area that needs improving and the area of strength in its daily business operations. Financial performance analysis includes analysis and interpretation of financial statements. In such a way that it under takes full diagnosis of the profitability and financial soundness of the business.

Financial performance analysis creates an opportunity to invest more or review the strategic approach of the company to ward various stake holders including customers, bankers, and investors.

A comprehensive approach of affirms financial performance analysis reveals the clear picture of the firm despite the fact that EISF is producing audited financial statement for users timely. They are not making regular financial performance analysis. But the company makes annual performance review only to determine its profitability by comparing with its annual budget and the previous year's performance which is not enough.

This study therefore, aims to analyze the financial performance EISF by using financial ratios analysis techniques to examine the effects of financial performance on the company liguidity, Activity, Leverage and profitability position to indicate the implication of trend analysis in financial statement items which reveals on financial performance and to review the financial performance of EISF.

1.3 Questions of the study

The purpose of this research is trying to seek a solution for the following basic questions.

Is the company in apposition to meet its current obligation?

How the company is managing and utilizing its asset?

To what extent the borrowed fund are used?

Is the company earning profit over period of time?

1.4 Objective of the Study

1.4.1 General objective of the Study

The overall objective of the study is to determine or analyse the financial performance of Ethiopian iron and steel factory in order to recommend possible solutions that may overcome its problems.

1.4.2 Specific Objectives of the Study

In addition, to the above general objective the study have the following specific objectives.

1. To determine company's position to meet its current obligation.
2. To evaluate how effectively the company is managing and utilizing its assets.
3. To measure the profitability of the company.
4. To determine the extent the borrowed funds are used.

1.5 Significance of the study

To disclose the financial performance condition of the stakeholders with regard to the firms weakness and strength and other affairs.

To determine the management section by letting them know how they are financially performing and also to gave the way to make comprehensive financial performance analysis in the company's operations.

To give supportive idea to the management and concerned government body for the setting of industry average and benchmark in the same industry.

To enlighten financial decision makers to analyze the financial performance.

To serve as base line for future researchers.

1.6 Scope of the Study

The scope of the study was delimited to those areas which reveal the financial performance o f EISF. To conduct the research the researcher uses balance sheet and income statements to assess EISF of short term liquidity, Asset management, long term solvency and profitability. The study covers the recent five years (2008-2012) audited annual financial statements in order to gather accurate and reliable data. The researcher uses quantitative type of data and both primary and secondary source of data were used.

1.7 Limitation of the Study

The research was predominantly based on secondary data, though useful does not provide comprehensive conclusion. No ratio standards available for manufacturing industry, primary data in terms of up-to-date information. It was difficult for real conclusion. The financial statements of EISF, for year 2008 balance sheet have a difference of 50birr for debit and credit side. Even though, the study has the above limitation. The researchers tried to exert the maximum possible effort to curb the limitation by using other options like horizontal and vertical analysis techniques.

1.8 Organization of the Paper

The paper was classified into five chapters the first chapter provides general introduction about topic understudy, background of the study, statement of the problem, objective of the study, significance of the study, scope of the study ,limitation of study and organization of the paper.

The second chapter outlines the related literature reviews of different Authors about subject matter under study. The third chapter was research design and methodology use. The fourth chapter main the analysis and presentation part. Finally, the fifth chapter sum up all points that are raise in the paper, draw conclusion and render sound recommendation.

CHAPTER TWO

2. Literature Review

2.1 Definition of Financial Performance Analysis

Performance refers to the accomplishment of a given task measured against present standards of accuracy, completeness, cost and speed. In other words it refers to the degree to which an achievement is being or has been accomplished performance is used to indicate firm's success, conditions and compliance. (Van Horne 1998).

Financial performance refers to the act of performing financial activity. 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 operation in monetary terms. It is used to measure firms 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 of sectors in aggregation. www.Answers com, Jeffpulvers, 2010).

Financial performance analysis is the 7 of evaluating the relationship between component parts of financial statement to obtain a better understanding of the firms' position and performance. The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of balance sheet and profit and loss account. The first task is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second is to arrange the information in a way to highlight significant relationship. The final is the interpretation and drawing of inferences and conclusion. In short financial performance analysis is the process of selection, relation and evaluation. . (Shodhganag. inflibnet. ac, 1996).

2.2 Overview of Financial Statement

Financial statement is a formal record of the financial activities of a business, person or other entry. For a business enterprise all relevant financial information presented in structured manner and in a form easy to understand is called financial statement. They are typically included for basic financial statements. Statement of financial position,

statement of comprehensive income, statement of changes in equity and statement of cash flow (Ross and Jordan 2001; 67).

Statement of financial position is called a balance sheet is a summary of the financial balances of a sole proprietorship, a business partnership or a company asset, liabilities and owners' equity are listed as of specific date, such as end of physical year. A Balance sheet is often described as 'snap shot of a company financial condition' of the four basic financial statements; the balance sheet is the only statement which applies to a single point in time of business calendar year. A standard balance sheet has three parts. Assets, liabilities and ownership equity. The main categories of assets are usually listed first and typically in order of liquidity. Assets are followed by liability and equity. The difference between the assets and the liabilities is known as Equity (Statement of comprehensive income (Income statement) also referred to as profit and loss statement is accompany financial statement that indicates how the revenue is transformed in to net income it displays the revenue recognized for specific period and the cost and expenses charged against these revenue, including write offs (e.g. depreciation and Amortization of various assets). The purpose of the income statement is to show managers and investors whether the company made or lost money during period being reported. It represents a period of time. (Wikipedia, the free encyclopaedia Guru net 20004). Statement of change in equity explains the changes of the company's' equity through the reporting period. Statement of cash flow reports on a company's cash flow activities, particularly its operating, investing and financing activities. (Anteneh and keneisia, 2010).

2.2.1 USERS OF FINANCIAL STATEMENT

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable. Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting who are willing to study the information diligently" (pandey 1981).

Financial statement may be used by users for different purposes owners and managers require financial statements to make important business decisions that affect continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. Prospective investors make use of financial statements to assess the viability of investing in a business. Financial institutions use them to decide we withered to grant a company with fresh working capital or extend debt securities to finance expansion and other significant expenditures (schall and Haly 191;511).

2.2.2 Methods of Financial Analysis

2.3. Trend Analysis

This is the easiest way of evaluating the performance of a firm by comparing its present rations with past rations. It gives the indication of the direction of change and reflects whether financial performance has improved deteriorated or remained constant over time. It is important to determine the change but, also why the change has happened.

This analysis evaluates a firm's financial condition at particular point in time and compared it rations against these of its competitors.

Comparing the firms rations with these of industry average or with 'a bench marking' firm with another firm. It helps of ascertain the financial standing and capability of the firms Vs other firm in the industry.

2.3.2 Horizontal Analysis

Horizontal analysis expresses financial data from two or more accounting period's in terms of a single designated base period; it compares data in each succeeding period with the amount for the preceding period. (Anteneh and Kenenisa 2010)

2.3.3 Vertical (static) analysis

In vertical analysis, all the data in a particular financial statements are presented as percentage of a single designated line item in that statement (Anteneh And Kenenisa, 2010, P:17).

2.3.4 Ratio Analysis

Ratio analysis is a powerful tool of a financial analysis. It is used as index for evaluating the financial position and performance of the firm. It represents an attempt to standardize financial information to facilitate meaningful comparison (Pandey, 1981). The ability to analyzes and understand financial statement is as much art as it is an application of several techniques. The technical side of financial analysis is straight forward. We calculate a vanity of common financial rations to provide in sight in to the financing condition of company (kiso and Weygandt,1998;232).

Types of Financial Ratios

There are five basic categories of financial ratios. Each represents important aspects of the firm's financial condition. The categories consist of liquidity, activities, and leverage, profitability and market value rations. (Ross and Jordan 2001; 67

2.4.1 Liquidity Rations

Liquidity refers to, the ability of a firm to meet its short –term financial obligations when and as they fall due. Liquidity ratio provides the basis for answering the question does the firm have sufficient cash and near cash assets to pay its bills on time?

Current liabilities represent the firms maturing financial obligation. The firm's current assets are the primary source of funds needed to repay current and maturing financial

obligation. Lack of liquidity implies inability to meet its current obligation leading to lack of credibility among supplies and creditors. (Anteneh G. and Kenenisa L; P: 21).

Current Ratio – Measures a firm's ability to satisfy or cover the claims of short term solvency or liquidity.

The current ratio is calculated by dividing current assets to current liabilities

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

The unit of measurement is either birr or times. An ideal current ratio is 2:1 or more. This is because event if the value of firm's current asset is reduced by half, it can still meet its obligation. However between two firms with the same current ratio, the one with higher proportion of current asset in the form of cash and account receivable in more liquid than the one with those in the form of inventories.

A very high current ratio than the standard may indicate excessive cash due to poor cash management, excessive accounts receivable due to poor credit management , excessive inventories due to poor inventory management or a firm is not making full use of its current borrowing capacity. A very low current ratio than the standard may indicate difficulty in paying its short term obligations, under stocking that may course customer dissatisfaction.

Quick (A cid- test) ratio – measure the short term liquidity by removing the least liquid asset such as inventories (Antench G. and Kenenisa L.; P: 22)

$$\text{Quick ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

2.4.2 Activity Ratio

This ration shows the intensity with which a firm uses its asset in generating sales. They are employed to evaluate the efficiency of the firm in managing and utilizing its assets. The better the management of asset, the larger the amount of sales will (Pand y ; 2000:130).

2.4.2.1 Inventory Turnover Ratio

Measures the effectiveness or efficiency with which a firm is managing its investment in inventories is reflected in the number of times that its inventories are turnover during the year. An inventory turnover significantly higher than the industry average indicates superior selling practice (Anteneh G. and Keneisa L; P: 24)

$$\text{Inventory turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventories}}$$

2.4.2.2 Fixed Asset Turnover (FATO)

It measures the efficiency with which the firm uses its fixed asset to generate sales. It indicates management efficiency in managing its fixed assets.

It is computed as follows (Pandya; 2000:130).

$$\text{FATO} = \frac{\text{Net Sales}}{\text{Net Fixed Asset}}$$

2.4.2.3 Total Asset Turnover (TATO)

It measures the management's efficiency in managing its total assets to generate sales. It is calculated as follows. (Pandy; 2000:130).

$$\text{Total asset turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

2.5 Leverage Ratio

Financial leverage is the magnification of risk and return introduced through the use of fixed cost financing such as debt and preferred stock there are two general types of debt measures: Measure of the degree of indebtedness and measure of the ability to service debts. Degree of indebtedness measures amount of debt relative to other balance sheet amounts. Two most commonly used measures are debt ratio and debt equity ratio.

The ability to service debts, refers to firms ability to make the contractual payments required on scheduled basis over the life of a debt (Gilman, 8th ed P-13).

2.5.1 Debt Ratio- Measure the proportion of total asset financed by the firm's creditors.

The higher this ratio, the greater the amount of other people's money being used in an attempt to general profits. The ratio is calculated as follows.

$$\text{Debt ratio} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

2.5.2 Debt Equity Ratio

Indicate the relationship between the long term funds provided by creditors and those provided by the firms owners. It is commonly used to measure the degree of financial leverage of firm and it calculated as follows

$$\text{Debt equity ratio} = \frac{\text{Long term debt}}{\text{Stock holders' equity}}$$

2.6 Profitability Ratio

Measures the firms earning with respect to a given level of sales, a certain level of assets, the owners investment or share value. (Gitman, 8th ed P:136).

2.6.1Gross profit Margin

Measures the percentage of each sales dollar remaining after the firm has paid for its goods. The higher the gross profit margin, the better and the lower the relative cost or merchandise sold.

$$\text{Gross profit margin} = \frac{\text{Gross profits}}{\text{Sales}}$$

2.6.2 Operating Profit Margin

Measure the percentage of each sales dollar remaining after all cost and expense other than interest and taxes are deducted; the pure profit earned on each sales dollar.

$$\text{Operating Profit Margin} = \frac{\text{Operating profits}}{\text{Sales}}$$

2.6.3 Net Profit Margin

Measures the percentage of each sales dollar remaining after all costs and expenses, including interest and taxes, have been deducted.

$$\text{Net Profit Margin} = \frac{\text{Net Profits After taxes}}{\text{Total Assets}}$$

2.6.4 Return on Asset (ROA)

Which is often called the firms return on investment (ROI), measures the overall effectiveness of management in generating profits with its available asset

$$\text{Return on asset} = \frac{\text{Net Profit After-tax}}{\text{Total Assets}}$$

2.6.5 Return on Equity (ROE)

Measures the return earned on the owners (both preferred and common stock holders) investment in the firm.

Return on Equity = Net profit after tax

Stock holders' equity

2.7 Problems in Financial Statement Analysis

Financial statement analysis can be very useful tool for understanding a firm's performance and condition. However, there are certain problems and issues encountered in such analysis which call for care, circumspection and judgment (Chandra, 3rd edition).

2.7.1 Development of Benchmarks

Many firms particularly the larger ones, have operations spanning a wide range of industries. Given the diversity of their product lines, it is difficult to find suitable benchmarks for evaluating their financial performance and condition. Hence, it papers that meaningful bench marks may be available only for firms which have a well-defined industry classification.

2.7.2Window Dressing

Firms may resort to window dressing to project a favourable financial picture.

2.7.3 Variation in Accounting Policies

Due to diversity of accounting policies found in practice, comparative finical statement analysis vitiated.

2.7.4 Interpretation of Results

Though industry averages and other yardsticks are commonly used in financial ratios, it is somewhat difficult to judge whether certain ratio is 'good' or 'bad' another problem arises when a firm has some favourable rations and some unfavourable ratios. In such situation it is somewhat difficult to form an overall judgment about its financial strength or wetness

CHAPTER THREE

3. Research Design and Methodology

3. 1 Research Design

The research is designed to answer the research question posed and attain the general and specific objective of the research. Analytical study uses information already available and analyzes these to make critical evaluation of information.

3.2 Data Type and Source

The researcher was used quantitative type of data which is expressed in terms of number. The research would predominantly conduct on secondary source and to some extent on primary sources.

3.3 Method of Data Collection

Secondary data was collected from internal secondary data and external secondary data. Internally data is obtained from annual audit financial statement of EISF. Externally from books, related websites on internet and other documents related to the topic under study. Among primary sources of data unstructured interview would used because of flexibility of question to be questioning to concerned parties in order to provide a safe basis for generalization of the result obtained from secondary sources. Data were mainly collected from finance department of EISF but for interview purpose managers are included.

3.3.1Research Approach

In this study, qualitative research approach was employed. It was choosing due to subject nature of data which helps together citizens opinion and experiences through interviews and Questioner

*3.*3.2 Sources of Data Collection

For the purpose of study, the researcher used both primary and secondary sources of data.

*3.3.*3 Primary Source of Data

Primary source of data of this study was used through interview and questioner.

3.3.4 Secondary Source of Data

The secondary data was collected from relevant books both published and unpublished journals, different articles, reports and appropriate official documents.

3.3.5 Instruments of Data Collection

According to Biggam (2008) using multiple data collection instruments allows triangulate results which helps to fill the gap or weakness of one or single data collection instrument. Hence, by considering this rationale, in this study, l was employed interview and questioner to amplify the reliability of the findings.

3.3.6 Structured interview

Semi-structured interview was conducted with flexibility of questioning approach where the interviewer is allowed much greater freedom to ask, in case of need, supplementary questions or at times may omit certain questions if the situation so requires.

3.4 Method of Data Analysis and Tools

Descriptive method of data analysis was used because it is conducted on information already available. Tools of financial statement analysis such as ratio analysis and time series analysis are used. Ratio analysis was used as index for evaluating, the financial position and performance of a company. The ratio also used to summarize the large quantity of financial data, to make qualitative judgement about the company's performance. Time series analysis were used to compare present rations of company with its own past rations.

3.5 Method of Presenting the Outcome

After data was analysed the outcome is presented in using percentage, tabulation and graphs.

4 CHAPTER FOUR

4.1 Data Analysis, Interpretation And Presentation

Ethiopian Iron and steel factory was one of well developed and profitable factory in Ethiopia. Even though, it is profitable in its general operation, it has some problem in relation to its specific financial and operating activities. This part disclosed data analysis that is collected from secondary data sources of the financial statement of Ethiopia Iron and steel factory.

Since the absolute accounting figure reported in the company's financial statement do not provide meaningful understanding of the performance and financial position of the EISF, the research relate them with some other relevant information to convey meaning. This enables the researcher to make qualitative judgments about EISF performance because the company's strength and weakness are reflected in its financial ratios.

4.2 Liquidity Ratio

Current Ratio: is a means of measuring ability to satisfy the claim of short term creditors by using only current assets and. It's calculated current asset/current liability.

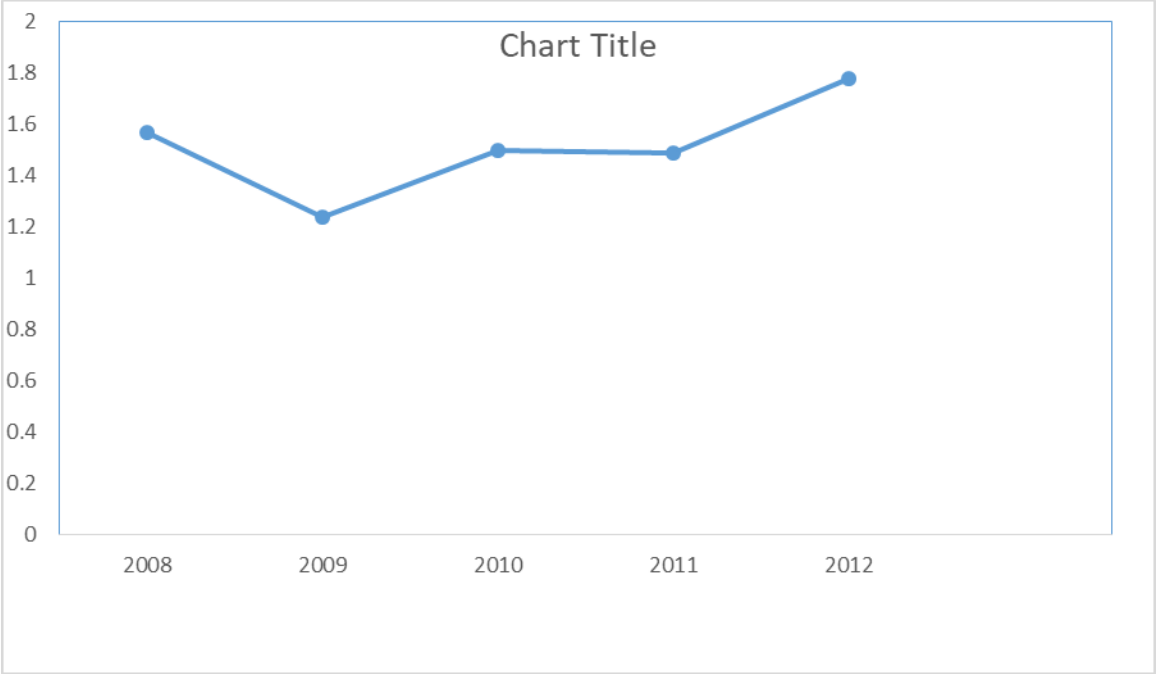
Table 4.11 Ethiopian Iron and steel factory, CR

Year	2008	2009	2010	2011	2012
Current Asset	40,374,822	57,328,900	61,599,493	66,699,379	60,553.624
Current Liability	25,575,493	46,089.638	40,838,394	44,584,851	33,981,110
Current Ratio	1.57	1.24	1.5	1.49	1.78
Average CR	1.52				

Source: Annual audited financial statement of EISF (2008-2012)

As compared the average current ratio of 1.52, current ratio for EISF was good. EISF have birr 1.57, 1.24, 1.5, 1.49 and 1.78 for the year 2008, 2009, 2010, 2011and 2012 respectively in current assets for every 1 birr in current liabilities. Except for the year 2009 and 2012 which have current ratio of 1.24 and 1.78 the lowest and highest ratio of EISF respectively. The current ratio of EISF were approach to each other

Figure 4.11, EISF current ratio graphically.



Lowest ratio recorded in 2009 because of an increase in current liability than current asset form previous year. The highest current ratio recorded in 2012 as a result of increase in current Asset where as current liability shown decline from previous period.

EISF was in good position to cover the claims of short term creditors by using only its current assets.

Quick Ratio (QR) – Measures firms ability to meet its short term obligation by using its most liquid asset and by removing the least liquid asset such as inventory and prepaid.

Table 4.12 EISF, Quick Ratio

Quick Ratio

Year	2008	2009	2010	2011	2012
CA-Inventory	6,314,550	5,894,364	6,181,250	4,525,071	30,373,645
Current Liability	25,575,493	46,089,638	40,858,394	44,584,855	33,981,110
Quick ratio	0.25	0.13	0.15	0.1	0.89
Average	0.3				

Source; EISF annual audited financial statement (2008-2012)

EISF has 25, 13,15,1 and 89 cents for year 2008, 2009, 2010, 2011 and 2012 respectively in quick assets for every Birr in current liabilities. it show fluctuating effect. all over the years. when compared to average quick ratio of 0.3, EISF was less liquid interms of quick assets ratio because most liquid assets such as cash and receivables.

a

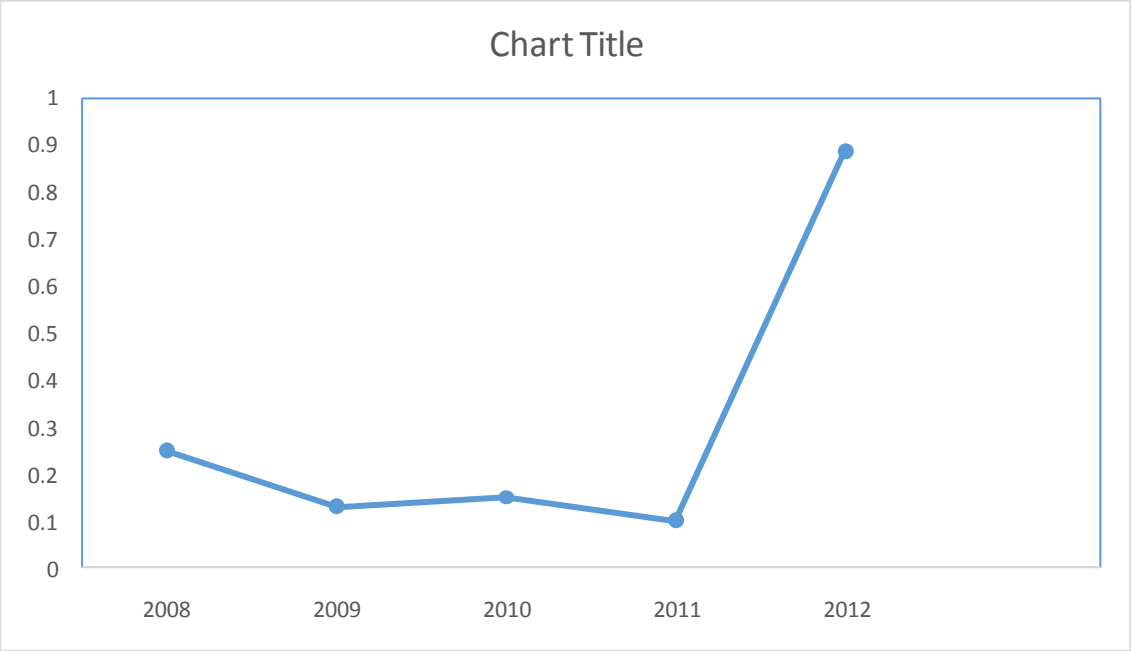


Figure 4.12 From figure 4.12 the EISF Quick ratio shows fluctuating trend and it have a minimum QR for year 2008 and maximum for year 2012 by having 0.1 and 0.89 QR respectively.

4.2 Activity Ratio: Provide the basis for assessing the firms efficiency in using its assets to generate sales.

Inventory Turnover Ratio: measure the effectiveness with which affirm is managing its investment in inventories.

Table 4.21 EISF, inventory Turn Over ratio

Year	2008	2009	2010	2011	2012
CGS	46,621,564	59,555,447	71,969,482	47,636,726	59,486.581
Av. Inventory	34,060,272	42,777,404	53,425,389	58,795,275	46,177.143
I To Ratio	1.37	1.39	1.34	0.81	1.28
Average	1.24				

Source: EISF, Annual audited financial statement (2008-2012)

From table 4.2 EISF inventory sold out 1.36, 1.39.1.34, 0.81 and 1.28 times for year 2008, 2009, 2010, 2011 and 2012 respectively Average inventory turnover for the year under study of EISF was 1.24. As compared with these averages, EISF inventory turnover ratio of year 2011 of 0.81 is far lower than the average and ratio for year 2009 of 1.39 was the higher of the year under study. The lowest inventory turnover ratio of 0.81 recorded in year 2011 was because of decrease in cost of good sold and increase in inventory.

EISF inventory replaced higher than, the EISF average indicates superior selling practice and EISF is good at managing its investment in inventory.

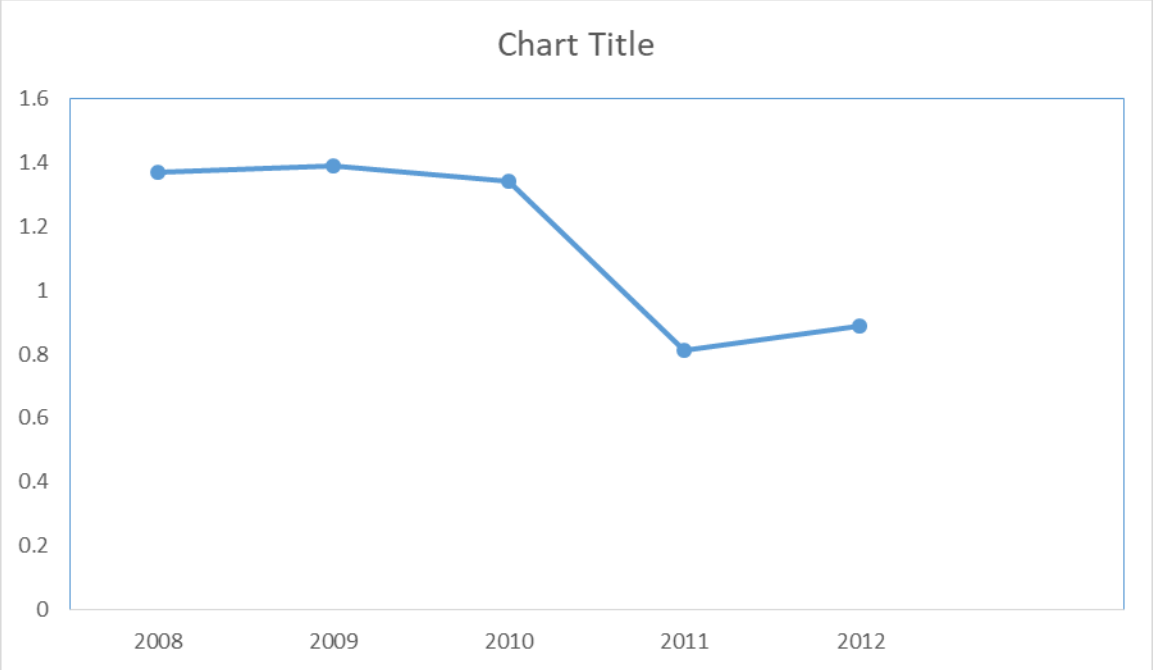


Figure 4.21

These graph shows inventory turnover of EISF less fluctuating all over the year under study except for year 2011 which is 0.81 ratiois below the average ratio of EISF of 1.24 and the minimum ratio of all.

Even if the EISF inventory turnover ratio is better than its average of its years under study, generally it was decreasing at decreasing rate.

Account Receivable Turn over Ratio: it was a comparison of the size of company's sales and its uncollectable bills from customer.

Table 4.22 EISF, Receivable turnover ratio

Year	2008	2009	2010	2011	2012
Sale	63,552,249	81,768,876	100,778,216	58,401,782	70,465,452
Av. A/R	4,341,617	4,223,042	3,140,961	1,522,336	710,073
A/R To ratio	14.6	19.36	32	38.4	99.2
Average	40.7				

Source: Annual Audited financial statement of EISF (2008-2012)

From table 4.22 EISF collected its outstanding credit money 14.6, 19.36, 32, 38.4and 99.2 times for year 2008,2009,2010,2011 and 2012 respectively. When compare with company's average under study, ratio of 40.7 only for year 2012 ratio of 99.2, others are below these bench mark. Even if it has below company's average ratio it shows a continuous improvement from years understudy. Although high accounts receivable turnover is preferable EISF ratio is better for year 2009-2011 but for year 2012 indicate dramatically change than previous years under study.

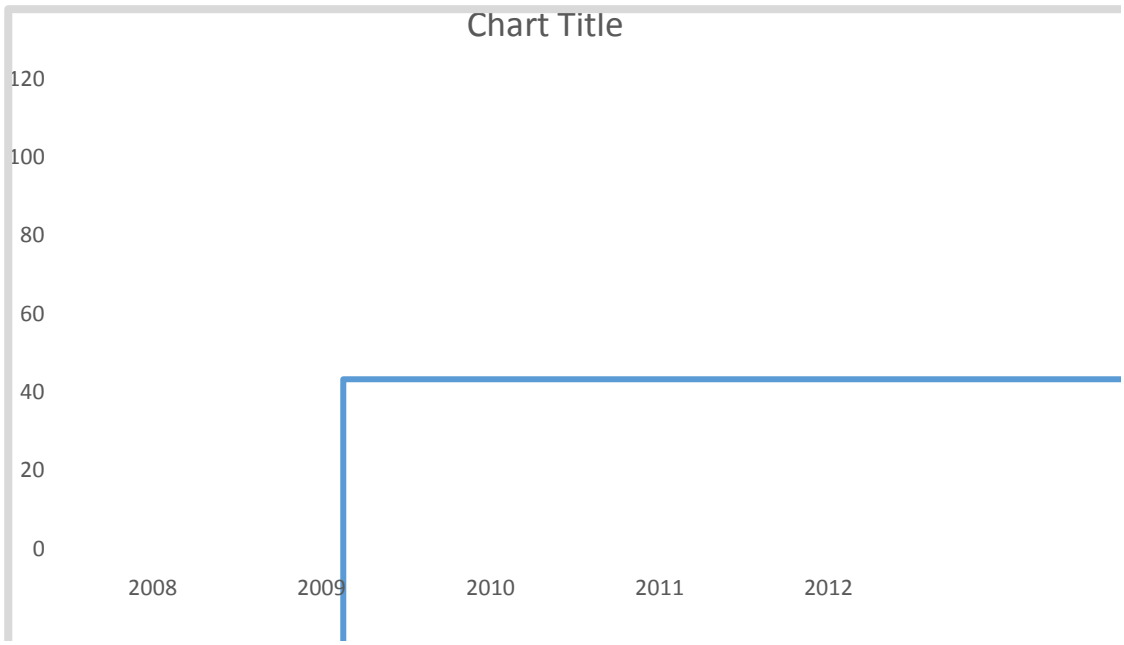


Figure 4.22

As shown from figure 4.22 the lowest and highest account receivable ratio recorded for year 2008 and 2012 respectively. The lowest ratio in 2008 is because of the company having difficulty in collecting its money, it has large receivable balance and the reverse is true for year 2012.

IF a higher substantial ratio continuous in the future it affects EISF in the long run and it was better for EISF to follow averagely liberal credit policy.

Total Assets turnover ratio: Measure the efficiency of firms in managing both current and fixed assets.

Table 4.24: EISF, Total asset turnover ratio

Year	2008	2009	2010	2011	2012
Net sale	63,552,249	81,768,876	100,778,216	58,401,782	70,465,453
Av. Total Asset	46,862,158	57,119,230	64,487,898	64,149,436	114,473,344
TATO ratio	1.35	1.4	1.56	0.91	0.61
Average	1.17				

Source: Annual audited financial statement of EISF (2008-2012)

In 2008 EISF generated 1.17birr income from its operation for every one birr invested in total asset. This trend continually increased from year 2008-2010, on the other hand the ratio for 2011 and 2012

Declined which is 0.91 and 0.6 respectively which have lower than the three previous years. The lowest ratio of 0.91 was recorded because of a decline in sale from previous year and inversely an increase of total asset.

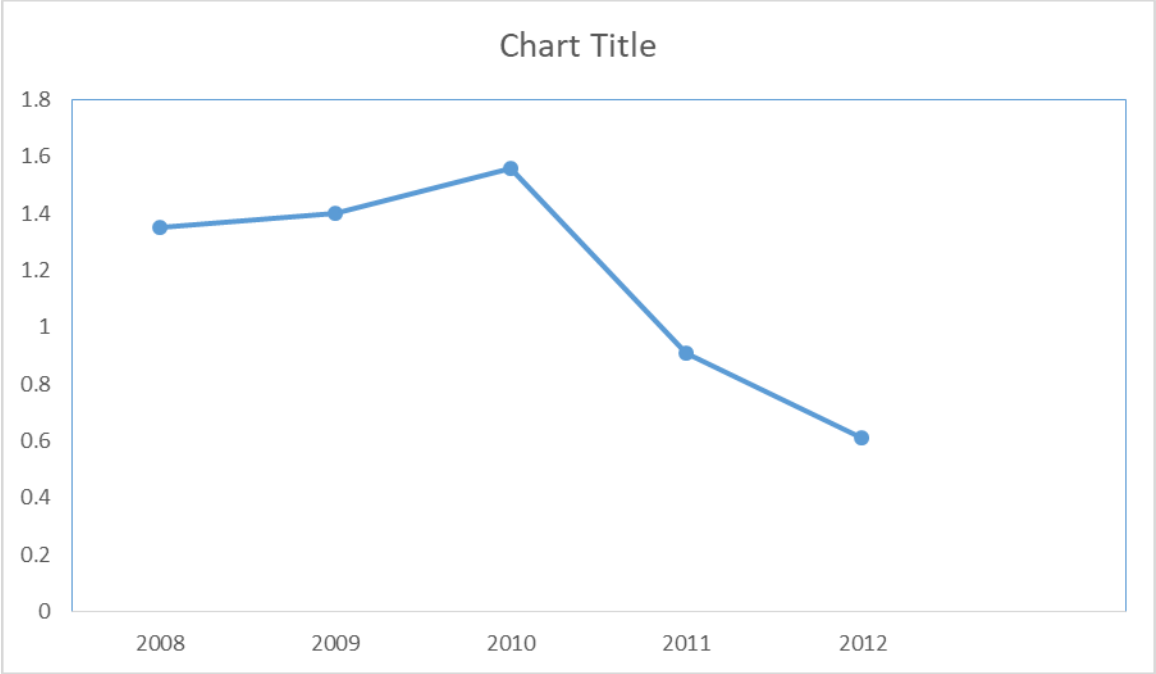


Figure 4.23

As shown on figure 4.23, EISF have average total asset turnover of 1.17, when compare EISF with these bench mark, EISF total asset turnover ratio is better for the year 2008-2010. In contrast EISF total asset turnover was decreasing for year 2011 and 2012. Because of an increase in total asset proportionally than sale in those two consecutive years. EISF not efficiently using its asset to produce sales and have needed an improvement to use its asset properly.

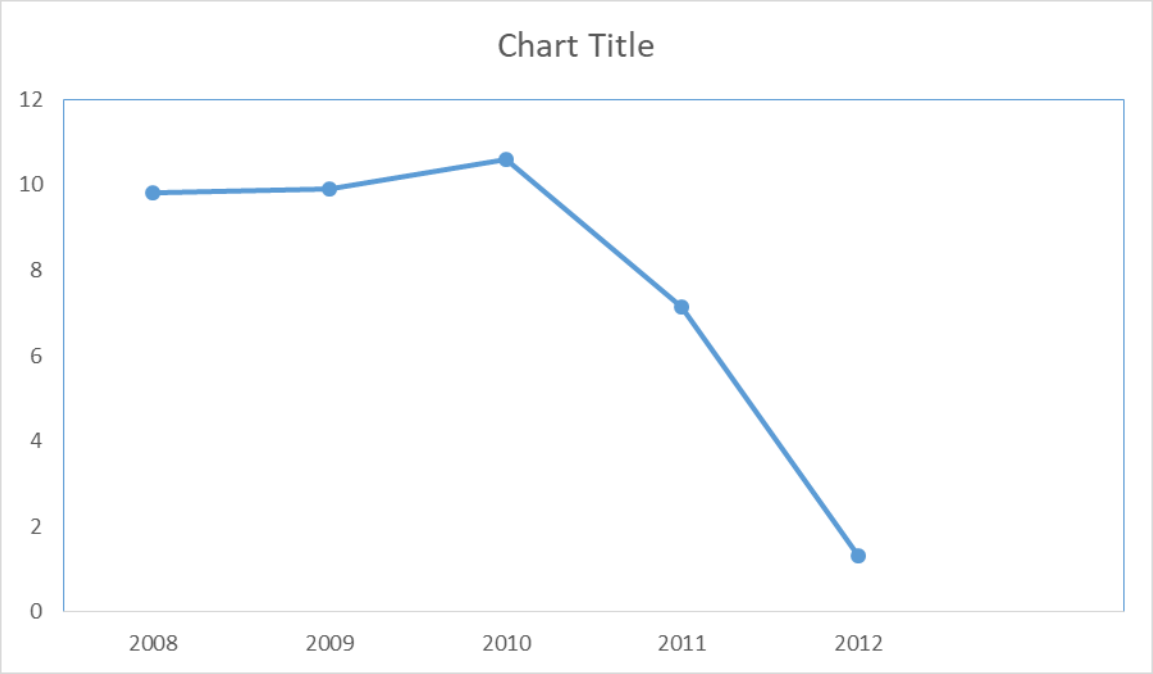
Fixed Asset Turn Over Ratio (FATO): shows the efficiency with which the firm uses its fixed asset to generate sales.

Table 4.23: EISF, Fixed Asset turnover ratio

Year	2008	2009	2010	2011	2012
Net sale	63,552,249	81,768,876	100,778,216	58,401,782	70,465,453
Av. Fixed asset	6,487,336	8,267,369	9,453,310	8,179,630	54,595,864
FATO Ratio	9.8	9.9	10.6	7.14	1.3
Average	7.74				

EISF average FATO ratio for years under study was 7.74 as compared with these bench mark the lowest and highest ratio recorded for year 2012 and 2010 which is 1.3 and 10.6 it means EISF has generated birr 1.3 for every birr invested infixed asset for year 2012 ratio for year 2012 of 1.3 shows under utilization of available fixed asset or over investment in fixed asset. Because it is far lower than the average FATO ratio of EISF for years under study.

Figure 4.6



As shown on figure 4.24 EISF generated Birr 9.8,9.9 and 10.6 from operation for each Birr invested from year 2008-2010 however the increase in operation of income of FATO ratio was offsite by larger increase in fixed asset as a result a ratio shows declining tendency in year 2011 and 2012. FATO ratio has good for year 2008-2010 and in efficient for year 2011-2012 because of over investment infixed asset.

If these trend continues in future it affect EISF and take measures to efficiently of their fixed asset.

4.3 Leverage (debt) Ratio:- Measure funds supplied by owners as compared with the financing provided by the firms creditors.

Debt Ratio: measure the extent of funds provided by creditors.

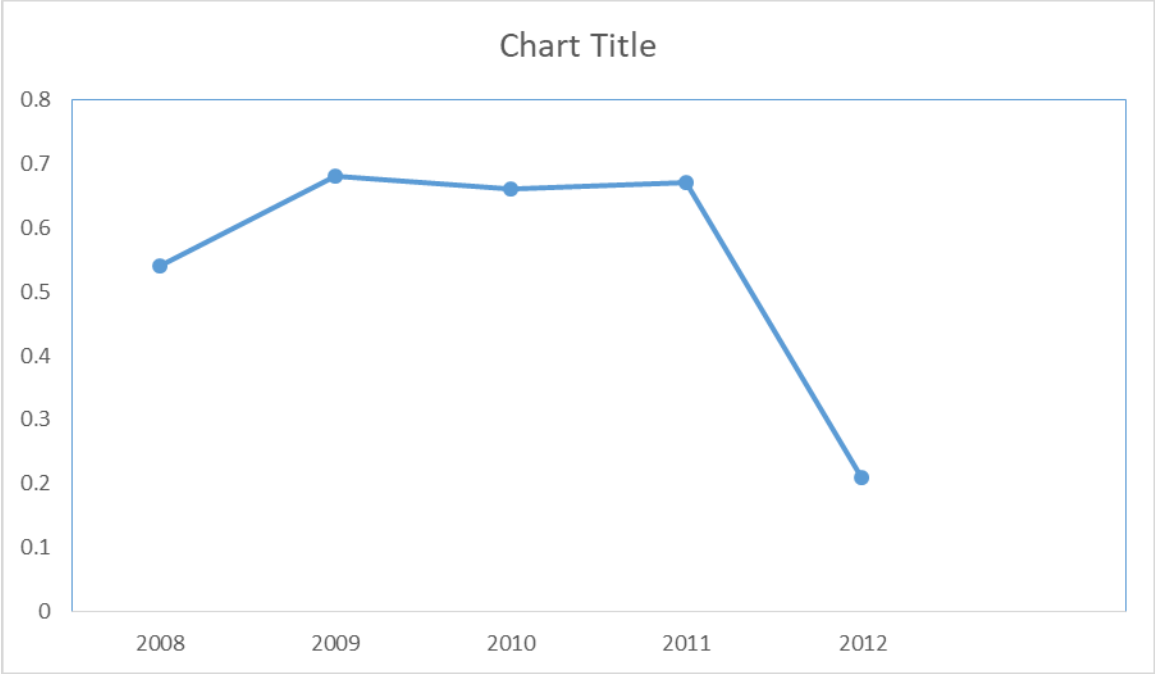
Table 4.31: EISF, Debt Ratio

Year	2008	2009	2010	2011	2012
Total liability	25,575,493	46,089,638	40,838,394	44,584,851	33,981,110
Total Asset	46,862,152	67,376,303	61,599,493	66,699,379	162,247,309
Debt ratio(%)	0.54	0.68	0.66	0.67	0.21
Average	0.55				

Source: Annual audited financing statement of EISF (2008-2012)

EISF Average debt ratio of 55% this indicates that the EISF has financed 55% of its assets with debt. As show on table 4.31, during the year 2008 EISF has debt to Asset ratio of 0.54, which is relatively lower than the 2009 ratio of 0.68. As compared with 55% average debt ratio of EISF, EISF is more leveraged from year 2008-2011 indicates that the company was more liability in all years under study except for year 2012. Generally EISF was more leveraged and it may face difficulty in raising additional debt as creditors required a higher interest rate for taking higher risk. But trends like the ratio 2012 has been appreciatable because operating business without debt is results in higher operating risk.

Figure 4.31 below Shows the fluctuating trend of debt for year under investigation.



Debt To Equity Ratio:- Reflects the relative claims of creditors and shareholders against the assets of the firms.

Table 4.32 EISF, Debt to Equity Ratio

Year	2008	2009	2010	2011	2012 Year
Total liab.	25,575,493	46,089,638	40,838,394	44,584,851	33,981,110
Total Equity	21,286.665	21,286,665	29,433,756	29,593,490	128,266,199
Debt to equity ratio	1.2	2.16	1.38	1.5	0.26
Average	1.3				

Source: Annual audited financial statement of EISF (2008-2012)

EISF has 1.2 birr debt to equity ratio in 2008 fiscal year that creditors of EISF provided about 1.2 birr in financing net assets of the company for

every one birr contributed by EISF. EISF, Average debt to equity ratio for all year was 1.3 as compared with this result the EISF asset was financed by outsiders relative to company for year 2009 - 2011 is higher than average ratio of EISF. In all years under consideration generally EISF has been used higher than Average debt to equity ratio of company except for year 2008 and 2012.

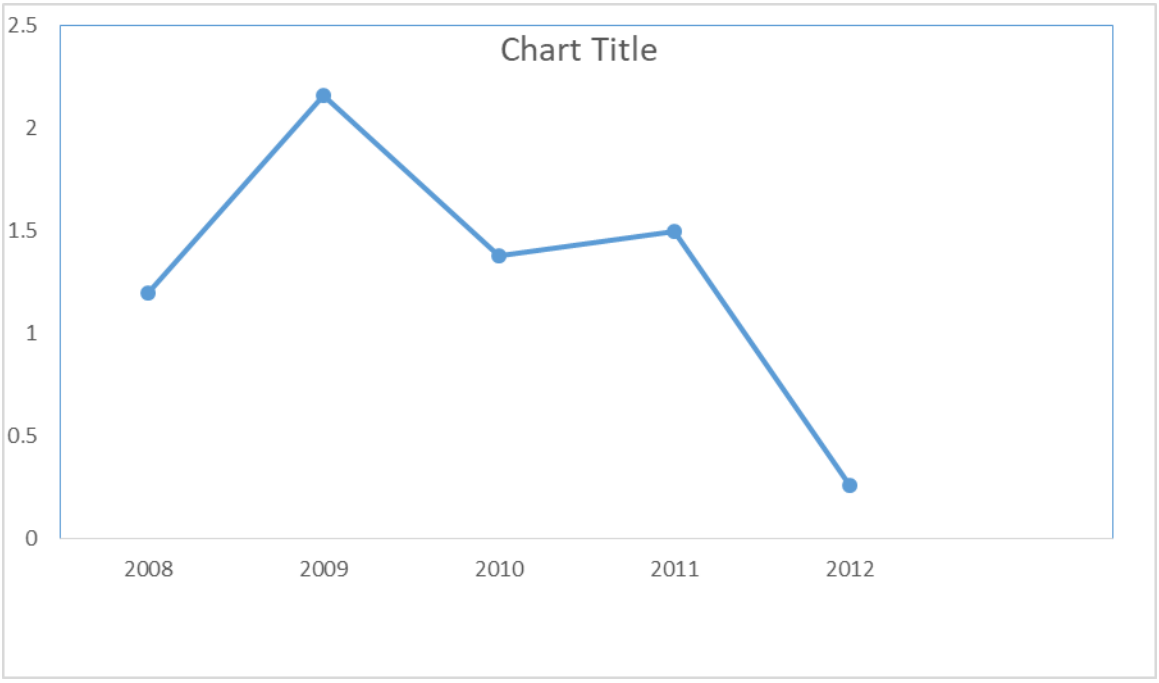


Figure 4.32

Generally creditors has higher claims of EISF Asset, than share holders of EISF

4.4 Profitability Ratio: shows the success of organization towards earning a net return on sales or investment.

Gross Profit Margin: Measure the percentage of each sales dollar remaining after the firm has paid for its goods.

Table 4.41 EISF, Gross Profit Margin Ratio

Year	2008	2009	2010	2011	2012
Gross profit	16,930,685	22,213,429	28,808.734	10,765,056	10,978,870
Sales	63,552,249	81,768,876	100,778,216	58,401,782	70,465,452
GP margin ratio	0.26	0.27	0.28	0.18	0.15
Average	0.23				

Source: Annual audited financial statement of EISF (2008-2012)

As shown on table 4.41 and figure 4.41 gross profit margin ratio of EISF indicate an increase for three consecutive years of 2008-2010 but starts to decline for year 2011 and 2012. In year 2012 low gross profit margin because of a decline in sale and an increase in cost of goods sold as compared to previous years. In contrast for year 2010 high profit margin ratio is recorded as compared to other years under study because of an increase in sales volume of EISF as compared with average gross profit margin ratio of 0.23. EISF has a good management for year 2008-2010 but slightly decline for year 2011-2012 from average profit margin ratio to improve this EISF taken corrective action, some of those could be improve sales by spending more on advertisement and reducing cost of production by making some adjustment.

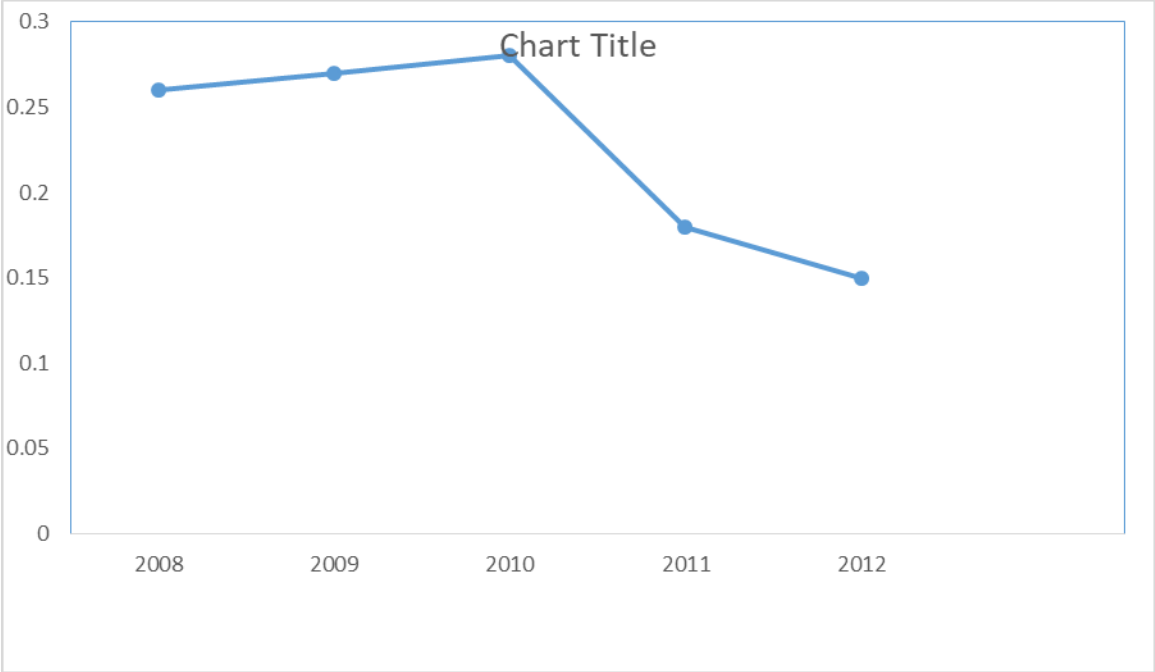


Figure 4.41

Net Profit Margin: - it established a relationship between net profit and sales.

Table 4.42: EISF, Net profit Margin Ratio

Year	2008	2009	2010	2011	2012
Net income	4,289,068	11,388,778	16,472,764	3,027,199	17,909
Sale	63,552,249	81,768,876	100,778,216	58,401,782	70,465,452
Net P ratio	0.06	0.14	0.16	0.05	0.00025
Average	0.08				

Source: Annual audited financial statement of ESSF (2008-2012)

Net profit margin for EISF for year 2008 was 0.06 this means EISF has acquired 0.06 cents profit from each birr of sales.

EISF was observed minimum net profit ratio of 0.00025 for year 2012, this was because of higher expense of EISF than other years under study. EISF indicated relatively higher net profit margin ratio of 0.16 for year 2010, these was as a result of smaller amount of after tax and before tax expense.

Return on Assets: Measure the company's profitability per birr invested on asset.

Table 4.43: EISF, ROA Ratio

Year	2008	2009	2010	2011	2012
Net income	4,289,068	11,388,778	16,472,764	3,027,199	17,909
Total Asset	46,862,158	67,376,303	70,458,710	74,197,423	162,247,309
ROA ratio	0.092	0.17	0.23	0.04	0.00011
Average	0.1				

Source Annual audited financial statement of EISF (2008-2012)

As show on tale 4.43 EISF has return on asset of 0.092 which means that the EISF generated 0.092 cents a everyone Birr invested in total asset for the year 2008. These trend shows continues increase up to the year 2010 because of net income increased from previous years in a great extent. However besides from year 2011 return on asset showed a decreasing tendency from 2010, 0.23 ratios to year 2011, 0.04 ratio and from 0.04 ratio of 2011 to 0.00011 ratio of 2012 these resulted in decline

of net income because of higher cost of expense for year 2011 and 2012. Even though there was an increase in the EISF assets the profit did not increase proportionally with assets. It states that the company could not utilize its asset efficiently during those years.

Return on Equity (ROE) measure rate of return realized by firm's stock holders on their investment and serves as an indicator of management performance.

Table 4.44 EISF, ROE ratio

Year	2008	2009	2010	2012	2012
Net income	4,289,068	11,388,778	16,472,764	3,027,199	17,909
Total Asset	21,286,665	21,286,665	29,620.316	29,612,572	128,266,199
ROE ratio(%)	0.2	0.53	0.55	0.1	0.00014
Average	0.27				

Source: Annual audited financial statement of EISF (2008-2012)

The earning of satisfactory return is the most desirable objective of business during the studied period the EISF maximum return on equity was earned in year 2010 in that year the company got 0.55 cents for every birr on equity this high return on equity reflects the EISF acceptance of strong investment opportunities and effective management. This was because of smallest expense incurred in that year on the other hand EISF smallest return on equity is earned 0.00014 cents on birr invested on share holder equity during 2012 these resulted in due to decrease in sale during that period. Taken average return on equity for EISF give us 0.27 comparing these result with years under study except for years 2009 and 2010 other years has under these average ratio.

Based on these EISF was not in a good condition throughout the studied years, this should be due to the fact that there is lack of efficient management of the company's expense.

EISF Indexed Income Statement

Table 4.13

Items	Year				
	2008	2009	2010	2011	2012
Sales	100	128.6	158.6	91.9	110.8
Cost of goods sold	100	127.7	154	102	127.6
Gross profit	100	131	170	63.6	64.8
Administrative expense	100	131.5	144.5	149	284
Financial charge expense	100	84	57	200	611
Other expense	100	20.3	15	1.3	
Total expense	100	65	57	69.5	110.5
Other Income	100	48.6	38	57.8	12.7
Use profit before tax	100	195.6	282	55.4	0.3
Taxes	100	122.3	175	39	0.19
Earnings After tax	100	265.5	384	70.6	0.4

Indexed income statement is the expression of items as tends from base year, the base year is 2008 and all financial statement items are 100 for that year; items for the four consecutive years are expressed as an index relative to that year. As it can be depicted from table 4.13 the increase of sale as compared to base year except for 2011, cost of goods sold shows a continues increase from base year to 2012. The gross profit shows increase from base year to 2010, but shows a decrease from year 2011-2012. Earnings before tax and taxes are increasing from base year to 2010, but declining from 2011-2012. Finally, the earnings after tax shows in increase from base year to 2010 and continues decrease from year 2011 final year. The increase in cost of goods sold

associated with fluctuating trend of expense affects the earning after result.

EISF Indexed Balance Sheet

Items	Year				
	2008	2009	2010	2011	2012
Assets					
Cash	100	90.7	202	186.2	1510.7
Account receivable	100	94.5	50.5	19.6	13
Inventory	100	151	162.7	182.5	88.6
Total current assets	100	142	152.5	165.2	150
Fixed assets (Net)	100	154.8	136.5	115.6	1567.6
Total Assets	100	143.8	150.3	158.3	346
Liabilities and Equities					
Current Liab					
Account payable	100	109.2	85	112.05	35.8
Bank overdraft	100	204.5	140	137	-
Short term loan	-				
Provision for profit tax	100	115	166	19.5	117.5
State divided payable	100	274	428	502	
Deferred tax liability	100	389.8	286	29.3	
Long term liabilities					
Total liability	100	180.2	160.4	174.4	132.8
Capital and Reserve					
Paid up capital	100	100	285	285	959.7
Legal reserve	100	100	100	118	0.14
Accumulated profit	100	100	100	100	0.1
Total Equity	100	100	138.3	139	198.5
Total Liab and Equity	100	143.7	150.3	158.3	346

Except for year 2009 there is a large amount of increase in cash for year 2010-2012 inventories also increase from base year to 2011 and decreasing for year 2012. Account receivable shows a continues decrease from base year to 2012. On the liability side of balance sheet we note a fluctuating tread in account payable and provision for tax but we see continuous increase for state dividend payable the aggregate effect of all these increasing the trend of in total liability from base year (2008) to the 2012. Paid up capital, legal reserve and Accumulated profit shows increasing tread, the overall effect resulted in Increase of owner's equity from base year (2008) to 2012 of EISF

5 CHAPTER FIVE

5.1Conclusion and Recommendation

5.2 Conclusion

In all five years under study EISF performance of current ratio showed it meets its current obligation, EISF has been in good position cover the claims of short term creditors by using only its current asset. The Quick ratio of EISF showed some progress, but it is relatively lower than average results of year under study. It is less liquid because most of its current asset is made up of inventory.

Inventory turnover ratio of EISF were satisfactory during the study period and have less fluctuation for all years under study except for year 2011 which is below company average inventory turnover ratio. It indicated the EISF inventory management was good and efficient in selling its products.

Account receivable turnover for EISF was better for year 2008-2011,but for year 2012 indicate longer credit period than previous years and these resulted in inadequate collection effort of receivables.

EISF was efficient in using its asset for three consecutive years under study (2008-2010) but for year 2011-2012 ratio decline dramatically.

Except for year 2012 EISF was more leveraged and more than half of funds were provided by creditors. It may face difficulty in raising additional debt as creditors require a higher interest rate of taking risk.

Generally, profitability ratio of EISF was not satisfactory. Because satisfactory earning is the most desirable objective of business. Especially for the year 2011 and 2012 profitability ratio of the company was in severe problem resulted in consecutive decline of return.

Indexed balance sheet shows a increase of company asset and equity but show a continuous decrease of liability.

In common size analysis current asset shows a fluctuating effect resulted from a fluctuation in cash and account receivable. On liability side debt of company relatively in continuous decrease equity side of balance sheet was substantially decreasing. To sum up:

EISF, have sufficient current Assets to meet its current obligation.

EISF is efficient in managing and utilizing its assets for year 2008-2010, but in efficient for year 2011 and 2012.

More than half of EISF funds are provided by creditors.

EISF, Profitability has been unsatisfactory factory for period under investigation.

Recommendation

- Even if the EISF has good inventory turnover ratio. It is advisable to improve its selling of inventory and increase inventory running out of stock, to reduce the cost of holding inventory. For the last two years under study (2011 and 2012) indicate a dramatically change than previous years and if these trend continue it will affect EISF in the long run and it is better for EISF to follow averagely liberal credit policy.

- EISF was not efficiently utilizing its asset to produce sales and have needed an improvement to use its asset properly. To solve under utilization of fixed asset it was possibly to expand activity without requiring additional capital investment. Increase the volume of its sales for the size of investment is assets.

- EISF carefully think about its profit to stay in the market and to be competitive the company promote its self and increasing market share, rather than only producing its product for large firms. It diverts its strategy for small firms and using opportunity.

- Moreover the management of the company has to give attention and control expenses incurred by the company in order to boost its profitability.

- EISF, liquidity position is appreciable and have continue in there trend.

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