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Assessment of Financial Performance in Ethiopia Brewery Factory

**A Sinner Essay Submitted to the Department of Accounting and Finance for
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Abstract

The research mainly concerned on the financial performance analysis of Ethiopia Brewery factory. The research dealt with the stated problem. These problems included. What factors are influencing the financial performance of the company? Are the users of the company's financial statements getting adequate information about the company's profitability, liquidity, Does the company is undertaking the measurement of its financial performance from year to year objectives of this study are to assess the financial efficiency of Ethiopia Brewery factory. Therefore, the study is delimited to measurement of audited financial statements for years (2007-2010) of Ethiopia Brewery factory of the Company to give necessary comments and solutions for the company. The study used different methods of investigation in order to get information from different body and analyze the result. More specifically, secondary data was mainly concerned as the study dealt on this data finally, these data were analyzed by using tables, rations, and graphs and also interpreted based on the findings possible recommendation were forwarded to alleviate the problems or shortcoming. Based on the results of findings the following recommendations were forwarded. Those are: It is better for the company to improve its current assets ratio as well as quick ratio by converting the current assets from noncurrent assets, increasing current assets by getting cash loans or other borrowings that have maturities of more than a year and also increasing current assets from a new equity contribution. The company should improve its assets utilization by increasing its capacity planning. The company should lower its leverage recorded and maintain their required liquid fund to meet the required level of liquidity. It is better to improve the profitability of the company by decreasing the cost of goods sold and expenses and also it should compare its financial performance with the industry standards, of similar companies in order to solve the problems of its performance. In measuring the performance of the company, it is better to include other method besides a ratio analysis (financial ratios) to provide a better picture of the performance of the company.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Accounting may be defined as a service, a descriptive and analytical discipline and an information system. The major objective and end result of using accounting is to prepare financial statements. Financial statements are the principal means through which information is communicated to its users for effective economic decision making [1]. Companies produce financial statement to know the financial condition at the end of the year and the operating result during the period. No matter how carefully prepared, financial statements are essential historical document. They tell what has happened during a particular series of years.

The most valuable information to most users of financial statement, however; concerns in predicting the future by means of comparison, evaluation and trend analysis [2]. In this flexible and dynamic business environment financial performance analysis is a critical part of a company. The analysis of financial performance is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of the company's position and performance which helps to know what will happen in the future [3] [4] explained that skills of financial performance analysis and interpretations are important to a wide range of people including investors, creditors and regulators to diagnose their firms' ill, prescribe useful remedies and anticipate the financial consequences of their actions. There are various tools and techniques in conducting financial performance analysis.

[1] Explained that financial performance analysis uses ratio as a powerful tool. Ratios are among the most popular and widely used tools of financial performance analysis for both internal and external purpose; they are useful tools for management and as a guide to investors, creditors and others. Based on the above framework in this study financial ratio analysis is considered as a key tools to analyse the financial performance in Ethiopia brewery factory.

1.2 Statement of the problem

Regular checking of a firm's financial performance status is a basic task of a business firm to know where the firm exactly is. Financial performance analysis enables a firm to identify its area of weakness, the area that needs improvement and the area of strength in its daily business operation. 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 stakeholder including customers, bankers and investors. A comprehensive approach of a firm's financial performance analysis reveals the clear picture of the firm. Belainesh (2006) conducted study on the Financial performance analysis by using Breadth of outreach & depth of outreach, Profitability and sustainability, Efficiency, productivity and portfolio quality, Revenue performance, expense management, and Capital structure and asset allocation of selected MFIs in Ethiopia

This study therefore; aims to analysed the financial performance in Ethiopia brewery factory by using financial ratios analysis techniques to examine the effects of financial performance on the company Liquidity, 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 in Ethiopia brewery factory

1.3. Research Questions

Conducting this research is to get answers for the following basic research questions:

1. How is the firm's financial performance status?
2. How efficiently the firm manages its asset?
3. What is the liquidity position of the firm?
4. How is the firm's capital structure constructed? ,

1.4 objectives

1.4.1. General Objective

The main objective of the study will be to assess the financial performance in Ethiopia brewery factory by using financial ratios and to draw best practices and lessons for future progressive growth of the firm.

1.4.2. Specific Objective

In order to achieve the general objectives, the study also has the following specific objectives:

- ✓ To assess firm's financial performance status
- ✓ To assess efficiency of the firm with regard to managing its asset
- ✓ To assess the liquidity position of the firm
- ✓ To assess the firm's capital structure constructed
- ✓ To assess the firm's profitability

1.5 Significance of the study

To disclose the financial performance condition of the firm to the stake holders with regard to the firm's weakness and strength and others affairs, to assist the management section by letting them know how they are financially, performing and also to pave the way to make comprehensive financial performance analysis in the company's future operation. To give supportive idea to the management and concerned government body for the setting of industry average or bench mark in the same industry, to enlighten financial decision makers to analyse the past financial performance and problems, and also to project assumed future results to enables the company to have concrete information regarding its financial performance from the year 2007 to 2010. To serve as a baseline for future researchers

1.6. Scope of the study

The study will cover the five years' financial performance in Ethiopia brewery factory by using the balance sheet and income statement from the year 2007 to 2011. The will be conducted only in Ethiopia brewery factory because of time and resource constraints the researchers focused only

the selected firm. Conceptually the study will attempt to assess financial performance in Ethiopia brewery factory by using ratio analysis

1.7 Organization of the study

The paper will be organized in five chapters. The first chapter contains the introduction part, this include background of the study, statement of the problem, objective of the study, Significance of the study, Scope of the study, the second chapter will deal with related review literature, the third chapter will deal with research methodology and the chapter 4 will deals with presentation and analysis of data and finally chapter 5 will contains, conclusion and recommendation.

CHAPTER TWO

RELATED LITRATURE REVIEW

This chapter indicates some related literature reviews with regard to the problem which we have seen under the study in chapter one that can help the researcher to compare and contrast the theory to the actual practice.

2.1. Measuring and Analysing Financial Performance of a Firm

A firm itself as well as various interested groups such as managers, stakeholder, creditors and tax authorities seeks answers to the following important questions [5]. What is the financial position of the firm at given point of time? And, how is the financial performance of the firm over a given period of time? These questions can be answered with the help of financial analysis of a firm.

2.2. Definition and Objective of Financial Performance analysis

Pandey in his book [1], financial management, and defined financial performance analysis as it is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and income statement. Financial performance analysis includes analysis and interpretation of financial statements, in such a way that is under takes full diagnosis of the profitability and financial soundness of the business. The first task in performance analysis is to select the information which is 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 relationships [1]. The final is interpretation and drawing of inferences and conclusions. In short, financial performance analysis is the process of selection, relation and evaluation (Ibid). Creditors and investors use financial analysis into two general ways [4]. Those are the first one is to judge past performance and a current position and second one is: to judge future potential and the risk connected with the potential and related risk.

2.3 Assessment of Past Performance and Current position

Past performance is often a good indicator of future performance. Therefore, an investor or creditor looks at the trend of past sales, expense, net income, cash flow and return on investment not only as a means of judging management's past performance but also as possible indicators of future performance. In addition, an analysis of current position will tell, for example; what assets the business owns and what liabilities must be paid. It will also tell what the cash position is, how much debt the company has in relation to equity, and how reasonable the inventories and current positions is often important in achieving the second general objective of financial analysis [1].

2.4 Assessment of Potential and related risk

Information about the past and present is useful only to the extent that it has bearing on decisions concerning the future. An investor judges the potential earning ability of a company because that ability will affect the value of the market price of the company's stock and the amount of dividends the company will pay. A creditor judges the potential debt-paying ability of the company. The potentials of some companies are easier to predict than those of others and so there is less risk associated with them. The riskiness of the investment or loan depends upon how easy it is to predict future profitability or liquidity (Ibid).

2.5 Significance of Financial Performance Analysis

Interest of various related groups is affected by the financial performance of a firm. Therefore, these groups analyse the financial performance of the firm [6]. The type of analysis varies according to the specific interest of the party involved (Ibid).

- ✚ Trade creditors: interest in the liquidity of the firm (appraisal of firm's liquidity).
- ✚ Bond holders: interested in the cash flow of the firm (appraisal of firm's capital structure, the major sources and uses of funds, profitability overtime, and projection of future profitability).
- ✚ Investors: interested in present and expected future earnings as well as stability of these earnings (appraisal of firm's profitability and financial condition).

- ✚ Management: Interested in internal control, better financial condition and better performance (appraisal of firm's present financial condition, evaluation of opportunities in relation to this current position, return on investment provided by various assets of the company).

2.6 Types of Financial Performance Analysis

Financial performance analysis can be classified into different categories on the basis of material used and modes operandi [7].

2.6.1. Material Used: on the basis of material used

Financial performance can be analysed in the following two ways (www.bentleycg.com).

i. External Analysis

This analysis is undertaken by the outsiders of the business namely, investors, credit agencies, government agencies and other creditors who have accessed to the internal records of the company. They mainly use published financial statements for the analysis and as it services limited purposes.

ii. Internal Analysis

This analysis is undertaken by the persons namely executives and employees of the organization or by the officers appointed by government or court who have access to the books of account and other information related to the business.

2.6.2. Modus Operandi: on the basis of modus operandi

Financial performances can be analysed on the following two ways [7].

i. Horizontal analysis

In this type of analysis financial statements for a number of year are reviewed and analysed. The current year's figures are compared with the standard or base year and changes are shown usually in the form of percentages. This analysis helps the management to have an insight into levels and areas of strengths and weakness. This analysis also called Dynamic Analysis as it based on data from various years.

ii. Vertical analysis

In this type of analysis study is made of quantitative relationship of the various items of financial statements on a particular date. This analysis is useful in comparing the performance of several companies in the same group, or divisions or departments in the same company. This analysis is

not much helpful in proper analysis of firm's financial position because it depends on the data for one period. This analysis is also called Static Analysis as it based on data from one date or for one accounting period.

2.7. Tools of financial Performance 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.

2.7.1. Ratio Analysis

The first step in executing analysis of financial statement is to carefully read the statement and their accompanying note. The use of ratio analysis has become wide spread to the extent that computerized financial statement analysis program prepared financial ratio as part of their overall analysis [8]. Ratio Analysis is a powerful tool of financial performance analysis. Ratio is defined as “the indicated quotient of two mathematical expressions” and “the relationship between two or more things” [8]. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of the firm. Ratio analysis plays an important role in determining the financial strength and weakness 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 (Ibid).

2.7.2. Standard of Comparison

A single ratio in itself doesn't indicate favourable or unfavourable condition. It should be compared with some standard of comparison may consist of [1]. Ratios are calculated from the past financial statement of the same firm. Ratios can be developed using the projected, or Performa financial statement of the same firm. Ratios of some selected firm especially the most progressive and successful, at the same point in time.

2.8. Basic Financial Ratios

Financial ratio can be designed to measure almost any aspect of a company performance. In general analysts use ratio as tool in identifying areas of strength or weakness in a company. Ratio; however, tend to identify symptoms rather than problem [1]. A ratio whose value is judged to be different

or unusually high or low may help identify significant event but will seldom provide enough information in and of it, to identify the reasons for an event's occurrence.

1. Liquidity ratio
2. Activity ratio
3. Leverage (debt) ratio
4. Profitability ratio

1. Liquidity Ratio

Liquidity is a measure of short run ability to meet obligation as they become due. Liquidity is a pre-requisite for the very survival of firm. If a firm falls to meet its current obligations, its continued existence is doubtful. Therefore the immediate concern of short term creditors is that cash will be generated to pay of the obligation, when it is due [1] Liquidity ratio is the relationship of current assets as compared to the current liabilities, and the timing of funds from inventories through receivables in to cash. The two most widely uses liquidity ratios are the current ratio and the quick ratio.

A. Current Ratio

Current ratio indicates how the firm management has been able to meet current liability i.e. Account payable with the current asset. The current ratio is computed by dividing current asset by current liability. Current asset normally include cash, marketable security and inventory; current liability consists of account payable, short term notes payable, current maturity of a long term debt and accrued expense [1].

Interpretation

This ratio designed to assist the decision maker in determining a firm's ability to pay its current liability. The higher the ratio, the greater the ability of the company to meet its immediate financial obligation. As a conventional rule, a current ratio of 2:1 or more is considered to be satisfactory [1].

B. Quick Ratio

The quick ratio sometimes called the acid-test ratio, serve the same general purpose as the current ratio but excludes inventory from current assets. This is done because inventories are typically a firm's least liquid current asset and hence the assets on which losses are most likely to occur in the event of liquidation. Thus the quick ratio measures a firm ability to pay its current liability by converting its most liquid assets in to cash [1].

Interpretation

Generally, a quick ratio of 1 (one) is considered to represent a satisfactory current financial condition (Ibid).

C. Cash Ratio

The ratio of cash and cash equivalents of a company to its current liabilities the cash ratio is most commonly used as a measure of company liquidity. It can therefore determine if, and how quickly, the company can repay its short-term debt. A strong cash ratio is useful to creditors when deciding how much debt, if any, they would be willing to extend to the asking party. Cash ratio is calculated using the following formula:

Interpretation

A cash ratio of 1.00 and above means that the business will be able to pay all its current liabilities in immediate short term Therefore, creditors usually prefer high cash ratio. But businesses usually do not plan to keep their cash and cash equivalent at level with their current liabilities because they can use a portion of idle cash to generate profits. This means that a normal value of cash ratio is somewhere below 1.00. Generally, Cash ratio measures the immediate amount of cash available to satisfy short-term liabilities. A cash ratio of 0.5:1 or higher is preferred (www.financialratiooss.com). Possible Solution to Improve a Firm's Liquidity in General.

- Increase capital. Capital contributed in the form of cash will increase liquidity immediately. And, equity financing reduces the need for debt financing.
- Refinance debt with better terms and conditions. Leasebacks may be an alternative to capital expenditures for fixed asset purchases.
- Sales of fixed assets or other property. The decision to sell assets will need to be weighed against the income-generating capacity of those assets.
- Shorten the maturity cycle - the time from purchases of raw materials and the start of production, or the start of the income-producing activity, until collection on accounts receivable.
- Negotiate longer payment terms with vendors or other creditors.
- Monitor the amount of money that's being taken out of the business for non-business purposes such as owner's draws/dividend. Taking too much money out can put an unnecessary cash drain on the business.

- Monitor Account receivable periodically (www.entrepreneur.com)

2. Activity Ratios

Evaluation of activity ratio basically involves identifying how much a firm has invested in particular types of asset (or group of assets) relative to the revenue the asset is producing. In particular, it measures how efficiently a company manages its assets [1]. Efficiency is equated with rapid turnover; hence these ratios are referred to collectively as activity ratio. Some activity ratios concentrate on individual asset such as inventory or account receivable [1]. This ratio is also called turn over ratios because they indicated the speed with which assets are being converts or turned over in to sales. Activity ratios, thus involves a relationship between sales and asset. A proper balance between sales and asset generally reflects that assets are managed well (Ibid).

A. Inventory Turnover Ratio (ITOR) and Days of Inventory Holding (DIH)

Inventory turnover ratio: - Shows how rapidly the inventory is turning over in to receivable or cash through sales it is used to measure the inventory management efficiency of a business (Ibid).

Days of inventory holding: - measures the average number of days it takes the company to sell its inventory of finished goods, it is the number of days the inventory remains in the stock until it is sold (Ibid).

Interpretation

In general, a higher value of inventory turnover indicates better performance and lower value means inefficiency in controlling inventory levels. A lower inventory turnover ratio may be an indication of over-stocking which may pose risk of obsolescence and increased inventory holding costs. However, a very high value of this ratio may be accompanied by loss of sales due to inventory shortage. (www.financialratioos.com)

B. Account Receivable Turnover Ratio (ARTO) and Average Collection Period (ACP)

Average Collection period: - measures the average numbers of days it takes for the company to collect it account receivable or number of day's sales tied up in receivables [1]

Interpretation

A short collection period means prompt collection and better management of receivables. A longer collection period may negatively affect the short-term debt paying ability of the business in the

eyes of analysts. (www.financialratiooss.com) Account receivable turnover ratio: - measures the numbers of times per year the company is turning over its receivable [1].

Interpretation

Accounts receivable turnover measures the efficiency of a business in collecting its credit sales. Generally a high value of accounts receivable turnover is favourable and lower figure may indicate inefficiency in collecting outstanding sales. (www.financialratiooss.com)

C. Total asset turnover (TATO):- It is the ratio of a company's sales to its assets.

It is an efficiency ratio which tells how successfully the company is using its assets to generate revenue. (Ibid).

Interpretation

If a company can generate more sales with fewer assets it has a higher turnover ratio which tells it is a good company because it is using its assets efficiently. A lower turnover ratio tells that the company is not using its assets optimally. Total asset turnover ratio is a key driver of return on equity. (www.financialratiooss.com)

D. Fixed asset turn over (FATO):- The fixed asset turn over measure how well the firm was its long term (fixed) asset and shows how many dollars of sales are supported one dollar of fixed asset [1].

Interpretation: If the fixed asset turnover ratio is low as compared to the industry or past years of data for the firm, it means that sales are low or the investment in plant and equipment is too high. This may not be a serious problem if the company has just made an investment in fixed asset to modernize. If the fixed asset turnover ratio is too high, then the business firm is likely operating over capacity and needs to either increase its asset base (plant, property, equipment) to support its sales or reduce its capacity. (www.financialratiooss.com)

Possible Solution to Improve a Firm's Activity (Efficiency) those solutions are: Implement and use total quality assurance practices and procedures throughout the entire business cycle. Reduce the maturity cycle - the time from the initial purchase of raw materials and supplies for production through final collection on account from customers. Increase the rotation of inventory by discounting slow-moving items, and selling off obsolete items. Use just-in-time delivery methods to reduce the investment in inventory on hand. Subcontract or outsource certain phases of the

productive cycle that can be more efficiently performed outside the business. Implement and carry out preventive maintenance and scheduled maintenance of plant, machinery and equipment. Follow design capacity indications for plant, machinery and equipment. Replace obsolete or inefficient machinery, and equipment (www.financialratios.com).

3. Leverage Ratios

The short term creditors, like bankers and suppliers of raw material, are more concerned with the firm's current debt paying liability. On the other hand long term creditors, like debenture holders financial institution are more concerned with the firm long term financial strength. In fact, a firm should have a stronger shorter as well as long term financial position [1]. To judge the long term financial position of the firm financial leverage or capital structure ratio will be calculated. This ratio index mix of funds provided by owners and lenders assets. The manner in which assets are financed has a number of implications. First between debt and equity, debt is more risky from the firms point of view. The firm has legal obligation to pay interest to debt holders, irrespective of the profit made or loss incurred by the firm. The process of magnifying the shareholders return through the employment of debt is called financial leverage or trading on equity [3]). Leverage ratio may be calculated from the balance sheet items to determine the extent to which operating profit are sufficient to cover the fixed charges.

A. Total Debt Ratio

Several debt ratios may be used to analyse the long term solvency of a firm. The firm may be interested in knowing the proportion of the interest-bearing debt (also called funded debt) in capital structure. It may therefore, compute debt ratio by dividing total debt (TD) by capital employed (CE) or total net asset (NA) ([3]. Total debt will include short and long term borrowing financial institution debentures/bonds, deferred payment arrangement for buying capital equipment and bank borrowing, public deposits and any other interest-bearing loan. Capital employed will include total debt and net worth (NW).

Note that capital employed (CE) equals net assets (NA) which consist of net fixed assets (NFA) and net current assets (NCA). Net current asset are equal to current asset (CA) minus current liability (CL) excluding interest bearing debt. These relations are given below. Because of the equality of capital employed and net asset, debt ratio can be defined as total debt divided by net asset.

Interpretation

Debt ratio ranges from 0.00 to 1.00. Lower value of debt ratio is favourable and a higher value indicates that higher portion of company's assets are claimed by its creditors which means higher risk in operation since the business would find it difficult to obtain loans for new projects. Debt ratio of 0.5 means that half of the company's assets are financed through debts. (www.financialratio.com)

B. Earning Coverage Ratio

The earning coverage ratio is a financial ratio that provides a quick picture of a company's ability to pay the interest charges on its debt. The "coverage" aspect of the ratio indicates how many times the interest could be paid from available earnings, thereby providing a sense of the safety margin a company has for paying its interest for any period. A company that sustains earnings well above its interest requirements is in an excellent position to weather possible financial storms. By contrast, a company that barely manages to cover its interest costs may easily fall into bankruptcy if its earnings suffer for even a single month. Therefore; it is a measure of a company's ability to meet the service charges on its debt finance [3].

Interpretation

The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses [3].

Possible Solution to Improve a Firm's Financial Leverage

- Increase capital. This will depend on the type of business structure. In a sole proprietorship it means making additional capital contributions. In a partnership, additional capital contributions would have to be requested from the partners. And in a corporation, additional shares would need to be issued. For a closely-held corporation, it may mean going public.
- Re-finance debt at lower interest rates.
- Obtain new loans, possibly long-term loans at lower interest rates, to pay off short-term debt with a higher interest rate.
- Use mortgage debt, at a lower interest rate, to pay off unsecured loans, at higher rates.

- Request extensions of payment terms.
- Sell off assets in order to pay down debts. ([http:// campus.murraystate.edu/](http://campus.murraystate.edu/))

4. Profitability Ratio

It describes the firms past profitability. Even if there is little evidence that past profitability will indicate the future prospect. Profitability ratio measure the success of the firm's management in earning a net return from the resources entrusted to them specifically, profitability ration can be used to answer such question as how much of each sale was management able to convert in to profit? And did the company shareholders receive an adequate return on their investment. For discussion purpose it is better to divide profitability in to two groups.

- Profitability in relation to sales
- Profitability in relation to investment

Profitability in relation to sales

It is important from a profit stand point that the firm be able to generate adequate profit on each unit of sales. It sales lock of sufficient margin of profit; it is difficult for the firm to convert its fixed cost, fixed changes on debt, and to earn profit for shareholders.

The profit ratio discussed here is commonly referred to as profit margin and include the gross profit margin, operating profit margin, and net profit margin [3].

A. Gross Profit Margin

Gross profit margin ratio shows the profit relating to sales after the direct production costs are deducted. It may be used as an indicator of the efficiency of the production operating and the relation between production cost and selling price [3].

A high gross profit margin ratio is a sign of good management. A gross margin ratio may increase due to any of the following factors (Ibid). Higher sales prices cost of goods sold remaining constant. Lower cost of goods sold, sales, sales prices remaining constant. A combination of variations in sales price and cost the margin widening an increase in the proportionate volume of higher margin items

A low gross profit margin may reflect cost of goods sold due to [3].

- The firm's mobility to purchase favourable item
- In efficient utilization of plant and machinery, or over invest item in plant and machinery.
- Resulting in higher cost of production.

Interpretation

Gross margin ratio measures profitability. Higher values indicate that more cents are earned per dollar of revenue which is favourable because more profit will be available to cover non production costs. But gross margin ratio analysis may mean different things for different kinds of businesses [3].

B. Operating Profit Margin

Moving down the income the next statements the next profit figure in countered is net operating income [3].

The operating profit margin reflects the firms operating expenses as well as its cost of goods sold. Therefore, this ratio serves as on overall measure of operating effectiveness [3].

Interpretation

Thus a higher value of operating margin ratio is favorable which indicates that more proportion of revenue is converted to operating income. An increase in operating margin ratio overtime means that the profitability is improving. It is also important to compare the gross margin ratio of a business to the average gross profit margin of the industry. In general, a business which is more efficient is controlling its overall costs will have higher operating margin ratio. (www.financialratiooss.com)

C. Net Profit Margin

The final profit margin considered involves the net after that profit of the firm as a percent of sales [3].

Net profit margin is one of the most closely followed numbers in finance. Shareholders look at net profit margin closely because it shows how good a company is at converting revenue into profits available for shareholders.

Interpretation

Net profit margin is often used to compare companies within the same industry, in a process known as "margin analysis." Net profit margin is a percentage of sales, not an absolute number, so it can be extremely useful to compare net profit margins among a group of companies to see which are most effective at converting sales into profits. (www.financialratiooss.com)

Profitable in relation to investment

This category of profitability ratio attempt to measure firm's profit in relation to the capital invested by owners and creditors. If the firm cannot produce a satisfactory profit on its assets base, it may be miss-using the assets [3].

A. Rate of Return on Asset (ROTA)

The relationship of the earnings of a business to its total income is a important indicator of the effectiveness of management in influencing a return to suppliers of capitals as well as methods of predicting future earnings (Ibid).
$$\text{Average total asset} = \frac{\text{Total asset of the end of last year} + \text{Total assets at the end of current year}}{2}$$
 Net income is found on the current year's income statement; average total asset must be calculated as the average of total asset at the previous year and the current year (Ibid).

Interpretation

Return on assets indicates the number of cents earned on each dollar of assets. Thus higher values of return on assets show that business is more profitable. This ratio should be only used to compare companies in the same industry. The reason for this is that companies in some industries are most asset-insensitive i.e. they need expensive plant and equipment to generate income compared to others. Their ROTA will naturally be lower than the ROTA of companies which are low asset-insensitive. An increasing trend of ROTA indicates that the profitability of the company is improving. Conversely, a decreasing trend means that profitability is deteriorating. This ratio is regarded as a measure of a company's efficiency in the use of its asset to generate sales (www.financialratiooss.com).

B. Return on Investment (ROI)

Return on investment (ROI) is the concept of an investment of some resource yielding a benefit to the investor. A high ROI means the investment gains compare favorably to investment cost. As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms, it is one way of considering profits in relation to capital invested. (Ibid).

$$\text{ROI} = \text{ROTA} = \text{EBIT} (1-T) / \text{Total Assets}$$

$$\text{RONA} = \text{EBIT} (1-T) / \text{Net Assets}$$

ROTA and RONA are respectively return on total asset and return on net asset. RONA is equivalent of return on capital employed [1].

C. Rate of return on Equity

To measure how effectively the resource provide by company shareholders are being utilized, analysis calculate the rate of return on equity shares for potential investors as a rough indication of the long term return which they may anticipate the ratio is calculated by dividing net income reduced by divide on preference share by average equity share capital [6].

Interpretation

Return on equity is an important measure of the profitability of a company. Higher values are generally favourable meaning that the company is efficient in generating income on new investment. Investors should compare the ROE of different companies and also check the trend in ROE over time. (www.financialratioss.com)

Possible Solution to Improve a Firm's Profitability

Implement or revise a marketing plan, invest in appropriate advertising and publicity for the targeted consumers, expand consumer knowledge of your product or service, offer new or improved products based on customer needs. Use total quality control systems to eliminate defects and improve efficiencies throughout the business. Increase productivity by properly training personnel, using machinery and equipment in accordance with their design capacity and specifications; outsource work that can be done more cost-efficiently outside the business. Develop realistic budgets and compare actual results to budget. Improve employee motivation by creating and maintaining a healthy work environment and providing appropriate incentives. Invest in the necessary information systems to adequately handle the flow of information and transactions in

the business, as efficiently as possible. And, be aware of the tax consequences of business transactions (www.free-business-plans.com).

2.8. Limitations of Ratio Analysis

According to Kieso (1998; 233) because a ratio can be computed precisely, it is easy to attach a high degree of reliability or significance to it. The reader of financial statements must understand the basic limitations associated with ratio analysis when evaluating an enterprise. Like all weapons, ratio analysis suffers from a number of weaknesses. Those are: Ratios ignore non quantitative factors like skills of the work force, state of personnel relations and motivation, competence of management etc., except insofar as these are reflected by below average performance [6]. Ratios are naturally static measures as indices which are not likely to tell the process which leads to the state of affairs obtained and are not likely to predict the direction of change in future. One has to use other theoretical frameworks to predict such directional changes. Such things like inflation are ignored by ratios [9]. Ratios are prepared out of accounting figures which are products of accounting measurements and estimates. Financial ratio analysis ignores subjecting the ratios to the rules of probability to determine their exact level [4]. Ratio analysis is restricted by the amount of information available in published statements; businesses have the tendency to report only the legal minimum, rather than the maximum possible details (Ibid). Ratios are not ends in themselves [1]. The interpretation and comparison of ratios are also rendered invalid by the changing volume of money. The accounting figures, presented in the financial statement are expressed in the monetary unit, which is assumed to remain constant. In fact, prices change over years and as a result assets acquired at different dates will be expressed in different amounts in the balance sheet. This comparison is being meaningless [9].

2.9 Empirical review and summary

The study conducted by Adino (2007) 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

Another study conducted by Befekadu (2007) 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.

Bayeh (2007) studied on the Financial Sustainability of Microfinance Institutions (MFIs) in Ethiopia, which aimed at identifying factors affecting financial sustainability of MFIs in Ethiopia. The study followed a quantitative research approach using a balanced panel data set of 126 observations from 14 MFIs over the period 2002-2010. The researcher the researcher used panel data model which is deemed to have advantages over cross section and time series data methodology. Mulalem(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.

2.9 Research gap

The pervious study was conducted on financial performance analysis at bank and micro finance institutions but the current study intends beyond to conducted study in Ethiopia brewery factory by using basic financial ratios and to give better treatment to them.

CHAPTER THREE

3. RESEARCH METHODS

3.1 Research design

Research design is the way of how we can conduct the research and what it looks like to achieve the final goal of the study. So in this study I will follow descriptive design methodology. Mean that in this study we have are going to describe each action that needs to achieve the final objective as well as in order to answer the research questions that we have describe in the approve section. And we have also used survey for gathering of information and data for seek of conducting study objective.

3.2 Target Population

Here, we are going too discussed about what we have covered on the study or what are those targeted groups. So the target population that we have selected are based on pervasive sampling based of the year of establishment of Ethiopian beer breweries which are operating business in Ethiopia.

3.3 Data Sources

Since the study would be conducted to measure the financial performance of Ethiopia beer brewery using the basic financial ratios, which is highly depend on the data from audited financial reports. The study will be relied on secondary source. Those data would be collected from the published and audited annual report of the selected Ethiopia beer brewery. In addition to annual report, different documents and literatures records will be reviewed in order to realize the objective of the study.

3.4 Method of data analysis

After the collection of the necessary data, the data would be organized by using tables to make it ready for processing. And the tabulated data will be analysed by using the appropriate calculate ratio basically ratio analysis method and it would be presented using graphs, charts, table and percentage.

CHAPTER FOUR

Data analysis and presentation

Summary of balance sheet of in Ethiopia brewer factory

Assets	2007	2008	2009	2010
Cash and bank bancs	1,715,244.99	13,400,417.81	6,465,882.74	7,440,866.00
Debtors	16,857,453.08	22,709,308.85	32,717,892.12	27,011,049.07
Stock	67,897,278.12	109,051,743.17	114,834,541.17	123,918,343.05
Total current Assets	86,469,976.19	145,161,460.20	154,018,316.03	185,360,258.12
Deferred expenditure	11,073,052.21	3,630,437.34	3,405,114.54	3,128,166.28
Net fixed assets	203,274,004.01	194,492,806.83	179,723,193.36	179,174,806.54
Total assets	300,817,032.4	343,284,704.3	337,146,623.8	340,663,230.9
Liabilities and shareholder's equity				
Total current liability	80,629,145.66	133,097,968.96	136,685,370.58	154,236,778.38
Total long-term liability	65,994,588.5	55,499,776.76	44,683,793.10	29,901,638.99
Total liabilities	146,623,734.2	188,597,745.7	181,369,163.6	184,138,417.3
Total shareholders	154,193,298.32	145,686,958.56	155,777,460.25	156,524,813.58
Total liability and Shareholders' equity	300,817,023.5	343,284,704.3	337,146,623.8	340,663,230.8

Table 1. Staring from 2007 to 2010

Summary of income statement of Ethiopian brewery factory

Starting from 2007 To 2010

	2007	2008	2009	2010
Net sales	152,223,132.12	209,695,409.77	244,820,737.60	282,845,137.25
Cost of goods sold	(82,489,219.67)	(120,285,050.71)	(156,984,164.62)	(183,941,267.48)
Gross operating profit	69,733,912.45	89,410,536.06	87,836,572.98	98,903,869.77
Other income	2,087,726.43	4,530,177.06	4,394,273.89	6,140,123.88
Total gross profit	71,821,638.88	93,940,536.12	92,230,846.87	105,043,993.65
Total operating expenses	(49,810,021.96)	(66,776,725.33)	(65,020,149.35)	(80,299,716.48)
Net profit before tax	22,011,616.92	27,163,810.79	27,210,697.51	24,744,277.17
Tax expenses	(4,492,132.70)	(8,212,611.48)	(8,335,968.87)	(7,834,025.55)
Net profit after tax	17,519,484.22	18,951,199.31	18,874,728.64	16,910,251.62
Earnings per share	153	165	164	147

Table 2. Summary of income statement of Ethiopian brewery factory

4. 1. Financial statement analysis of Ethiopian Brewery share company

4.1.2 Ratio Analysis

4.1.3 Liquidity ratio

Liquidity ratio is used to measure short-term solvency of a firm. It expresses the variability of liquid assets relative to potential claims. It is measured based on current assets of a firm that are considered as the principal sources of cash for meeting current liabilities or short term obligations of a firm.

It this case special attention is given to current ratio and quick ratio.

I) Current ratio: - it is one of the tools for measuring liquidity of a given firm. It is calculated by dividing total current assets by total current liabilities.

$$\text{Current ratio} = \frac{\text{Total current Assets}}{\text{Total current liabilities}}$$

Year	Total current assets	Total current liabilities	Current ration
2007	86,469,976.19	80,629,145.66	1.07:1
2008	145,161,460.20	133,097,968.96	1.09:1
2009	154,018,316.03	136,685,370.58	1.13:1
2010	158,360,258.12	154,236,778.38	1.03:1

Table 3. Analysis of current ratio

Interpretation: As we can see from the above table 3.1 Brewery Share Company has the ability to meet 1 birr of its current liabilities from current assets of birr 1.09 in 2007.

In the year 2008 the current ration of Ethiopian Brewery factory show that it has 1.09 birr in current assets for each Birr of current liabilities. The current rations of Brewery factory show that the company has 1.13 Birr in current assets for each Birr of current liabilities during 2009 and 1.03 Birr in current assets for each Birr of current liabilities during 2010.

Generally, the ability of the company's current assets pay its current liabilities showed increase from 2007-2009. But as a conventional rule, lenders require the current ratio of the borrowing company to remain at or above 2 to 1 as a condition for grading or continuing the commercial and industrial loans. Although the ratios showed increase still they are less than the standard of 2.0 times. This is because of the fact that all current assets cannot be easily converted back to cash. In 2010 the ratio decreased because its current liabilities much larger that its current assets so during both 2009 and 2010 the company is not in a good performance or financial position.

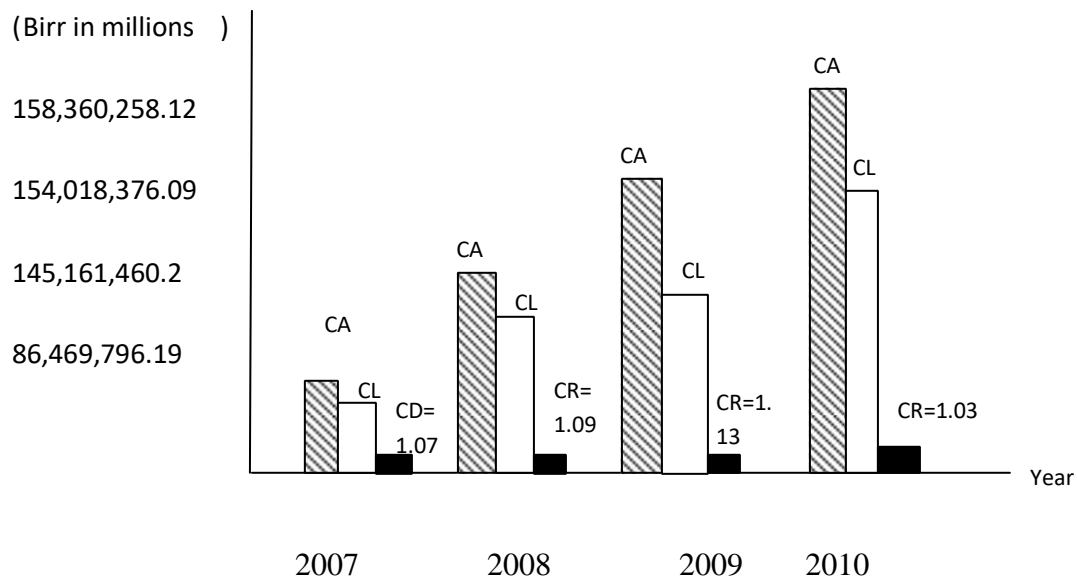


Fig 1. Current ratio

II) Quick (Acid-test) ratio: It is calculated by deducting stocks from current assets and then dividing the remainder the remainder by current liabilities.

$$\text{Quick ratio} = \frac{\text{Current assets stocks}}{\text{current liabilities}}$$

Year	Current assets stocks	Current liabilities	Quick ratio
2007	18,572,698.07	80,621,456.66	0.23:1
2008	36,109,726.1	133,097,968.96	0.27:1
2009	39,183,774.9	136,685,370.58	0.28:1
2010	34,441,915.1	154,236,778.38	0.22:1

Table 4. Analysis of quick ratio

Source: Balance sheet

Interpretation: As it is shown on the above table 3.2. Brewery factory share company's ability to meet its current liabilities by using current assets other than stocks was increased from 2007 to 2009 the same to that of current ratio of the company. But conational rule said that the company's quick ratio should be 1.0 times or more than that so, in this case since all the quick ratios are less than the required amount the company is not in a good position during all the four years. In 2010 the

quick ratio showed decrease due to the fact that the total assets of the company constitute a large amount of stocks in that year which were deducted to meet the short-term solvency. The current ratio of 0.23 times for 2007 implies that the company has 0.23 cents of current assets to meet its 1 birr current liabilities. Generally, the company does not show good performance throughout four consecutive years.

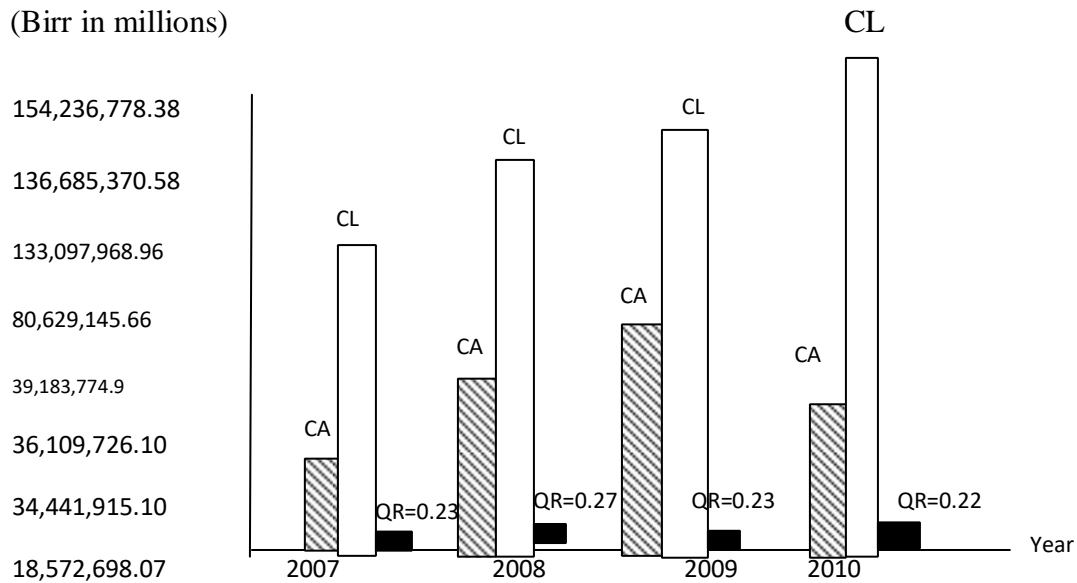


Fig 2: Quick ratio

4.1.4 Asset Management ratios

It shows the relationship between the companies' operating income and total assets.

- I) Total assets Turnover ratio: It measures the extent to which the company's assets generate revenue.

$$\text{Total assets turnover ratio} = \frac{\text{Net sales}}{\text{total assets}}$$

Year	Net sales	Total Assets	Total assets turn ovation
2007	152,223,132.12	300,817,032.4	05:1
2008	209,695,409.77	343,284,704.3	0.61:1
2009	244,820,737.60	337,146,623.8	0.73:1
2010	282,845,137,25	340,663,230.9	0.83:1

Table 5. Analysis of total assets turn over ration

Source: Income statement anal balance sheet.

Interpretation

The total assets turnover ratio of 0.5 time during 2007 implies that the Ethiopian Brewery factory share company was able to generate Birr 0.5 (50cents) for a single birr it has invested in its assets during that year. During 2008, the company was able to make a net sales of 0.61 birr for each birr it invested in the total assets. During 2009 and 2010, the company as able to make net sales of 73 cents and 8.3 cents for each birr it invested in the total assets respectively.

From the trends over the period of years (4years) we can generalize that the company was increasing its net sales per birr investment in asset the company showed a good performance in utilization of its assets. Birr this can be checked by taking historical standards of 4 years as a bench mark.

(Birr in millions)

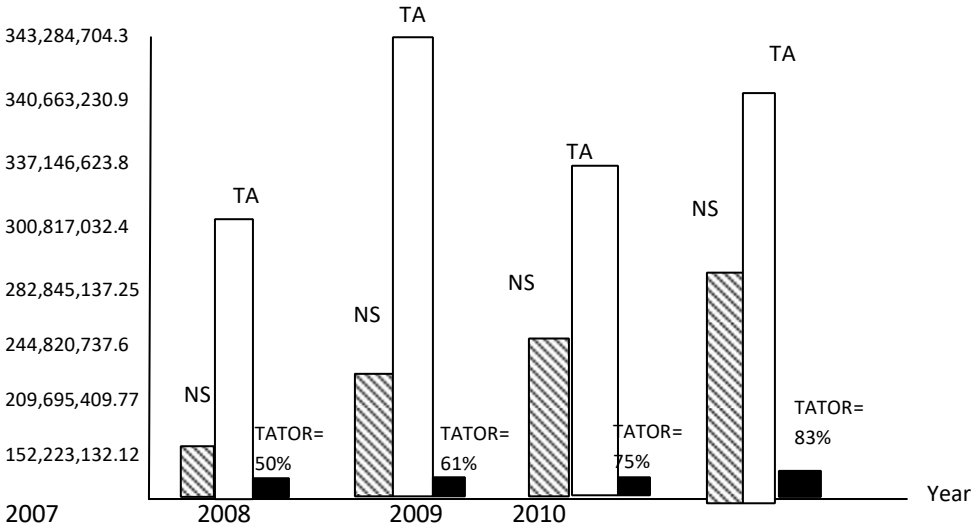


Fig 4 Total assets turnover ratio

II) Inventory turnover ratio: It measures the number of times per year that the company sells its inventory.

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Stocks}}$$

Year	Cost of goods sold	Stock	Inventory turn ovation
2007	82,489,219.67	67,897,278.12	1.21times
2008	120,285,050.72	109,051,734.17	1.1 times
2009	156,984,164.62	114,834,541.17	1.36 times
2010	183,941,267.48	133,918,343.05	1.48 times

Table 6. Analysis of Inventory turnover ratio

Source: Income statement and Balances sheet

Interpretation

As we can see from the table 3.4, the company was able to sell its inventories 1.21 times and 1.1 times during 2007 and 2008 respectively. During 2009 and 2010, the company was able to sell its inventories 1.36 times and 1.48 times respectively which showed some increase than that of 2008. In general, high inventory turnover ratio may be taken as a sign of good inventory management but it indicates the in adequacy of inventory to meet customer demands with results in loss of sales. Based on this assumption of historical standard we can say that the company's inventory management was good in 2007 than followed years.

(Birr in millions)

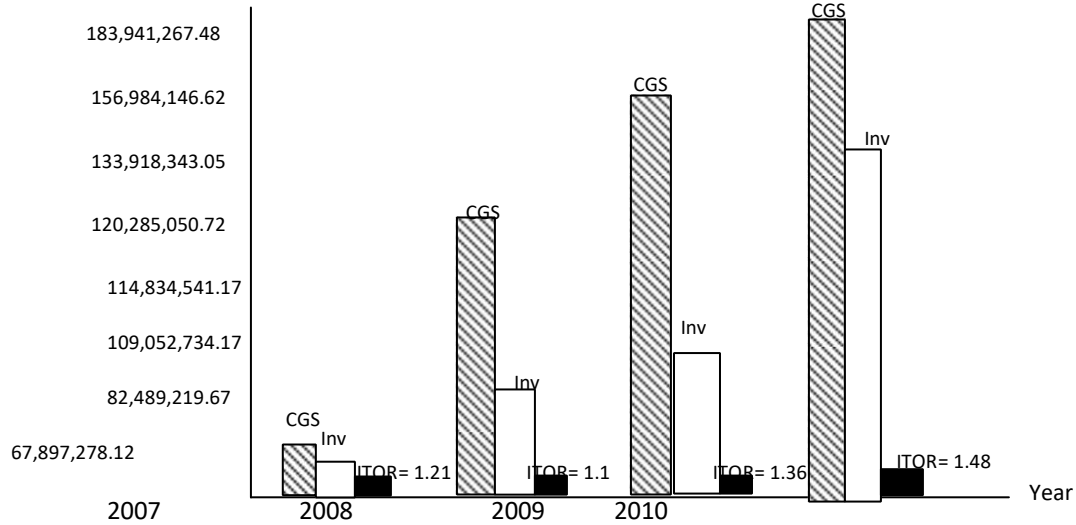


Fig.5 Inventory turnover ratio

III) Fixed Assets turnover ratio: -this ratio measures how effectively the firm uses its fixed assets such as plant and equipment to generate revenue.

$$\text{Fixed Assets turnover ratio} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

Year	Net sales	Net fixed Assets	Fixed assets turnover ratio
2007	152,223,132.12	203,274,004.01	0.75 times or 0.75.1
2008	209,695,409.77	194,492,806.83	1.08:1
2009	244,820,737.60	179,723,193.36	1.36:1
2010	282,845,137.25	197,174,806.54	1.56:1

Table 7. analysis of fixed assets turnover ratio

Source income statement and balance sheet

Interpretation: From the above table 3.5 we can say that during 2007 and 2008, the fixed assets of Ethiopia Brewery factory for each it employed it generated the revenue of 75% and 1.08 or 108% respectively and also during 2009 and 2010, the company's fixed assets each if employed it generated the revenue of 1.36 or 136% and 1.56 or 156% respectively. In general, the highest fixed assets turnover ratio can be taken as an indication of good fixed asset management. From the above case we can say that Ethiopia Brewery factory Share is employing its fixed assets effectively when we take the standard of past performance of the company. (Birr in millions)

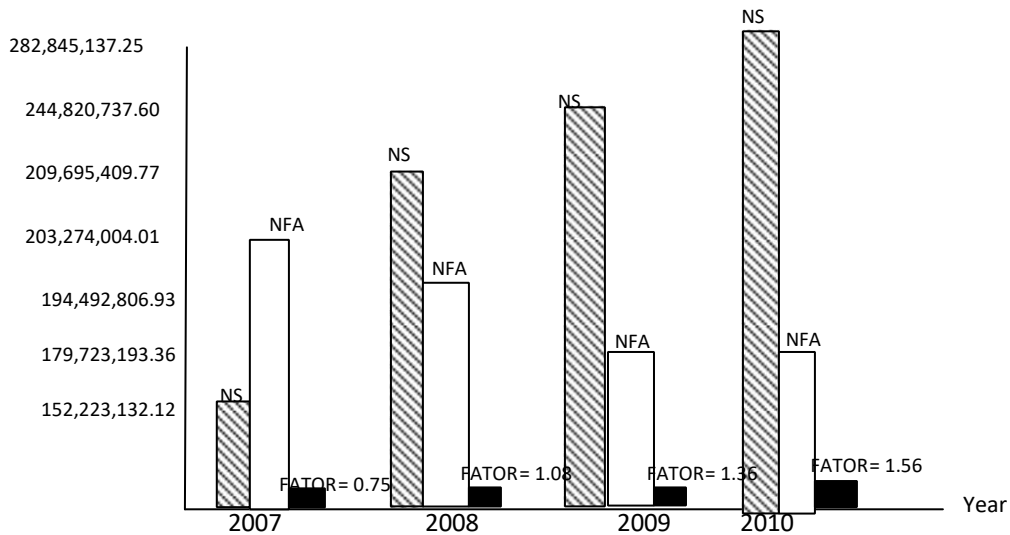


Fig 6. Fixed assets turnover ratio

4.1.5 Debt management ratios (Leverage ratios)

- I) Debt ratio or total debt to total assets ratio: this ratio measures the percentage of funds provides by creditors.

$$\text{Debt ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

Year	Total debt (liabilities)	Total assets	Debt ratio
2007	146,623,734.2	300,817,032.4	0.49.1
2008	188,597,745.7	343,284,704.3	0.55:1
2009	181,369,163.6	337,146,623.8	0.537.:1
2010	184,138,417.3	340,663,230.9	0.54:1

Table 8. Analysis of debt ratio

Source: Balance sheet

Interpretation:

As we can see from the table 3.6 above at the end of 2007, 49 percent of the total assets of Ethiopia Brewery factory was financed by funds secured in the form of current and long term liabilities. The remaining 51 percent was financed by funds contributed by shareholders and retained from the profits earned by the company. Similarly; debt financing constitutes about 55 percent of the total assets of the company during 2008. This leaves 45 percent of the total assets to be financing has increased during 2008 compared to 2007 signaling bad condition. When we take the standard

of comparison of trend overtime period as a benchmark it is bad in 2008 because the assets of the company were more debt dominated in 2008 than in 2007. Hence, lenders are not willing to give loans to the company during 2008 when debt asset ratio is less than during 2007.

The same interpretation is given for 2009 and 2010 i.e debt financing constitutes 53.7 percent and 54 percent respectively. Generally, since our base of standard is 1.0 or less to say the business is in a good performance during 2007 Ethiopia Brewery factor showed a good performance but still it is less than the standard.

(Birr in millions)

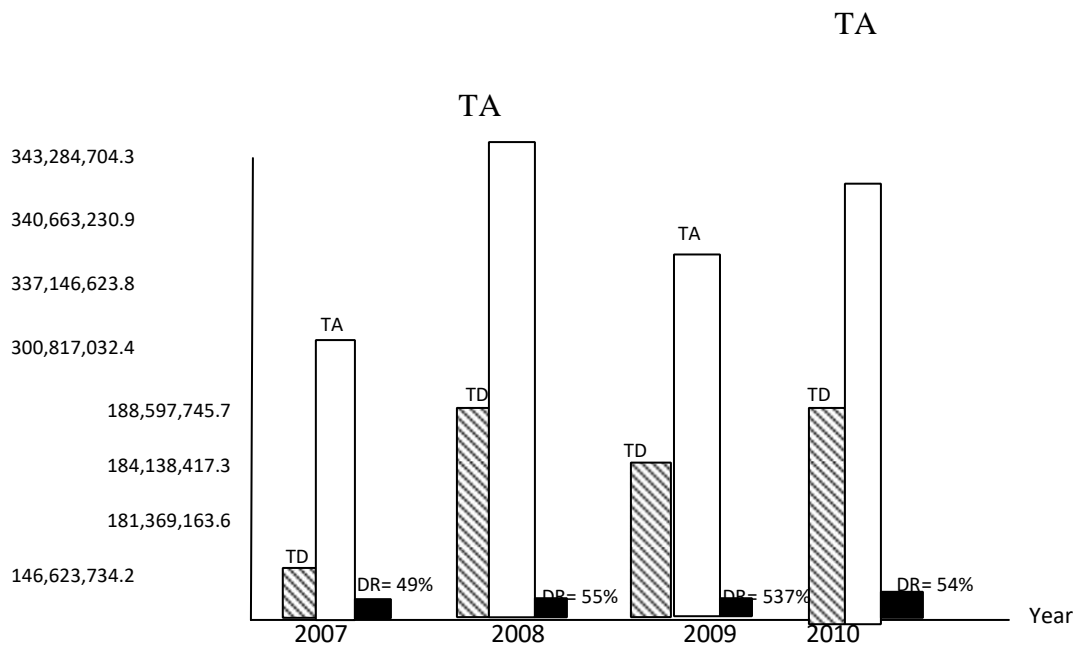


Fig 7. Debt ratio

II) Long-term debt ratio: This ratio measures the relative importance of long-term debt in the capital structure of a firm.

$$\text{Long-term debt ratio} = \frac{\text{Long-term debt (liabilities)}}{\text{Total assets}}$$

Year	Total debt (liabilities)	Total assets	Debt ratio
2007	65,994,588.5	300,817,032.4	0.22:1
2008	55,499,776.76	343,284,704.3	0.16:1
2009	44,683,793.10	337,146,623.8	0.13.:1
2010	29,901,638.99	340,663,230.9	0.09:1

Table 9. Analysis if long-term debt ratio

Interpretation

As shown on the above table 3. Daring 2007 the ratio of 0.22:1 indicates that from a total of birr 1 assets birr 0.22 is came from long-term debt. And also during 2008 ratio of 0.16 show that from a total of birr 1 assets birr 0.16 is came from long-term debt. By taking 1 or less ratio as a standard between the years the company was in a good position during 2008. The same interpretation is given for 2009 and 2010.

Generally, by taking a conversational rule that is to say a company in a good health the debt ration should be 1 or less. So, Ethiopia Brewery factory showed a good performance doing 2010 than earlier years due to its debt ratio declined less than 1. (Birr in millions)

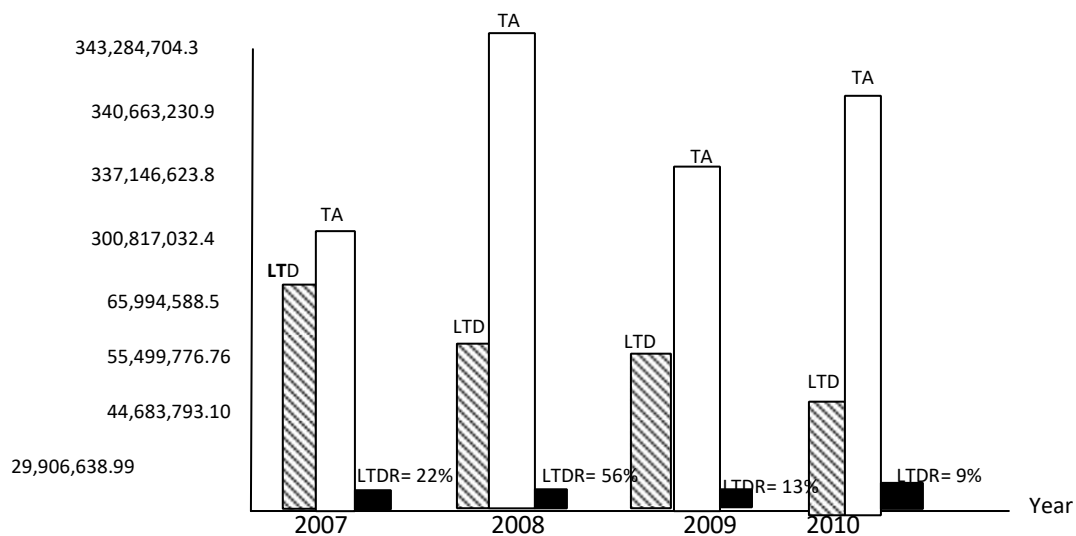


Fig 8 Long-term debt ratio

III) Long-term debt- equity ratio: This ratio measures the extent to which long-term financing sources are provided by creditors (debt-holders).

$$\text{Long-term debt equity ratio} = \frac{\text{Long-term debt}}{\text{Share holder equity}}$$

Year	Long-term liabilities	Shareholder's equity	Long-term debt -equity ratio
2007	65,994,588.5	154,193,298.32	0.43:1
2008	55,499,776.76	154,686,958.56	0.36:1
2009	44,683,793.10	155,777,460.25	0.29:1
2010	29,901,638.99	156,524,813.58	0.19:1

Table 10. Analysis of long-term debt equity ratio

Source: Balance sheet

Interpretation: As shown on the table 3.8 above the long-term debt-equity ratio of 43 percent during 2007 show that for a single birr of shareholders' equity in the long-term financing there is 0.42 birr of long-term debt in long-term financing. During 2008 the long-term debt equity ratio of 0.36:1 shows that for a single birr of shareholder's equity in the long-term financing 36 cents was contributed from long-term debtors.

During 2009 and 2010 the long-term debt-equity ratio of 29 percent and 19 percent show that for a single birr of shareholder's equity there is 29 cents and 19 cents of long-term in long-term financing. Generally, during the 4 year the company is showing a good performance when were compare the computed ratios with that of the standard ratio which is 1 or less. This decrease is due to the fact that some long-term debts might be matured and paid out, Ethiopia Brewery factory might increase the level of its shareholder's equity by issuing additional shares at premium.

(Birr in millions)

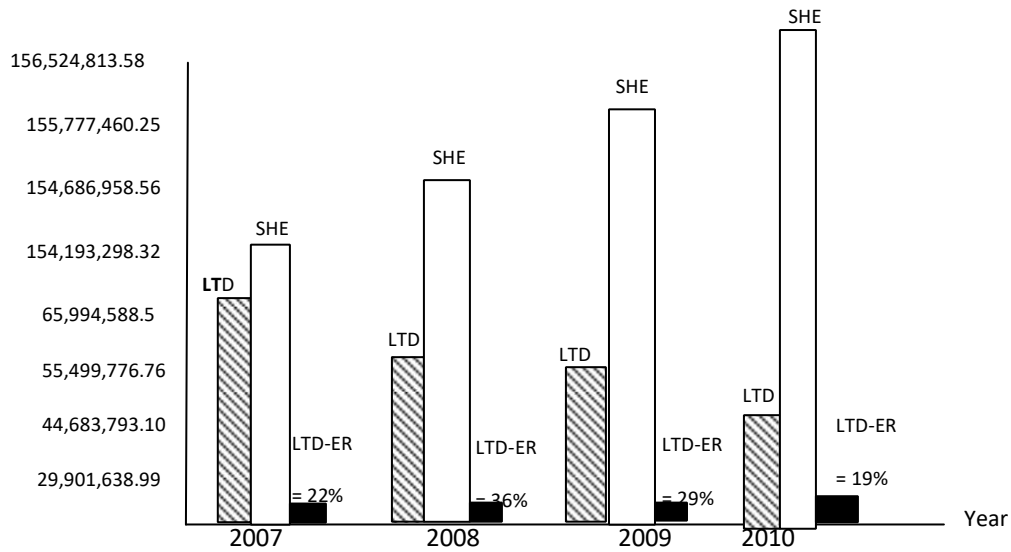


Fig: 9 Long-term debt-equity ratio

IV) Debt equity ratio: this ratio expresses the relationship between the amount of the total assets financed by the creditors and owners.

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Shareholders equity}}$$

Year	Total Debt	Shareholder's equity	Debt equity ratio
2007	146,623,734.2	154,193,298.32	0.95:1
2008	188,597,745.7	154,686,958.56	1.22:1
2009	181,369,163.6	155,777,460.25	1.16:1
2010	184,138,417.3	156,524,813.58	1.18:1

Table 11. Analysis of debt equity ration

Source: Balance sheet

Interpretation:

As shown on the above table 3.8 the debt equity ratio of 95 cents for Ethiopia Brewery factory of the Company for 2007 indicates that the creditors of the company provided about 0.95 birr in financing the assets of the company for every single birr contributed from shareholder's equity.

In 2008 the debt equity ratio showed increase from that of 2007. As a conventional rule, the debt equity ratio of more than 1 is not a good health for a company. So in 2008 the debt-equity ratio is greater than 1 which is more than in 2007 or 0.95 in that the company is not in a good health and may become really ill during 2008. The debt equity of 1.16 and 1.18 for Brewery factory in Share Company for 2009 and 2010 indicate that the creditors of the company had provided 1.16 and 1.18 birr respectively in financing the assets of the company for every birr contributed from shareholder's equity. These types of capital structure showed bad comparing these ratios with standard of 1 or less to keep good health of the business.

Generally, the asset (capital) structure of Ethiopia Brewery factory was good during 2007 than the follower's years. This reason was due to the fact that the standard was to keep good health; the debt equity ratio should be 1 or less.

(Birr in millions)

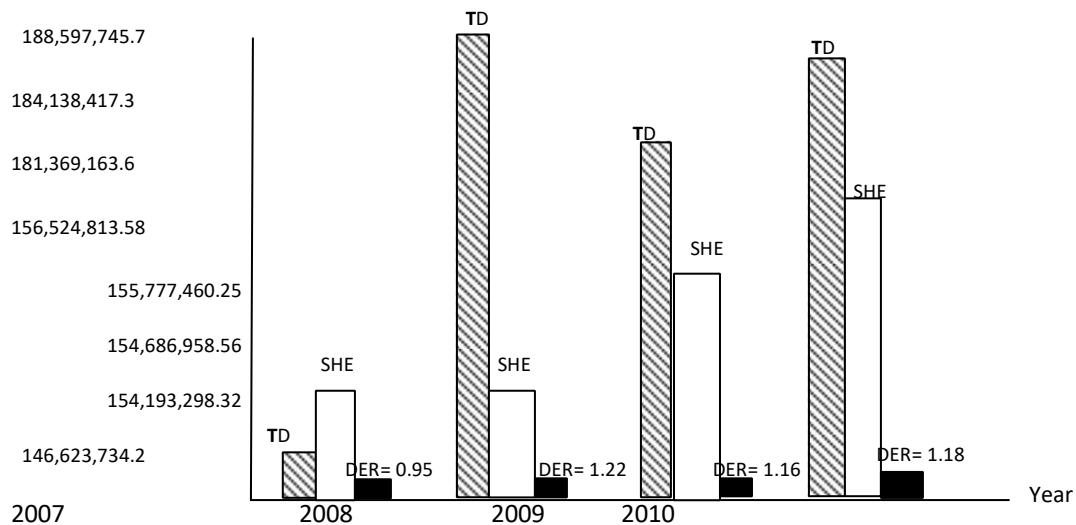


Fig 10 Debt equity ratio

4.1.6 Profitability ratios

The profitability ratios show the overall evaluation of performance of the company and its management. These ratios show the combined effects of liquidity and average ratios on the operating results.

$$I) \quad \text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Net sales}}$$

Year	Gross profit	Net sales	Gross profit margin
2007	71,821,638.88	152,223,132.12	0.47:1
2008	93,940,536.12	209,695,409.77	0.45:1
2009	92,230,846.87	244,820,737.60	0.38:1
2010	105,043,993.65	282,845,137.25	0.37:1

Table 12. Analysis of gross profit margin

Source: income statement

Interpretation

As shown in the above table 4.9. Ethiopia Brewery factory in share Company's gross profit constitutes about 47 percent of its net sales during 2007 and 45 percent during 2008. These ratios show a good or acceptable standard when we compare with the average financials ratios of the company for 4 years which is 41.5 percent as a benchmark. But in 2009 and 2010, the company's gross profit constitutes 38 percent and 37 percent of its net sales respectively. These ratios indicate bad condition as they are less than the average standard which is 41.5 percent. Generally, the gross profit margin of Brewery factory showed decrease throughout the four consecutive years due to the larger cost of goods sold from the assets employed.

(Birr in millions)

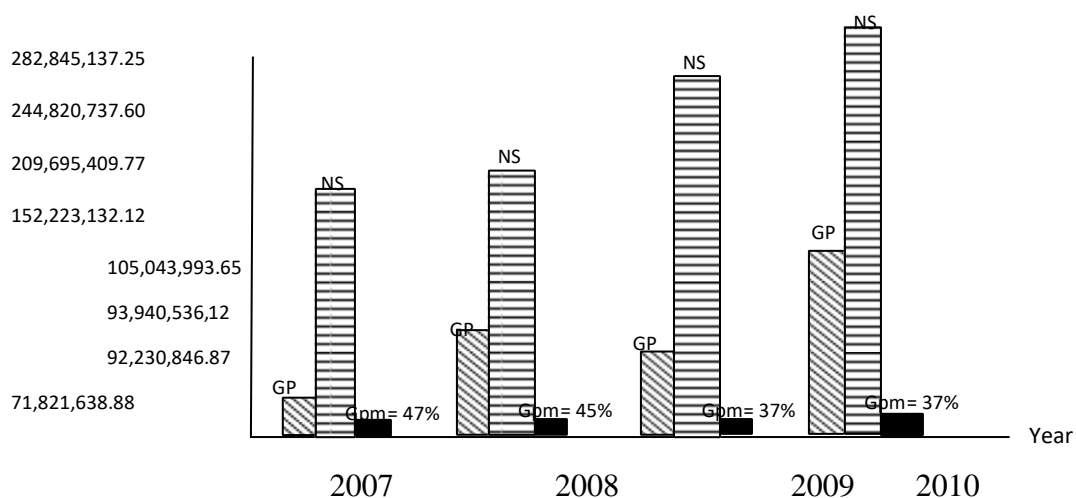


Fig 11. Gross profit margin

II) Operating profit margin: This ratio is the excess of gross profit over total operating expenses.

$$\text{Operating profit margin} = \frac{\text{Operating Income}}{\text{Net sales}}$$

Year	Operating Income	Net sales	Operating profit margin
2007	22,011,616.90	152,223,132.12	14.5%
2008	27,163,810.79	209,695,409.77	13%
2009	27,210,697.51	244,820,737.60	11%
2010	24,744,277.17	282,845,137.25	9%

Table 13. Analysis of operating profit margin

Source: Income statement

Interpretation:

As shown on the table 3.11 above Brewery factory share company remained with 14.5 percent and 13 percent of its net sales after covering its cost of goods sold and all operating expenses during 2007 and 2008 respectively. Thus these ratios show good performance when we take average financial ratios for the company as a base for comparison (benchmark) which is 11.9 percent. In 2009 and 2010, the operating profit margin are 11 percent and 9 percent respectively after covering its cost of goods sold and operating expenses. These ratios are below standard ratio of 11.9 percent. Thus the company is not in a good performance during the latest years. This was due to the increment in cost of goods old and operating expenses.

(Birr in millions)

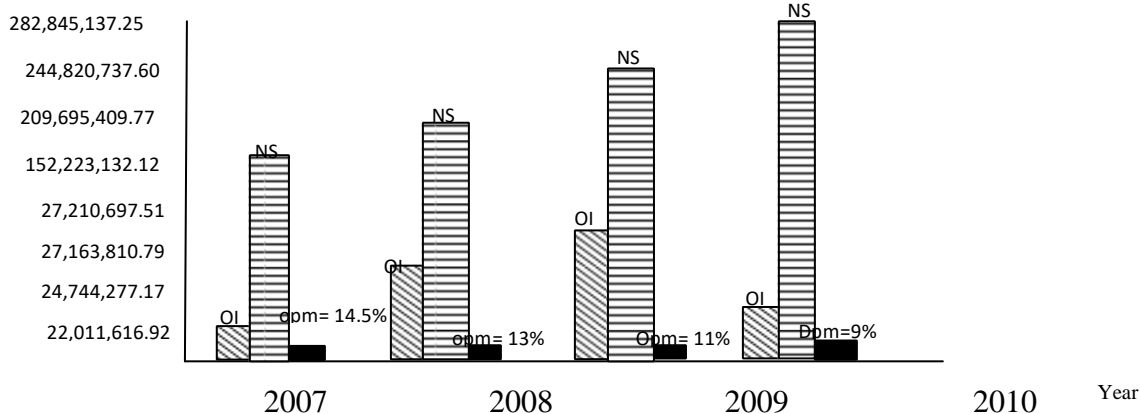


Fig 12. Operating profit margin.

III) Net profit margin: This ratio measures the profitability of the company on a per birr of net sales:

$$\text{Net profit margin} = \frac{\text{Net Income}}{\text{Net sales}}$$

Year	Earnings After tax (NI)	Net sales	Net profit margin ratio
2007	17,519,484.22	152,223,132.12	11.5% or 0.155:1
2008	18,951,199.31	209,695,409.77	9% or 0.09:1
2009	18,874,728.64	244,820,737.60	8% or 0.08:1
2010	16,910,251.62	282,845,137.25	6% or 0.06:1

Table 14. Analysis of Net profit margin ration

Source: Income statement

Interpretation:

From the above table 3.13 we can conclude that Ethiopia Brewery factory in Share Company had earned 11.5 percent net income per birr of net sales it made during 2007 and in 2008 the company had earned 9 percent net income per birr of sales it made during that year. In order to say whether these ratios are good or bad for the company's performance we take the average of computed ratios which is 8.6 percent as a benchmark. So, during both year (2007 and 2008) the company

had a good performance since the net profit margin for the 2 years were more than the average. And also during 2009 and 2010 the company had earned 8 percent and 6 percent net income per birr of sales it made respectively. During these two years the company is performing badly because net profit is influenced by the operating expenses and income tax expense and those expenses were huge during 2009 and 2010.

(Birr in millions)

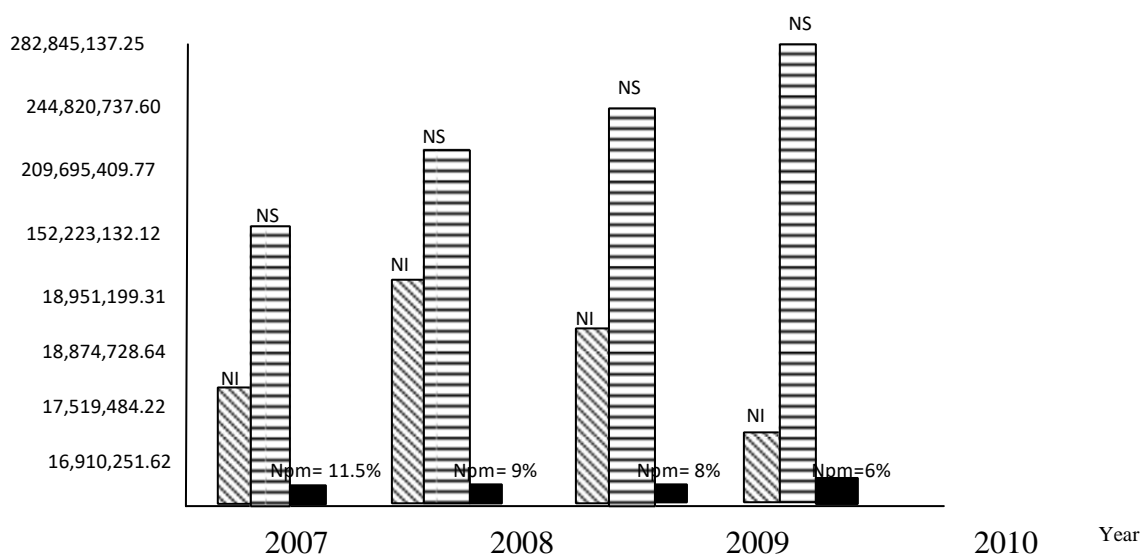


Fig 13 Net profit margin ratio

IV) Return on investment (ROI) it is also known as return on assets. It measures the company's profitability per birr of investment in total assets.

$$\text{Return on investment} = \frac{\text{Net income}}{\text{total assets}}$$

Year	Net Income	Total asset	Return on investment
2007	17,519,484.22	300,817,032.4	5.8%
2008	18,951,199.31	343,284,704.3	5.5%
2009	18,874,728.64	337,146,328.8	5.6%
2010	16,910,251.62	340,663,230.9	5%

Table 15. Analysis of return on investment

Source: Income statement and Balance sheet

Interpretation:

As shown on the table 3.14 above brewery factory in share company generated 5.8 percent or about 6 cents in the form of net income from each birr it invested in its total assets during 2007, and 5.5 percent in the form of net income out of each birr of investment in its total assets during 2008.

To know whether the computed ratios are good or bad performance we take the average ratio for the 4 years which is $\frac{5.8+5.5+5.6+5}{4} = 5.48\%$ as a benchmark.

So during 2007 and 2008 the company is showing a good performance which is greater than the computed average ratio. And also during 2009 and 2010 Brewer factory earned 5.6 percent in the form of net income and 5 percent in the form of net income respectively, out of each birr it invested in its total assets. But during 2010 the company showed a bad performance as its return on investment was less than the average ratio for the four years. This decrease was due to the much assets invested were paid for the cost of goods sold.

(Birr in millions)

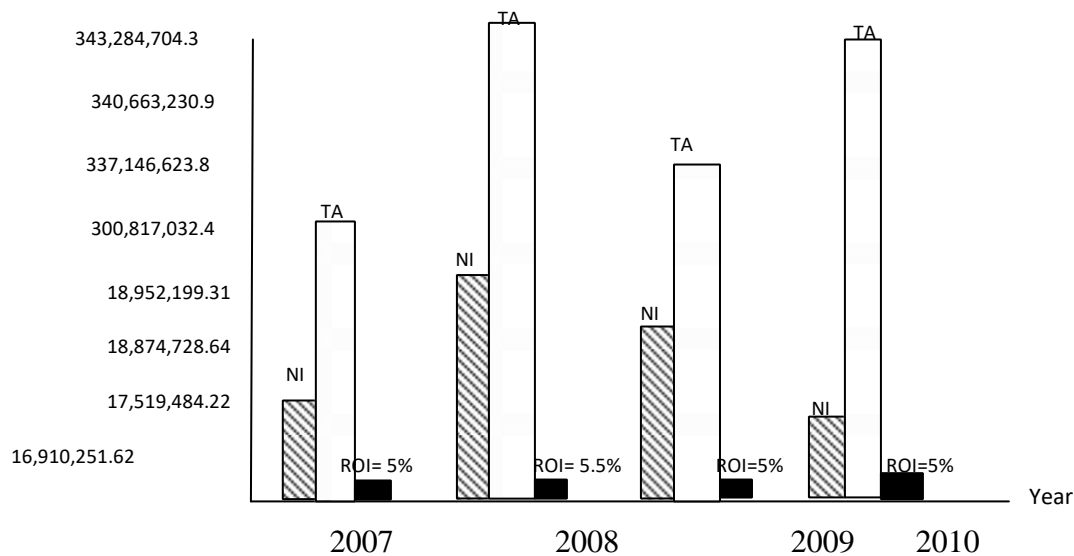


Fig 14 return on investment

- V) Return on common equity (ROE): this ratio measures the return on common equity, or the rate of return on stockholder's investment.

$$ROE = \frac{\text{Net Income}}{\text{Common equity}}$$

Year	Net Income	Common Equity	Return on common equity
2007	17,519,484.22	154,193,298.32	11.36%
2008	18,951,199.31	154,686,958.56	12.25%
2009	18,874,728.64	155,777,460.25	12%
2010	16,910,251.62	156,524,813.58	11%

Table 16. Analysis return on common equity

Source: Income statement and balance sheet

Interpretation:

As shown on the above table 3.15. Ethiopia Brewery factory generated about 11.5 percent in the form of income out of each birr it invested in its common equity during 2007 and 12.25 percent in the form of net income out of each birr of investment in its common equity during 2008. To say the company is performing good or bad performance we should take the average ratio of all ratios during 2007- 2010 years which is 11.65 percent as a benchmark. So in 2007 the company showed a bad performance because in that year long-term liabilities were high but in 2008 it is good performance.

Similarly, in 2009 and 2010 the company generated 12.25 percent and 11 percent respectively in the form of net income out of each birr if invested in its common equity. In 2009 the company's performance was good because ratio is greater than the computed ratio of 11.65 percent. But during 2010 it showed bad performance. This is because although the investment in common equity was high they haven't generated enough net income rather was paid for other purposes. (Birr in millions)

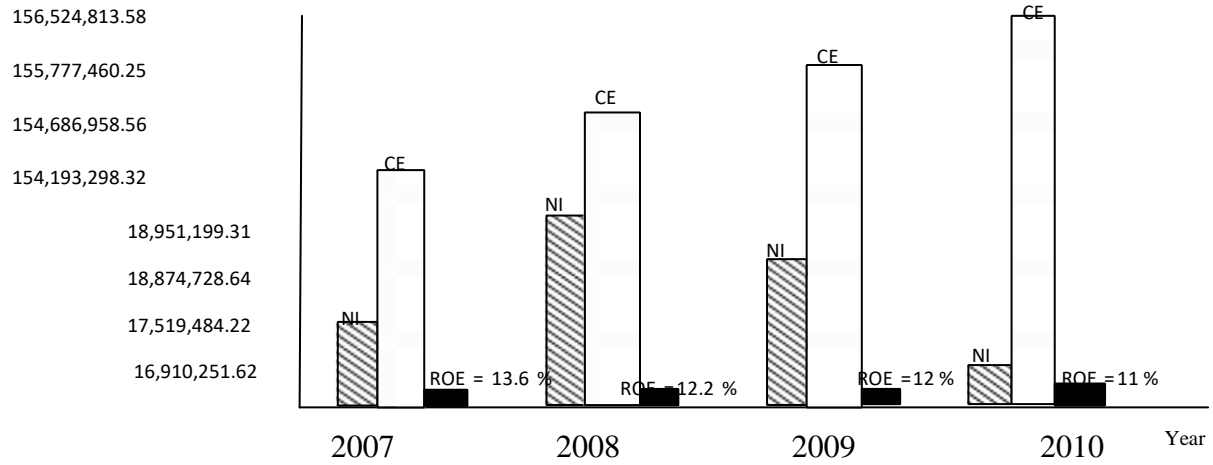


Fig 15. Return on common equity

CHAPTER FIVE

5. Conclusions and recommendations

5.1 Conclusions

Analyzing the performance of the company's financial statement is a paramount important to different users. For managers it helps them in identifying their company's financial strength and weakness and taking corrective actions by comparing with its historical standards.

For shareholder's it is a means of evaluating how their business is performing to maximize the wealth of the firm. Financial ratios were used to analyze the financial performance of Ethiopia Brewery factory.

From the analysis made in the previous chapter we can conclude that Ethiopia Brewery factory in share company's assets utilization was increased throughout the four 4 years (2007-2010). In terms of profitability, the company was showing a bad performance. The debt management of Ethiopia Brewery Factory Share Company has been showing good in terms of long-term debt and long-term debt equity ratios but bad in terms of debt assets ratio and debt-equity ratio.

In terms of short term solvency, Brewery factory of Shave Company showed fluctuation over the 4 years (2007-2010).

- Comparing the liquidity ratios of 2007 and 2009 of Ethiopia Brewery factory in share company both current ratio and quick ratio showed improvement.
- The asset management ratios of Ethiopia Brewery factory imply that the company was less efficient in utilizing assets of inventory during 2008 than it had done during 2007,2009 and 2010.
- The leverage ratios of the company show that the capital structure has been fluctuated except that of long-term debt ratio and long term debt-equity ratio those are constantly improving
- The profit ratios of the company show that its performance was not good during the four consecutive years.

- A conventional rule for the current ratios standard is 2 or above.

- A standard ratio to say the quick ratio is good is 1 or more.
- In the absence of industry standards, the average of the computed ratios was used as a benchmark to say the company is in a good performance or not.

4.2 Recommendations

Based on the results of findings the following recommendations were forwarded.

- It is better for the company to improve its current assets ratio as well as quick ratio by converting the current assets from noncurrent assets, increasing current assets by getting cash loans or other borrowings that have maturities of more than a year and also increasing current assets from a new equity contribution.
- The company should improve its assets utilization by increasing its capacity planning.
- The company should lower its leverage recorded and maintain their required liquid fund to meet the required level of liquidity.
- It is better to improve the profitability of the company by decreasing the cost of goods sold and expenses and also it should compare its financial performance with the industry standards, of similar companies in order to solve the problems of its performance.
- In measuring the performance of the company, it is better to include other method besides a ratio analysis (financial ratios) to provide a better picture of the performance of the company.

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