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A Study on the Financial Performance: The Case of Robi-Berga Farmers Cooperative Union, in West Shoa Zone, Oromia Regional State, Ethiopia

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Abstract:

Analysis of financial statements of Cooperative was necessary for member and non-members, because it helps and depicting the financial position and performance on the basis of past and present records of financial statements. Although, it helps to know the growth, profitability and financial soundness of a cooperative union. This study is conducted Study on Financial Performance of Robi-berga Farmers' Cooperative Union in West Shoa Zone, Oromia Regional State, Ethiopia. For this purpose the data requirements for the study were collected from secondary sources, by using a data sheet disclosed of five years (2009-2013 G.C) audited financial reports of Robi-berga farmers' cooperative union. To achieve the objectives of the study, the researcher was considered five years audited financial reports and bye-law of this cooperative union, and the methods of data analysis were; Ratio Analysis, Funds flow and Cash flows Analysis. The results of the study on financial performance indicated that: Liquidity position of Robi-berga farmers' cooperative union was not good. Then the leverage positions of Robi-berga farmers' cooperative unions were above the standard, so Robi-berga cooperative union has weaker financial position. The profitability ratio of Robi-berga farmers' cooperative union not good, because as the standard levels below the standard.

Keywords: *Financial performance, Funds, Cash flows Analysis and Ratio Analysis.*

1. Background of the Study

According to "Calvert" cooperation is a form of organization, where in persons voluntarily associations together as human beings on the basis of equality, for the promotion of the economic interests of themselves. A cooperative is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs, aspirations through jointly owned and democratically controlled enterprise (ICA, 1995).

Agricultural cooperatives unions have been used for implementing agricultural development policy directed specifically to smallholder of the country. Smallholder agricultural is an important component of the rural sectors and their contributions has a significant place in the national economy of the country. These cooperative unions are introduced as a major rural institution to increase the efficiency of the marketing system and promote agricultural development in the rural sectors of the country's economy. They are also organized to render economic of scale, market power risk pooling and association of demand and supply argument success to input and out market of the smallholders.

Financial statement analysis is the selection, evaluation, and interpretation of financial data, along with other relevant information, to assist in investment and financial decision making. Moreover, it is also the process of identifying financial strengths and weaknesses of the firms by properly establishing relationship between the items of the balance sheet and the profit and loss account (Drake. 2010). Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's management as reflected in the financial records and reports. The analysis attempt to measure the firm's liquidity, profitability and other inductors that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders' to maintain at least its market value (Panwala, M. 2009).

1.2. Objectives of the Study

1.2.1. General Objective of the Study

The general objective of the study was study on the financial performance of Robi-berga farmers' cooperative union

1.2.2. Specific Objectives of the Study

- To examine the financial efficiency of Robi-berga farmers' cooperative union.
- To evaluate the strength and weakness of financial performance of Robi-berga farmers' cooperative union.
- To assess the profitability of Robi-berga farmers' cooperative union.

1.3. Research Questions

- Is Robi-berga farmers' cooperatives union having good financial efficiency?
- What are the strength and weakness of financial performance of Robi-berga farmers' cooperatives union?
- Is Robi-berga farmers' cooperative union was profitable?

1.4. Significance of the Study

This study will throw a study on financial performance of Robi-berga farmers' cooperative union. However, it should be helping full for the Robi-berga cooperative union to know their real financial performance in addition to, it helps for the policy maker, stakeholders, internal and external users and for the researchers.

2. Research Methodology

2.1. An Overview of the West Shoa Zone

West Shoa is one of the zones of the Oromia Regional State that is located at the central part of the regions. Neighboring zones of West Shoa are Amhara Region in the North; East Wollega and Horo Guduru zones in the West and North West; Jimma zone in south west; SouthWest Shoa zone in SouthEast; and North Shoa Zone in south east.

2.2. Population

According to the Central Statistical Agency of Ethiopia (CSA), West Shoa Zone has a Total population of 2,456,135 of whom Male 1,227,308 Female 1,228,827 with an area of 14,788.78 square kilometers. West Shoa has a population density of 166.1. While 242,352 or 6.10% are urban inhabitants, further 53% individuals are pastoralists.

2.3. Sources of Data

The sources of data for the study should be mainly secondary sources. those sources were collected from audited financial reports of the past five years of 2009 - 2013.

2.4. Sampling Technique

Robi-berga farmers' cooperative union was selected purposively, based on the availability of five years (2009 to 2013) audited financial reports and the documents of the union.

2.5. Method of Data Collection

The secondary data were collected from Robi-berga farmers' cooperative union, by using data sheet from the audited financial reports of cooperative union.

2.6. Method of Data Analysis

The data from audited financial reports should be analyzed by Funds flow, cash flows analysis and Ratio analysis of Robi-berga cooperative union.

3. Data Analysis, Results and Discussions

The collected data were analyzed by using ratios like, liquidity, leverage, activity and the profitability ratios along with the standard of those ratios to know its financial performance, funds flow and cash flow statement also prepared to know the flow of fund and cash during the study period between 2009 and 2013,

As indicated in Table 1 that working capital of Robi-berga farmers' cooperative union was increased by 141,360.00 birr and 10,038,479.52 birr in the years 2009-2010 and 2011-2012 respectively, but it decreased by 720,789.78 birr and 270,878.20 birr in the years 2010-2011 and 2012-2013 respectively. Hence, this reveals that the working capital of Robi-berga cooperative union was fluctuated. So, the union has inadequacy working capital, because in the years 2010-2011 and 2012-2013 current liabilities were greater than current assets.

* ETB

Particulars	Years			
	2009-2010	2010-2011	2011-2012	2012-2013
Sources	* ETB	* ETB	* ETB	* ETB
Funds from operations	237,255.00	313,080.44	1,245,589.49	1,355,354.70
Share capital collected	130,000.00	190,000.00	85,000.00	20,000.00
Long-term loan	-	-	9,747,730.10	378,130.02
Decreasing in working capitals	-	720,789.78	-	270,878.20
Total sources	367,255.00	1,223,870.22	11,078,319.59	2,024,362.92
Applications				
Purchased of fixed assets	225,892.00	1,223,870.22	1,039,840.07	738,862.92
Purchase of investments	-	-	-	928,750.00
Paid for work expansions	-	-	-	326,750.00
Paid for social services	-	-	-	30,000.00
Increased in working capitals	141,363.00	-	10,038,479.52	-
Total applications	367,255.00	1,223,870.22	11,078,319.59	2,024,362.92

Table 1: Funds Flow Statement Analysis of Robi-berga Farmers' Cooperative Union
Source: Audited Financial Report of Robi-berga Cooperative Union (2009-10 to 2012-13)

Particulars	Years			
	2009-2010	2010-2011	2011-2012	2012-2013
Net income *	(2,429,405.00)	713,360.40	(169,694.90)	2,544,093.59
Add: non-cash expenses				
Depreciation expenses	-	166,709.05	285,174.57	(232,826.70)
Dividend paid	1,214,703.00	356,680.20	(84,847.44)	2,138,976.23
Less: non-operating incomes	913,804.00	934,623.00	-	(5,202,582.51)
Fund from operation	(2,128,506.00)	302,126.65	30,632.23	(752,339.39)
Add: +Current liabilities	10,409,340.00	2,105,410.85	21,480,633.34	82,904,698.00
-Current assets	10,075,973.00	18,389,819.21	60,466.36	12,996,619.82
Less: -Current liabilities	3,603,747.00	1,604,449.33	19,107,373.51	121,461.99
+Current assets	-	17,168,067.91	10,925,933.46	92,113,038.28
Cash from operation	14,753,060.00	2,024,839.47	(8,461,575.04)	2,914,478.16
Less : Purchase of fixed assets	225,892.00	1,223,870.22	1,039,840.07	738,862.92
-Purchase of investment	-	-	-	928,750.00
Net cash used by investing activities	14,527,168.00	800,969.25	(9,501,415.11)	1,246,865.24
Add-Issues of shares	130,000.00	190,000.00	85,000.00	20,000.00
Net cash provided by financing activities	14,657,168.00	990,969.25	(9,416,415.11)	1,266,865.24
Add : cash at the beginning of the year	3,411,743.00	(76,735.21)	1,546,272.25	3,395,939.28
Cash balance at the end of the year	18,068,911.00	914,234.04	(7,870,142.86)	4,662,804.52

Table 2: Cash Flow Statement Analysis of Robi-berga Farmers' Cooperative Union * ETB
Source: Audited Financial Reports of Robi-berga Cooperative Union (2009-10 to 2012-13)

As indicated on above Table 2 The cash balance of Robi-berga farmers' cooperative union was positive by 18,068,911.00 and 914,234.04 birr in the years 2009-2010 and 2010-2011 respectively, hence this shows that the inflows were greater than outflows. Due to this reason, the union was not more investing on fixed assets, investments and not paid more redemption, so the cash was on the account of the union, on the other hand it is negative by 7,870,142.86 birr in the years 2011-2012. This indicates that outflows of cash were greater than inflows, therefore the union was investing more fixed assets, investments and paid more redemptions during the years, but it is positive by 4,662,804.52 birr in the years 2012-2013, this shows that the inflows was greater than outflows.

Group of ratios	Ratios	Years					Std. ratios
		2009	2010	2011	2012	2013	
Liquidity	Current ratios	1.06:1	1.08:1	1.05:1	1.5:1	1.1:1	2:1
	Quick ratios	0.98:1	1.02:1	0.81:1	0.85:1	1.06:1	1:1
	Absolute liquid ratios	0.06:1	0.23:1	0.23:1	0.33:1	0.09:1	0.5:1
	Net working capital ratios	1,882,453.00	2,023,816.00	1,303,026.22	11,341,505.74	11,070,627.54	CA>CL
Leverages	Debt to equity ratios	9.99:1	6.9:1	5.8:1	7.9:1	22.9:1	2:1
	Proprietor's ratios	0.09:1	0.13:1	0.15:1	0.1:1	0.04:1	05:1
	Debt to assets ratios	90%	87%	85%	88%	96%	78%
	Fixed assets to net worth ratios	0.37:1	0.39:1	0.66:1	0.64:1	0.82:1	1:1
Activities	Inventory turnover ratios	16.8	17.8	10	6.3	19.6	8 times
	Debtor turnover ratios	1.5	1.6	2.5	5.2	3.6	5 times
	Total assets to turnover ratios	1.3	1.36	1.46	1.7	1.55	2 times
Profit ability	Gross profit ratios	7.6%	2.4%	5.1%	3.1%	3.8%	25-30%
	Net profit ratios	6.9%	1.3%	3.1%	1.5%	1.9%	>5%
	Return on shareholders' inv't	96.9%	14.2%	30.8%	23.2%	69.5%	Higher
	Return on total assets ratios	8.8%	1.8%	4.5%	2.6%	2.9%	2-3%

Table 3: Financial Ratio Analysis Robi-berga union in the Year Ended, 2009 to 2013

Source: Audited Financial Reports of Robi-berga cooperative Union (2009 to 2013)

4. Findings

Current ratio of Robi-berga farmers' cooperative union was below the standard, the ranges from 1.1:1 to 1.5:1 during the study periods from 2012 and 2013. So, the ratio of the union is below the standard for all the years. However, this reveals that the Robi-berga cooperative union was not able to pay the short term obligation during the study periods.

Debt to equity ratio of Robi-berga farmers' cooperative union was above the standards the ranges between 5.8:1 to 22.9:1 this shows that the debt to equity ratio of Robi-berga cooperative union was high, because the ratio was greater than the standard, thus the majority of assets are financed through debt and the Robi-berga cooperative union has no more equity position. So, the Robi-berga cooperative union has also weak financial structure during the study periods.

Debt to assets ratio of Robi-berga farmers' cooperative union was 90, 87, 85, 88 and 96 percent, in the years 2009, 2010, 2011, 2012 and 2013. The results show that, the higher debt to asset ratio of Robi-berga cooperative union during the study periods, because total assets of the union were financed through creditor's funds.

Stock turnover ratio of Robi-berga farmers' cooperative union was increased to 16.8 to 17.8 times in the years 2009 to 2010 and decreased to 10, 6.3 times in the years 2011 to 2012; again it increased to 19.6 times in the year 2013. So, this reveals that Robi-berga cooperative union was efficiently managing the inventories in the years 2009, 2010 and 2011, but the union was inefficiently managing inventories in the year 2012, again the ratio was above the standard in the year 2013.

5. Recommendations

Robi-berga farmers' cooperative union does not maintain sufficient current assets against its current liabilities; however it is recommended that Robi-berga cooperative union more invested on current assets were required to increase the value of current assets, so that optimum level of short term solvency can be achieved.

Although, the Robi-berga cooperative union to improve the liquidity position, it should be maintain adequate cash reserves from operating activities.

The leverage positions of Robi-berga cooperative union was shows that highly leveraged, because the external funds were greater than internal funds. Therefore, it is recommended that Robi-berga cooperative union should be maintained proper balance of total debt to shareholders' funds as well as it should be issued additional share to increase their owns' capital.

Robi-berga farmers' cooperative union is not satisfactory as the standards levels. As the result, So, Robi-berga farmers' cooperatives union recommended that use the resources more efficiently for profit generating purposes.

In fact Robi-berga farmers' cooperative union has been suffering from financial mismanagement and under-utilization of resources. This farmers' cooperative union needs to visualize their operation, policies and strategies for effective utilization of available finance, human resources and other resources.

6. Conclusion

As the study of the financial performance of the Robi-Berga Farmers Cooperative Union, it is concluded that the liquidity and profitability ratios are below the standards, whereas the leverage and the activity ratios are above the standards during the study periods between 2009 and 2013, if the study unit is maintaining the ratio at the sustainable level, there is no doubt, it will get a great success in the financial filed for the forthcoming years for the development of the union.

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