



## **A Study on Financial Stability Analysis of Tokumma Agricultural Primary Multipurpose Co-operatives: Horo Guduru Wollega Zone, Oromia Regional State, Ethiopia**

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### **Abstract**

*Analyzing co-operatives financial statement is significant for members, government, other non-governmental organizations and researchers to understand the strengths and weaknesses in their operational system. The study unit and area is selected purposely, based on the year of establishment and availability of financial statements for the five years (2008-2012). To attain the objectives of the study the researcher was considered five years audited report with regard quantitative data analysis by using the ratio analysis; over a period of 2008-2012 years; for showing the problem areas and for improving the financial stability by taking remedial action.*

**Keyword:** *Financial Statement, Financial Stability, Ratio Analysis,*

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## **1. INTRODUCTION**

Co-operative is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs aspirations through a jointly-owned and democratically controlled enterprise (ICA, 1995).

Financial planning is important to maintaining a stable financial household. Good financial planning and achieving financial stability will also help to prevent financial crisis. Financial stability analysis will interpret and converts raw data from the financial statements into useful financial indicators. This research has been conducted with simulation on how the financial stability and strategies should be applied to influence the ultimate financial stability of the cooperative.

## **2. STATEMENT OF THE PROBLEMS**

Finance is the blood of every business organization, needed to run their starting and operational activity. There are number of constraints in all aspects of the agricultural co-operatives, include; difficult in mobilization of finance, high rate of interest, very low possible for utilizing the funds, high transaction cost, poor financial management are the problems of an agricultural co-operatives..

This is why the present study takes up on financial stability analysis focusing on their financial condition and identifying those factors influencing financial efficiency, financial growth, financial strength, and operations of Tokuma Agricultural Primary Multipurpose Co-operative.

## **3. SIGNIFICANCE OF THE STUDY**

The study should be the base for improvement of co-operative effectiveness and efficiency to investigate their financial stability. It reveals to the management the strength and weakness of the financial position of the co-operative society in order to take corrective action on the weak point. The study is found out the financial position of the cooperative and the problems that hinders in achieving a good financial stability in detail and provide them possible suggestions, conclusions and recommendations at the end of the study. The finding of the study also helps as a source of information for further academic and application of research.

## **4. OBJECTIVES OF THE STUDY**

### **General Objective**

- The general objective of the study is to analysis the financial stability of Tokunma Agricultural Primary Multipurpose Cooperative.

### **Specific Objectives**

#### **The specific objectives are:-**

1. To analyze the financial efficiency of TAPMPC.
2. To study the strengths and weaknesses of financial position of TAPMPC.
3. To recommend the possible solutions to overcome the financial stability problems of TAPMPC.

### **Research Questions**

1. Has the TAPMPC has good financial stability?
2. What are the strengths and weaknesses of financial position of TAPMPC?
3. How the co-operative can have the sound of financial position to run successfully?

## 5. SCOPE AND LIMITATIONS OF THE STUDY

### Scope of the study

It is a case study in Tokumma Agricultural Primary Multipurpose Co-operative in Jima Ganati district, Horo Guduru Wollega Zone, Oromia Regional state, Ethiopia. Analysis of the financial stability in past five years (2008 to 2012) based up on examining the annual report, financial report, audit report, balance sheet, income statement, funds flow and cash flow statement. The findings of the study do not generalize for the whole activities of the cooperative in the district but focus on the financial stability of the co-operative only.

### Limitations of the study

The main limitation of this study will be the constraints of financial support and the data will be the problem, especially since the research concern of secondary data (financial statement) on which the organization suspected to give full pledge sources. Beside that there is the difficulty to get necessary information in administration and management area of the co-operative. Since there was no research conducted in the area before, the researcher has faced the problem of experience and empirical studies. These all were problems or limitations influenced the efficiencies and effectiveness of the researcher.

## 6. RESEARCH METHODOLOGY

### Sampling Technique

Tokumma Agricultural Primary Multipurpose Co-operative has been selected as a study area purposively, because it has started in 1977, availability of five years financial documents to evaluate financial efficiency, financial growth, to study strength and weakness, and profitability and there is no similar research conducted to investigate the financial stability analysis of co-operatives.

**Table1.1: Status of Agricultural Primary Multipurpose Cooperatives**

S.No	Name of Co-operatives	Year of established	Members			Capital in Birr
			Male	Female	Total	
1	Tokumma	1977	4,278	368	4,646	401,732.32
2	Gudane	2004	1,554	104	1,658	129,994.76
3	Ifa Bate	2004	1,241	109	1,350	264,554.33
4	Gembo	2005	610	57	667	181,909.60
5	Aba Jana	2006	187	6	193	8,761.30
6	Bikiltu Gidami	2008	231	21	252	6,565.00
7	Tulu Guracha	2008	91	2	93	5,638.43
8	Gudina	2008	103	12	115	17,282.47
9	Kalala	2009	196	22	218	12,866.49
10	Abdi Boru	2010	134	6	140	7,999.75
11	Mul'ata Boru	2011	81	3	84	7,375.00
	<b>Total</b>		<b>8,706</b>	<b>710</b>	<b>9,416</b>	<b>1,044,679.45</b>

*Source: Annual Report of Jima Ganati Cooperative Promotion office, 2012*

It provides different services such as input supply fertilizer and selected seed to increase members' productivity provide credit service to purchase members produce, gathering market

information for their produce, supplying farm tools and commodity goods in order to improve the life standard of the members and social community.

#### Sources of Data

The sources of data for the study would be mainly secondary sources. So, it has collected from board and management minutes, audited financial reports basically from balance sheet, income statement, funds flow statement and cash flow statement results from the co-operative and Jima Ganati cooperative promotion office, published and unpublished document shows the past financial and operational performance for the past five fiscal years (2008-2012) of cooperative.

#### Method of Data Collection

The data were collected quantitatively from secondary sources from TAPMPC for the past five consecutive years (2008-2012). The data requires for analyzing the financial stability of the co-operative regarding to their financial position, financial efficiency, profitability and sign of growth of cooperative.

#### Method of Data Analysis

A systematic approach involving quantitative methods used. The quantitative method that involve the generation of data in quantitative form which is subjected to rigorous quantitative analysis in a formal and rigid fashion to assess the financial stability of the cooperative. The data from audited balance sheet, income statement, funds flow statement and cash flow statement of the cooperative were analyzed by using *ratio* analysis, to assess the financial stability of co-operative.

**Table 1.2: Financial Ratio analysis in the year ended September 30, 2008-2012**

Group of Ratios	Ratios	Years					Standard ratios
		2008	2009	2010	2011	2012	
Liquidity Ratios	Current Ratios	1.37	1.36	1.43	1.31	1.24	<b>2:1</b>
	Quick ratios	1.21	1.12	1.37	1.22	1.06	<b>1:1</b>
	Absolute liquid ratios	0.23	0.63	0.34	0.27	0.30	<b>0.5:1</b>
	Cash ratios	0.25	0.63	0.34	0.27	0.30	<b>1:1</b>
	Net working capital ratios	707951.29	783,983.17	823,410.10	849,001.90	767,824.82	<b>CA &gt; CL</b>
Solvency Ratios	Debt-to-asset ratios	92%	90%	89%	90%	91%	<b>78%</b>
	Debt-to-Equity ratios	11.49	9.22	7.70	9.21	9.92	<b>1:1</b>
	Proprietary ratios	0.08	0.10	0.11	0.10	0.09	<b>1:1</b>
	Current assets to equity ratios	10.90	9.02	7.63	9.20	9.71	
	Fixed assets to net worth ratios	1.48	1.06	0.95	0.89	1.09	<b>0.75</b>
	Total assets to net worth ratios	12.49	10.22	8.70	10.21	10.92	75%-100%
	Inventory turnover ratios	6.41	5.20	8.28	18.35	5.13	<b>8 times</b>

Efficiency Ratios	Debtor turnover ratios	0.61	0.71	1.03	0.70	0.68	<b>5 times</b>
	Average debt collection period ratios	599.10	378.75	457.79	597.26	514.65	<b>45 days</b>
	Creditors turnover ratios	1.01	1.20	1.40	1.76	1.03	<b>5 times</b>
	Average accounts payable ratios	459.49	390.99	340.65	369.56	542.49	<b>30 days</b>
	Working capital turnover ratios	3.10	3.13	3.59	4.53	3.29	<b>Higher ratios</b>
Profitability Ratios	Gross profit margin ratios	8.80%	12.37%	11.00%	8.86%	14.13%	<b>25%</b>
	Operating profit ratios	(3.19)	6.885	4.87%	4.37%	4.40%	<b>Higher ratios</b>
	Net profit margin ratios	3.92%	4.56%	5.65%	4.85%	3.86%	<b>7%</b>
	Return on net asset ratios	2.89%	3.53%	5.15%	5.25%	2.33%	<b>2 - 3%</b>
	Return on equity ratios	36.05%	34.13%	46.47%	47.95%	24.25%	<b>15- 20%</b>

**Source: Audited Report of TAPMPC from year 2008-2012**

## 7. FINDINGS

The current ratio standard is 2:1, but the cooperative has secured below the standard all the five years.

Quick ratio of the co-operative is 1.21:1 in year 2008, 1.12:1 in year 2009, 1.37 in year 2010, 1.22 in year 2011 and 1.06 in years 2012, which is better for the cooperative to meet its short-term obligation. The standard is 1:1.

Absolute liquid ratio of the co-operative was 0.63:1, in the year 2009 only, it is satisfactory to meet current obligation. The standard ratio is 0.5:1.

The cash ratio of the co-operative was very poor with the standard ratio of 1:1.

Net working capital ratio of the co-operative was increased from year to year in the past five consecutive years, excluding the last year of the study period. In addition to it's positively that implies as the cooperative can meet short term obligations and the management has able to generate cash from operating activity, indicating the strengths of management.

Debt-to-asset ratio was 92%, 90%, 89%, 90% and 91% from year 2008 to 2012 respectively. This illustrates the cooperative asset is financed by creditors fund during the study period. The average is 78%.

The Proprietary ratio of the co-operative was very low under the study period. This indicates that the share capital of the cooperative was financed by outside creditors.

Total current assets to equity ratio and total assets to equity ratio proportion shows high ratio in the study period. So, the cooperative will face a problem of getting short-term loans.

The fixed asset to net worth ratios are 1.48 in year 2008, 1.06 in year 2009, 0.95 in year 2010, 0.89 in year 2011, and 1.09 in year 2012. So, this shows that the ratio is excessive amount tied up in fixed assets to generate little returns. The average is 0.75.

Debtor turnover ratio was 0.61 times in year 2008, 0.71 times in year 2009, 1.03 times in year 2010, 0.70 times in year 2011 and 0.68 times in year 2012, which is good because it tells us that the cooperative was managed debtors in better ways and money from debtors were collected soon. The standard is 5 times.

Creditors' turnover Ratio of cooperative was 1.01 times in year 2008, 1.20 times in year 2009, 1.40 times in year 2010, 1.76 times in year 2011 and 1.03 times in year 2012, which is less than the average ratio. This indicates that the cooperative pay its account payable was well-built because it decreased the average payment period. Since standard ratio is 5 times.

Working capital turnover ratio shows high ratio but this result did not show efficiency because working capital was fewer amounts in proportion to net sales.

The study also reveals that gross profit margin ratio of the cooperative was 8.80%, 12.37%, 11.00%, 8.86% and 14.13%, which is below the standard, it indicates inefficiency of management due to unfavorable purchasing price of COGS. The standard ratio is 25%.

The operating profit margin ratio was (3.19%), 6.88%, 4.87%, 4.37% and 4.40%. This shows that the co-operative operating profit margin ratio was very poor; by this value of ratios it is difficult for the cooperative to fulfill the needs of the concern.

Net profit margin ratio expresses the relationship between net profits after taxes to net sales. This ratio is widely used as a measure of overall profitability. The net profit margin ratio of the cooperative was relatively in declined trend from year 2010 to year 2011 and year 2012. In all the years values are under standard ratio.

The return on net asset ratio of the cooperative was better during the study period because in all years it is above and between the standard ratios.

Return on equity ratio was 36.05 in year 2008, 34.13% in year 2009, which is in decreasing trend, but it increased to 46.47% in year 2010, 47.95% in year 2011 and decreased to 24.25% in year 2012. So the management of the cooperative utilizing the equity share capital efficiently and the return for the investor was better during the study period. The average is 15-20%.

## **8. RECOMMENDATIONS**

In view of the findings and the conclusions of the study, the following recommendations are suggested to analysis the financial stability of Tokuma Agricultural Primary Multi-Purpose Co-operative.

To improve the liquidity position of the cooperative, the cooperative would maintain adequate cash reserves from operating activities,

In order to improve the financial leverage the management shall build equity capital by collecting shares from existing and new membership; retain profits or converting cash dividends to shares. Members of the co-operative should increase their own capital to finance fixed assets in order to reduce leverage ratio, this can be enhanced by selling additional share capital and unproductive fixed assets.

Gross profit margin ratio is very low and this show that it could not cover its fixed charges, and then the management must follow pricing policy which says higher price for produce and lower price for inputs and commodities.

The management of the co-operative must pay its liabilities on time to minimize the financial charge paid to creditors as interest for the amount borrowed.

The cooperative shall allocate part of its equity capital for current assets and working capital in order to run the business operations smoothly, attract short term creditors and minimize risks of long term investment.

The co-operative should revise its credit policy to speed up collection of receivables and minimize associated costs.

Every year, the management bodies of the co-operative should design and plan in paying dividend to its members.

The management should give attention for decreasing administrative expenses and improve their working efficiency to gain enough profit and save accumulated profit for capital growth.

Continuous and sustainable support and supervision by cooperative promotion office should be given to strengthen service offered by the co-operative.

To progress the productivity of the co-operative, the co-operative has to improve qualified professional employees in addition to existing personnel.

## 9. CONCLUSION

From the above study, it is concluded that the values of liquidity ratios such as quick ratio and net working capital ratio are above the standard. This indicates the co-operative financial position was good (or sound enough) to meet its current obligations, But current ratio, absolute liquid ratio and cash ratio of the cooperative are below the industry average, standard, that shows the financial position of the co-operative is not satisfactory to meet its short-term obligations.

Finally, still there is a scope and hope for the betterment to maintain the optimum level financial stability in future, if the co-operative operate the activity in efficient manner, try to maintain the optimum level of financial stability in future, there is no doubt, it is clear Cristal that it will get the great success among the public and other cooperatives also, the day is not for off.

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