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4 **Abstract**

5 Financial performance analysis of a firm is made from its audited financial reports, balance
6 sheets and income statements, to measure its liquidity, solvency, asset management efficiency
7 and profitability position in maximizing the wealth of owners. In line with this, the main
8 purpose of the paper is Evaluation of the Financial Growth and Performances of Tepi Forest
9 Coffee Producer Farmers' Cooperative Union, Sheka Zone, South West Ethiopia. For
10 attaining this objective, secondary data were drawn from audited financial statements of the
11 union for 2010-2016 G.C. and analyzed through ratios and trend analytical techniques. The
12 result of the study revealed current ratio, quick ratio and networking capital were above the
13 standard denoting that the liquidity position of the union is satisfactory. However, the debt
14 and equity ratio (all periods) and the debt to asset ratio (in some study periods) were greater
15 than the standard and the proprietors' ratio (over all study periods) was below the standards
16 showing that the union's long term solvency was very poor. It was also revealed that the
17 inventory turnover ratio and the total asset turnover ratio of the union indicated that the
18 union was efficiently managing its inventory and its total assets in increasing its return
19 respectively. But, the debtors' turnover ratio of the union was below the standard. Besides,
20 the gross profit margin ratio, operating profit margin ratio and net profit margin ratio of the
21 union revealed that the profitability of the union was not at its satisfactory level. Therefore,
22 to improve the debtors' turnover ratio of the union, there should be effective collection and
23 credit policy and collection effort. In addition, to improve the solvency position of the union,
24 the management of the union should increase its internal own funds by increasing cooperative
25 members and thereby issuing additional shares, and increase reserve funds by engaging in
26 profitable businesses. To upsurge profitability position o

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28 **Index terms**— 1. financial growth and performance 2. cooperative union 3. ratio analysis 4. trend analysis.

29 **1 Introduction a) Background of the Study**

30 ooperation is an age-old tradition that runs through the fabric of Ethiopian society. New era in cooperative
31 development was started in Ethiopia in 1998 when new cooperative legislation No 147/1998 was enacted. Since
32 then, cooperatives have been playing significant role in the rural Ethiopia, especially in the areas of input
33 supply, saving and credit, coffee and grain marketing (FCC, 2004 cited in Demeke, 2007). The establishment of
34 cooperative unions in coffee and grain growing areas is a new experience for the country in general and for the
35 organization of cooperative federation in particular.

36 As background to their establishment, after 1998, the decline of international coffee prices caused a great
37 deal of business trouble between traders and cooperatives. The Ethiopian government took the initiative to
38 establish Coffee Farmers' Cooperative Unions to manage coffee export business on behalf of primary coffee
39 cooperatives that lacked human resources and logistical capacity. At the first stage of establishing coffee unions,
40 the Ethiopian government recruited ex-government officials who were experienced in cooperative activities and
41 the coffee business and supported their salaries in the first two years after their establishment. Coffee unions are
42 privileged to skip coffee auctions in which private traders are obliged to participate (Kodama, 2007).

43 A well designed and implemented financial management is expected to contribute positively to the creation of
44 a firm's value (Padachi, 2006). Dilemma in financial management is to achieve desired tradeoff between liquidity,
45 solvency and profitability (Lazaridis et al., 2007). Ultimate goal of profitability can be achieved by efficient use

5 REVIEW OF LITERATURE

46 of resources. It is concerned with maximization of shareholders or owners' wealth. It can be attained through
47 financial performance analysis (Panwala, 2009). Ratio analysis provides relative measures of the company's
48 financial performance and can indicate clues to the underlying financial position. (Amalendu Bhunia, et al.,
49 2011).

50 2 b) Statement of the Problem

51 Finance is a blood not only for corporate businesses but also for cooperative societies. Unless the financial
52 position and financial performance of cooperatives are healthy, it may be a nightmare for cooperative societies
53 to sufficiently serve their members and contribute to the national economic development. Therefore, finance is
54 the fundamental requirement for cooperatives, to carry on operations and achieve the goals. It has been rightly
55 stated that business needs money to make more money (Demeke, 2007).

56 Several studies have been conducted in Ethiopia on financial performance of cooperatives and their result
57 indicated that majority of failures of cooperatives was the result of the lack of proper financial management. For
58 instance, Tekeste et. al. (2014) conducted a research on financial performance of Multi-Purpose Cooperative
59 Unions and the findings revealed that their borrowing power, profitability and their asset utilization efficiency is
60 not satisfactory. In addition, the poor financial performance of the cooperatives is the result of inefficient financial
61 management skill, lack of adequate internal capital and their significant part of the total capital employed was
62 in the form of borrowed capital, and presence of tight competition from outside the cooperative sector (Tsegay,
63 2008).

64 In Ethiopia, several coffee farmers' multipurpose cooperative unions have been established to support peasants
65 who are handicapped by their lack of negotiating power in the global economy. But, the actual volume of purchase
66 by these unions is limited due to financial constraints. Because of this, the majority of cooperatives continue
67 to rely on conventional marketing channels rather than on unions. (Kodama, 2007). In the Ethiopia, however,
68 existing literatures did not show accurately what the financial performance of coffee cooperatives in the Ethiopia
69 looks. And also, still now, to the very knowledge of the researcher, no studies have been made on the financial
70 performance analysis in the study area. This study, therefore, aimed at evaluating the financial performance and
71 financial growth of forest farmers' coffee cooperative union and identifying their problems in the study area.

72 3 c) Objectives of the Study

73 The current study tried to achieve the following objectives: i. To examine the liquidity position of the union over
74 the study periods. ii. To analyze the solvency position of the union over the study periods. iii. To measure the
75 overall profitability of the union. iv. To analyze the growth trend of the overall financial position and performance
76 of the union over study periods.

77 4 II.

78 5 Review of Literature

79 Omid Sharifi (2013) stated that financial statements provide certain basic information that focuses on the entity
80 as a whole and meets the common needs of external users. To assess the performance of the cooperatives,
81 different financial ratios can be used. Financial ratios can be designed to manage cooperative's performance.
82 Ratios can be used as one tool in identifying areas of strengths or weakness in cooperatives. Financial ratios
83 enable to make comparison of cooperative's financial conditions over time or in relation to other cooperatives.
84 For example, Alema (2008), used financial ratio analysis to assess the performance of the sample cooperatives
85 that was calculated from the audited financial reports (balance sheet and income statement of each cooperative
86 society). Among ratio analysis methods, liquidity ratio (with current ratio), financial leverage (finances a portion
87 of assets with debts) and profitability ratios (net profit/total asset) of sample multipurpose cooperatives in
88 Alamata Woreda were used. The liquidity analysis showed that the cooperatives under investigation were below
89 the satisfactory rate for the two years.

90 All of the cooperatives under investigation in the two woredas used financial leverage their profitability ratio
91 showed their profitability was weak.

92 Tamilarasu and Tatiku (2015) stated that analysis of financial statements of Cooperative is necessary for
93 member and non-members, because it helps and depicts the financial position and performance on the basis of
94 past and present records of financial statements. They conducted a Study on Financial Performance of Robi-berga
95 Farmers' Cooperative Union in West Shoa Zone, Oromia Regional State, Ethiopia using five years (2009-2013
96 G.C) audited financial reports of the union using Ratio Analysis, Funds flow and Cash Flows Analysis. From the
97 ratio analysis methods, they used liquidity, activity, leverage and profitability ratios. For measuring the liquidity
98 position of the union, the researchers used Current ratios (with acceptable standard of 2:1), Quick ratios (with
99 acceptable standard of 1:1), Absolute liquid ratios (with acceptable standard of 0.5:1) and Net working capital
100 ratios (with acceptable standard of CA>CL). They also tried to depict the leverage position of the union using
101 Debt to equity ratios (with acceptable standard of 2:1), Proprietor's ratios (with acceptable standard of 0.5:1),
102 Debt to assets ratios (with acceptable standard of 78%), and Fixed assets to net worth ratios (with acceptable
103 standard of 1:1). Furthermore, these researchers analyze the activity performance of the union using Inventory

104 turnover ratios (with acceptable standard of 8 times), Debtor turnover ratios (with acceptable standard of 5 times)
105 and Total assets to turnover ratios (with acceptable standard of 2 times). Finally, to measure the profitability of
106 the union, different ratios are used like Gross profit ratios (with acceptable standard of 25-30%), Net profit ratios
107 (with acceptable standard of >5%), Return on shareholders' investment (with acceptable standard of Higher),
108 and Return on total assets Ratios (with acceptable standard of 2-3%). The results of the study indicated that
109 the overall financial performance of the union was not in the satisfactory position.

110 Furthermore, Tekest.et al (??014) have conducted their study on the financial performance of Eight Multi-
111 Purpose cooperative unions in Tigray Region. The study considered three years' (2000 to 2003(E.C)) audited
112 financial reports with regard to quantitative data analysis using financial analysis ratios such as liquidity ratios
113 using current ratios (with acceptable standard of 2:1) and net working capital (with acceptable standard of current
114 asset>current liabilities), leverage ratios using total debt to asset ratio (with acceptable industry standard of
115 <0.5:1) and Total asset to debt ratio (with acceptable standard >1:1), and profitability ratio using gross profit
116 margin (with acceptable industry standard of 25%-30%), operating profit margin (with acceptable industry
117 standard of 75%-85%), net profit margin (with acceptable industry standard of higher in amount) and return
118 on net asset ratio (with acceptable industry standard of higher in amount). The result of the above study
119 revealed that the current ratio is below the industry standard; the leverage position of the unions indicated that
120 the debt-to-asset ratios of the unions are above the average in all the respected years; the gross profit margins
121 of the unions are efficient in which management produces in each unit of products and services; the operating
122 margin ratio in most of the unions was very poor which is far from the standard, and the borrowing power
123 of the unions are lower than the average. Natarajan et. al (2015) conducted a research on evaluation of the
124 effectiveness of financial performance of Lume Adama farmers' Cooperative Unions in Oromia Regional State
125 at East Shoa Zone, Lume district. For this purpose, the researchers used different ratios. In order to measure
126 the quality of the cooperatives union' receivables and how efficiently it uses and controls its assets, and how
127 effectively the firm is paying suppliers on its equity (using borrowed funds), they used Efficiency ratios include
128 inventory turnover ratio (ITOR) (with acceptable standard of 8 times), debtors' turnover ratio (DTOR) (with
129 acceptable standard of 5 times), average debtors' collection period ratio (ADCPR) (with acceptable standard of
130 45 days), creditor's turnover ratio (CTOR) (with acceptable standard of 5 times) and average payment period
131 ratios (APPR) (with acceptable standard of 30 days). They depicted that the inventories turnover was not a sign
132 of efficiency. In order to measure the profitability of the unions, profitability ratios were used that includes gross
133 profit margin (with acceptable standard of 25%), operating profit margin (with acceptable standard of 75-78%),
134 net profit margin (with acceptable standard of >5%), return on net asset (with acceptable standard of 2-3%)
135 and return on equity (with acceptable standard of 15-20%). The result showed that in all the years, the gross
136 profit ratio of the union was under the standard; the union has poor financial liquidity position, leverage position,
137 profitability position, and has not operating the activities in financial efficiency and effective way. Muhabie (2015)
138 examined the financial performances of five coffee marketing cooperatives in Yirgacheffe Woreda, Gedeo Zone,
139 SNNPRS, Ethiopia using current ratios, debt to equity ratios, accounts payable to sales and profitability ratios
140 based on the cooperatives' audited financial statements which help to evaluate the efficiency of operations, the
141 managerial performance and credit policies, potential investments and the credit worthiness of borrowers. In
142 his study, the liquidity position of cooperative societies is measured using current ratio (acceptable standard of
143 2:1). Furthermore, the financial leverage management position was measured using debt to equity ratio (DER).
144 Finally, for measuring the profitability of the cooperatives, the simplest and widely used profitability ratio called
145 Net Profit Margin Ratio was utilized. The overall result of this study indicated despite the fact that cooperative
146 societies have shown improvements from time to time, they are not still financially strong enough.

147 6 III.

148 7 Methodology of the Study a) Description of the Study Area

149 Sheka is a Zone in the Ethiopian Southern Nations, Nationalities and Peoples' Region (SNNPR). Sheka is bordered
150 on the south by Bench Maji, on the west by the Gambela Region, on the north by the Oromia Region, and on
151 the east by Keffa. The researcher employed descriptive type of research design with quantitative data analysis
152 research approach.

153 8 c) Sources of Data

154 The source of data was secondary that was obtained particularly from the six years (2010-2016(G.C)) audited
155 financial reports of office of Tepi Coffee Producer Farmers' Cooperative Union.

156 9 d) Methods of Data Collections

157 The methodology that was used in data collection for the study was a review of secondary data. Documents of
158 unions particularly audited financial statements of six periods, as well different researches related to the topic
159 were reviewed to obtain information related to the study.

19 B) MEASURING THE SOLVENCY (LEVERAGE) POSITIONS OF THE UNION

160 10 e) Sample Size and Sampling Techniques

161 The researcher selected the Six Years (2010-2016 (G.C)) audited financial reports of Tepi Farmers' Coffee
162 Cooperatives Union purposively because of presence of well-organized audited financial statement data in these
163 periods.

164 11 f) Methods of Data Analysis and Interpretation

165 The researcher adapted descriptive data analysis methods after the data collection process has been accomplished.
166 Quantitative data analysis methods were customized.

167 The data was analyzed and interpreted using ratio and trend analysis to find out the true picture of the
168 financial performance of the cooperatives union. This study tried to analyze the union's six years audited
169 financial statements data using profitability, liquidity, leverage and profitability ratios, tables, percentages and
170 graphs to measure financial performance of the union.

171 IV.

172 12 Result and Discussion

173 13 a) Measuring the Liquidity Position of the Union

174 Liquidity ratios provide a measure of the union's ability to generate cash to meet their immediate needs (current
175 liabilities). So, to measure the liquidity position of the union's, current ratios, cash ratios, quick ratios and
176 networking capital were depicted as follows.

177 14 i. Current Ratio (CR)

178 It indicates the union's ability to satisfy its current liabilities with its current assets whenever they matured. The
179 higher the current ratio the union has the more liquidity position the union is endowed and vice versa. Except
180 2010-2011, in all periods, even their averages, the union has current ratio greater than the standard showing that
181 the union can easily satisfy its current liability with its current asset. This indicates that the union was highly
182 liquid.

183 15 Current Ratio=

184 ii. Cash Ratio (CAR) It indicates that the ability of the union to satisfy its current liabilities with its most liquid
185 assets called cash and cash equivalents. The higher the cash ratio the union has the more liquidity position the
186 union is endowed and vice versa.

187 16 Cash Ratio=

188 17 ?????? ?+????????????????????????? ????????????????????????? 189 ?????????????? ?????????????????????????

190 As it is revealed on the same table and chart above, the cash ratio of the union shows increasing trend in 2010-
191 2011, 2011-2012, 2012-2013, 2013-2014 by 0.24, 1.02, 1.59 and 3.41 respectively and decreased to 1.22 in 2014-2015
192 and raised to 1.62 in 2015-2016. This indicates that the cash ratios over all the periods, except in 2010-2011 and
193 2011-2012, including their averages, was above the standard. This means, in most periods, the union did not
194 face liquidity problem satisfying current obligations through cash and short term marketable securities whenever
195 they mature. It is also called Acid Test ratio that measures that the ability of the union to satisfy its current
196 obligations with its quickest assets such as cash, marketable securities, account receivables and other short term
197 receivables. The higher the quick ratio the union has the more liquidity position the union is endowed vice versa.
198 It indicates the remained current asset of the union after it meets its current obligations. The higher value the
199 networking capital the union has the more liquidity position the union is endowed vice versa.

200 18 Quick Ratio=

201 19 b) Measuring the Solvency (Leverage) Positions of the Union

202 It was measured using solvency (leverage) ratios to evaluate how much reliant the union is on debt financing and
203 equity financing and to show the ability of the union to meet its long term financial obligations. To analyse these
204 concerns, debt to equity ratios, proprietors' ratios, debt to asset ratios and fixed asset to net worth ratios were
205 employed and depicted as follow. in all periods, including their averages, the union has total debt to shareholders'
206 equity ratio of above the standard showing that the union is leveraged and making the union risky in repaying its
207 long term debt and created solvency problem in satisfying long term liabilities. Payment of principal and interest
208 payment take a significant amount of union's cash flow and ignores payment of dividend for shareholders. This
209 will in turn damage the will of investors to invest in it.

210 ii. Proprietors' Ratio ??PR) It is used to evaluate the soundness of the capital structure of a union. A high
211 proprietary ratio indicates a strong financial position of the union and greater security for creditors and vice
212 versa.

213 **20 PR =**

214 ????????? ?????????? ?????????? ?? ? ?????????? ?????????? ?????????? Table 4.2 and chart 2 indicated
215 that the proprietors' ratio of the union was 0.01, 0.17, 0.27, 0.34, 0.29 and 0.19 in the periods of ??010-2011,
216 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. This indicates that the proprietors'
217 ratio over all periods is fluctuating and below the standard and that indicates the assets of the union was highly
218 financed by debt and less financed by equity. This implies that the union was heavily depending on debts for its
219 operations which makes the union risky in its solvency position.

220 iii. Debt to Asset Ratios (DTAR) It indicates the proportion of assets of the union that are financed with debt
221 (both short and long term debt) rather than equity. A high number means the union is using a larger amount of
222 financial leverage, which increases its financial risk in the form of fixed interest payment and vice versa.

223 **21 DTAR= ?????????? ?????????? ?????????? ??????????**

224 As it is shown in Table 4.1 chart 2, the debt to asset ratio of the union was 0.99, 0.83, 0.73, 0.66, 0.71 and 0.81 in
225 the periods of 2010-2011, 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. In the periods
226 of 2010-2011, 2011-2012 and 2015-2016 the union has debt to asset ratio of above the standard showing that the
227 union's a considerable proportion of assets were funded with debt indicating that union was extremely leveraged
228 and highly risky to invest in or lend to. And in the rest periods ??2012-2013, 2013-2014 and 2014-2015), the bulk
229 of asset of the union funding is coming from equity indicating that it the union is safe in satisfying its obligation.

230 iv. Fixed Asset to Net Worth Ratios (FANR) It shows the extent to which the union's funds are frozen or
231 can't be used for meeting its debt obligations in the form of fixed assets, such as property, plant and equipment.
232 A low ratio is indication of greater solvency because the lower the ratio becomes; the more funds are available to
233 meet current obligations and vice versa. FANR= 2015-2016 respectively. Except 2010-2011, in all other periods,
234 the union has the fixed assets to net worth ratios of below the standard. This indicates that higher investment
235 was made on current assets than fixed assets and more funds are available to meet union's current obligations.

236 **22 c) Measuring the Asset Management Efficiency Position of 237 the Union**

238 Activity ratios are used to measure how efficiently the union utilizes its assets. In other words, they present how
239 many times per period inventory is replenished or receivables are collected. For this purpose, inventory turnover
240 ratio, debtors' turnover and total asset turnover ratios were customized.

241 **23 i. Inventory Turnover Ratios (ITOR)**

242 It indicates how many times inventory is created and sold during the period. The higher the inventory turnover
243 ratio the union has the greater merchandizing capacity the union is endowed and vice versa. ??011, 2011-2012,
244 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. This depicted that except 2014-2015, in all periods,
245 the union has the inventory turnover ratio more the standard showing that the union is efficiently managing its
246 inventory and there may lead to less carrying cost and low rental of space needed for inventory.

247 ii. Debtors' Turnover Ratio (DTOR) It is the ratio of net credit sale to account receivable that indicates that
248 how many times in the period credit sales have been created and collected on. A higher DTOR is an indication
249 of good performance indicating that customers are paying bills on time to the union and vice versa.

250 **24 DTOR=**

251 **25 ?????? ?????? ?????????????????? ??????????????????????????**

252 As it is depicted in Table 4.3 and chart 3, the Debtors' Turnover Ratio of the union was 2.18, 0.97, 4.49, 1.91, 0.43
253 and 1.10 in the periods of ??010-2011, 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively.
254 This indicates that over all the study periods the Debtors' Turnover Ratio was below the standard signifying
255 that the union had not efficient collection and credit policies of account receivables and it is possible to say that
256 the union is not efficient in converting account receivables to cash easily and on time. In other words, this may
257 indicate the union has either liberal credit policy, poor credit selection or inadequate collection effort or policy.

258 iii. Total Asset Turnover Ratios (TATOR) It measures how efficiently the union uses its total assets to generate
259 revenues or income. The higher the total asset turnover ratio the union has, the more efficiently the union used its
260 invested in asset in producing sales amount and vice versa. TATOR= ?????? ?????? ?????????? ??????????????
261 Table 4.3 and chart 3 pointed out that the total asset turnover ratio of the union was 1.26, 0.61, 2.27, 0.67, 0.23
262 and 0.39 in the periods of ??010-2011, 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively.
263 Except 2012-2013, in all periods, the total asset turnover ratio of the union was below the standard showing that
264 the union was efficiently managing the total assets in increasing its return.

265 **26 d) Measuring the Profitability of the Unions**

266 Profitability of the union is an indication of the efficiency with which the operations of the union are carried out
267 that can be measured by its profitability ratios such as Gross profit margin ratio, net profit margin ratio, return
268 on equity and return on total asset. i. Gross profit margin ratios (GPMR) It shows how much of every dollar of
269 sale is left after cost of goods sold. It speaks, how much it costs the union to produce and to sale the product.
270 The higher the gross profit margin ratios is an indication of efficiency of the union and vice versa.

271 **27 GPMR=**

272 ?????????? ?????????? * 100 ?????? ?????? Table 4.4 and Chart 4 revealed that the gross profit margin
273 ratio of the union was 9.6%, 13.3%, 4.7%, 28.1%, 33.2% and 24.3% in the periods of ??010-2011, 2011-2012,
274 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. Except in 2013-2014 and 2014-2015, in all periods,
275 the gross profit margin ratio was below the standard showing that the union was not efficient in controlling the
276 cost of purchase and sell of the product in relation to the sales made over the periods.

277 ii. Operating Profit Margin ratio (OPMR) It is a measure of overall operating efficiency, incorporating all
278 of the expenses of ordinary, daily business activity. A high OPMR is an indication of good performance and
279 vice versa. OPMR= ?????????????????? ?????????? * 100 ?????? ?????? Table 4.4 and graph 4 indicated
280 that the net profit margin ratio of the union was -2.4%, -4.1%, 1.7%, 8.2%, -29.9% and 6.8% in the periods of
281 ??010-2011, 2011-2012, 2012-2013, 2013-2014, 2014-2015 and 2015-2016 respectively. This depicts that in all
282 periods the operating profit margin ratio of the union was fluctuating and below the standard showing that the
283 union couldn't easily satisfy operating expenses whenever they are incurred.

284 iii. Net Profit Margin Ratio (NPMR) It designated how much of each dollar of sales is left over after all
285 expenses are satisfied. It measures As it is observed from Table 4.4 and chart 4, the net profit margin ratio of
286 the union was -2.0%, 25.7%, 1.8%, 13.9%, -28.1% and 9.5% in the periods of ??010-2011, 2011-2012, 2012-2013,
287 2013-2014, 2014-2015 and 2015-2016 respectively. Except 2010-2011 and 2011-2012, in all periods, the net profit
288 margin ratio of the union was fluctuating and it was above the standard showing that the union can easily satisfy
289 different expenses whenever they are incurred.

290 **28 iv. Return on Equity Ratio (ROER)**

291 It shows how much union makes profit for each dollar that investors put into it. In other words, it measures
292 the ability of a union to generate profits from its shareholders' investments in the company. Higher values are
293 generally favorable and vice versa.

294 **29 v. Return on Total Asset Ratio (ROTAR)**

295 It measures how effectively the company produces income from its assets. Higher values are generally favorable
296 and vice versa.

297 **30 ROTAR=**

298 ?????? ?????????? * 100 ?????????? ?????????? Table 4.4 and graph 4 showed that the return on asset ratio
299 of the union was -2.6%, 15.6%, 4.1%, 9.4%, -6.4% and 3.7% in the periods of ??010-2011, 2011-2012, 2012-2013,
300 2013-2014, 2014-2015 and 2015-2016 respectively. The result implies that, except 2010-2011 and 2014-2015, in
301 the rest study periods, the return on asset ratio of the union was above the standard showing that the union was
302 efficiently and effectively employing its asset in generating adequate sales or income.

303 **31 e) Trend Analysis of the Financial Growth of the Union**

304 The overall financial growth of the unions was depicted by taking the figures of 2010-2011 as base year. This
305 analysis shows the growth trend of major balance sheet and income statement accounts.

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307 Volume XVIII Issue I Version I Year () As the result portrayed on table 4.5 and chart 5, the current assets of
308 the union was decreased from 100% in 2010-2011 to 75% in the year to 2011-2012 and increased to 91% and
309 101% and again decreased to 88% and increased to 185% in 2012-2013 and 2013-2014 respectively. This points
310 out that current assets of the unions were fluctuating throughout the study years. But, the average growth trend
311 of the current asset of the union is positive which is 107%. The result observed on table 4.5 and chart 5, shows
312 that the fixed assets of the union were decreased from 100% in 2010-2011 to 91% in 2011-2012 and increased to
313 137% in 2013-2014 and again dropped to 105% and 82% in 2014-2015 and 2015-2016 respectively. This indicates
314 that fixed assets of the unions were unstable throughout the study periods. But, the average growth trend of the
315 fixed asset of the union is positive which is 103% showing that it has good long term growth potential. that the
316 shareholders' equity of the union was fluctuating over the study years. Table 4.5 also indicates the fluctuated
317 trend of gross profit of the union over the study periods, that means, it increased in some periods and decrease
318 in other periods. For example, it was decreased from 100% in 2010-2011 to 52% in 2011-2012 and again rise to

319 160% in 2013-2014 and decreased to 57% in 2014-2015 and again increased to 138% in 2015-2016. This shows
320 that the overall average trend of gross profit over the study periods was nearer to the base year which is 98%.

321 Source: Depicted from Table 4.5

322 It is also illustrated in table 4.5 and chart 6, above that the operating profit of the union was decreased
323 from 100% in 2010-2011 to -186% in 2013-2014 and radically improved to 203% in 2014-2015 and again highly
324 deteriorated to -151% in 2015-2016. This indicates the average growth trend was negative 14% which is bad
325 signal. The negative growth trend of operating profit of the union showing that the union could not easily
326 control selling and administrative expenses. The overall average trend of operating profit over the study periods
327 was more far from the base year which is 76%.

328 As it is indicated in table 4.5 and chart 6, the net profit of the union was decreased from 100% in 2010-2011 to
329 -476% in 2011-2012 and slightly improved to -149% in 2012-2013 and again deteriorated to -373% in 2013-2014
330 and showed major improvement and becomes 227% in 2014-2015 and again decreased drastically to -251% 2015-
331 2016. In almost all periods including their averages, the union has the negative profit showing that the union
332 cannot easily satisfy operating expenses whenever they are incurred. This is an indication of inefficiencies of the
333 union in generating high sales and controlling operating and non-operating expenses. The overall average trend
334 of net income of the study periods was also more negatively far from the base year which is -154%.

335 V.

336 **33 Conclusion and Recommendations a) Conclusion**

337 The evaluation of the financial growth and performances of Tepi Forest Coffee Producer Farmers' Cooperative
338 Union, Sheka Zone, South West Ethiopia was undertaken using secondary data from audited financial statements
339 of the union for 2010-2016 G.C. and analyzed through ratio and trend analytical techniques, and findings of this
340 study are depicted as follow.

341 Liquidity ratios indicated that liquidity position of the union is satisfactory. Except in 2010-2011, in the rest
342 periods, the current ratio, the quick ratio and networking capital of the union were above the standard that
343 imply the union can easily satisfy its current liability with its current asset such as cash, marketable securities,
344 account receivables and other short term receivables and other current assets. The cash ratio the union, except
345 in 2010-2011 and 2011-2012, was above the standard indicating that the union did not face liquidity problem in
346 satisfying current obligations through cash and short term marketable securities.

347 The study illustrated that the solvency ratios indicates as the union was leveraged in majority study periods
348 that the solvency position of the union was not satisfactory. The debt and equity ratio (except 2013-2014), and
349 the debt to asset ratio of the union (in the And the proprietors' ratio over all study periods is below the standard.
350 These shows that the union was heavily depending on debts for its operations which makes the union extremely
351 leveraged and highly risky to invest in or lend to. But, in the study periods of ??012-2013, 2013-2014 and 2014-
352 2015), the majority of asset financed from equity indicating that the union is safe in satisfying its obligation. The
353 fixed asset to net worth ratio of the union, except in 2010-2011, was below the standard indicating that higher
354 investment is made on current assets and more funds are available to meet union's current obligations.

355 The inventory turnover ratio of the union in all periods, except 2014-2015, was above the standard showing
356 that the union is efficiently managing its inventory; the debtors' turnover ratio over the study periods is below
357 the standard indicating that the union may be suffered from cash shortage and it may create high bad debts of
358 receivables, and the total asset turnover ratio of the union, except 2012-2013, was below the standard showing
359 that the union was efficiently managing the total assets in generating its return.

360 The result also discovered that the gross profit margin ratio, except in 2013-2014 and 2014-2015, and the
361 operating profit margin ratio of the union in all periods were below the standard showing that the union had
362 weak profit position. Furthermore, the net profit margin ratio of the union, except 2010-2011 and 2011-2012, was
363 above the standard indicating that the profitability was improved that helps the union to easily satisfy different
364 expenses like interest expenses whenever they are incurred. The return on equity of union, except 2010-2011
365 and in 2014-2015, and the return on total asset ratio, except 2010-2011 and 2014-2015, were above standard and
366 positive respectively implying that the union was earning positive profit from the employment of shareholders'
367 investment, and the union was efficiently employing its asset in generating sales or income.

368 The trend analysis of balance sheet and income statement accounts of the union showed fluctuation growth
369 trend which shows increasing trend on some periods and decreasing trend on other study periods.

370 **34 b) Recommendations**

371 Based on the finding of the study, the following recommendations were forwarded:

372 The cash ratio of the union indicates as it was below the standard that causes the union to face liquidity
373 problem. Therefore, the concerned bodies should work to have optimum cash and cash equivalents by adopting
374 good collection policy and collection effort and proper planning of cash and credit policy.

375 In majority study periods, the debt to equity ratio and debt to asset ratio of the union were above the standard
376 and the proprietors' ratio over all study periods was below the standard. These makes the union unable to repay
377 its principal and interest payments for the debt and over the long-term, this would lead the union to bankruptcy.
378 Therefore, the union should increase its internal own funds by increasing cooperative members and thereby issuing

379 additional shares and increase reserve funds by engaging in profitable business. The management of the union
380 should take into account that no more than half of the union asset should be financed with debt.

381 The result also revealed that the debtors' turnover ratio over the study periods is below the standard. This
382 creates liquidity problem. Therefore, there should be employing of effective credit and collection policy and
383 collection efforts.

384 The gross profit margin ratio, operating profit margin ratio and net profit margin ratio of the union revealed
385 that the profitability position of the union was not at its satisfactory level that it was not efficient in controlling
386 the cost of purchase and sell of the product; cost of manufacturing, other operating and nonoperating expenses.
387 Therefore, the management bodies of the union should decrease manufacturing and purchasing costs and other
388 operating and nonoperating expenses, design effective product pricing policies and undertake profitable business
389 ventures.

390 The trend analysis of balance sheet and income statement accounts of the union showed fluctuation growth
391 trend which shows increasing trend on some periods and decreasing trend on other study periods. Therefore, the
392 management of the union should also give due attention, especially for those items of financial statement which
393 show deteriorating results.

394 **35 Global Journal of Management and Business Research**

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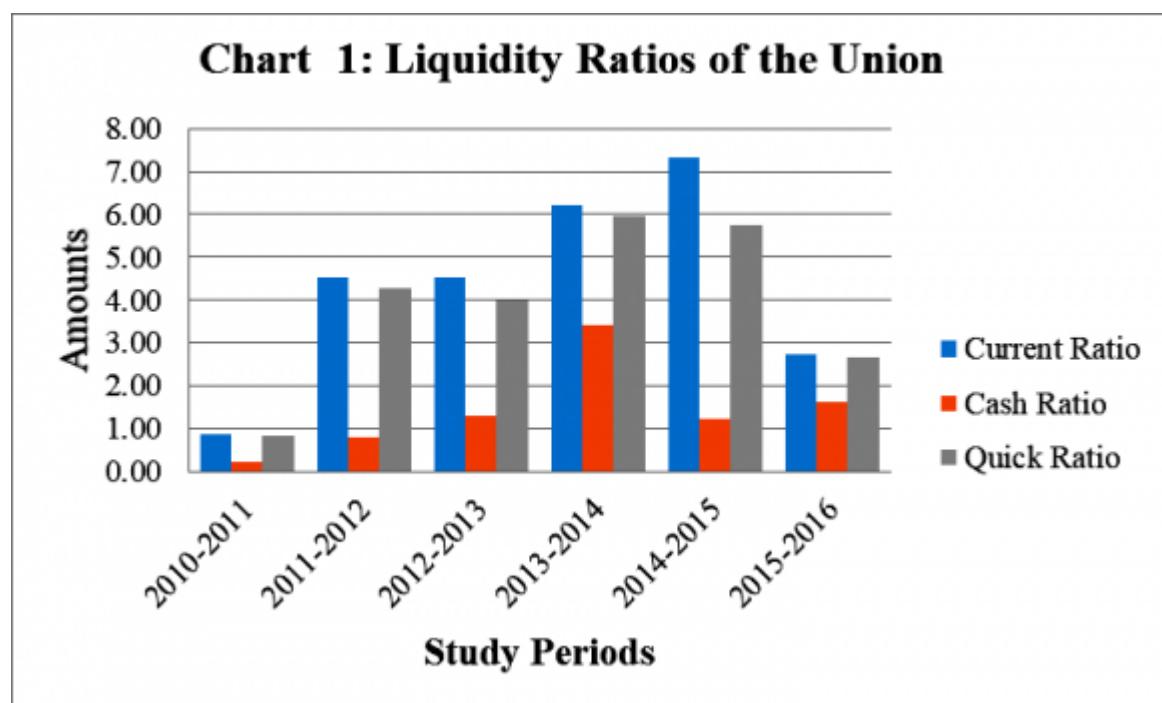


Figure 1:

395

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Chart 2: Solvency Ratios of the Union

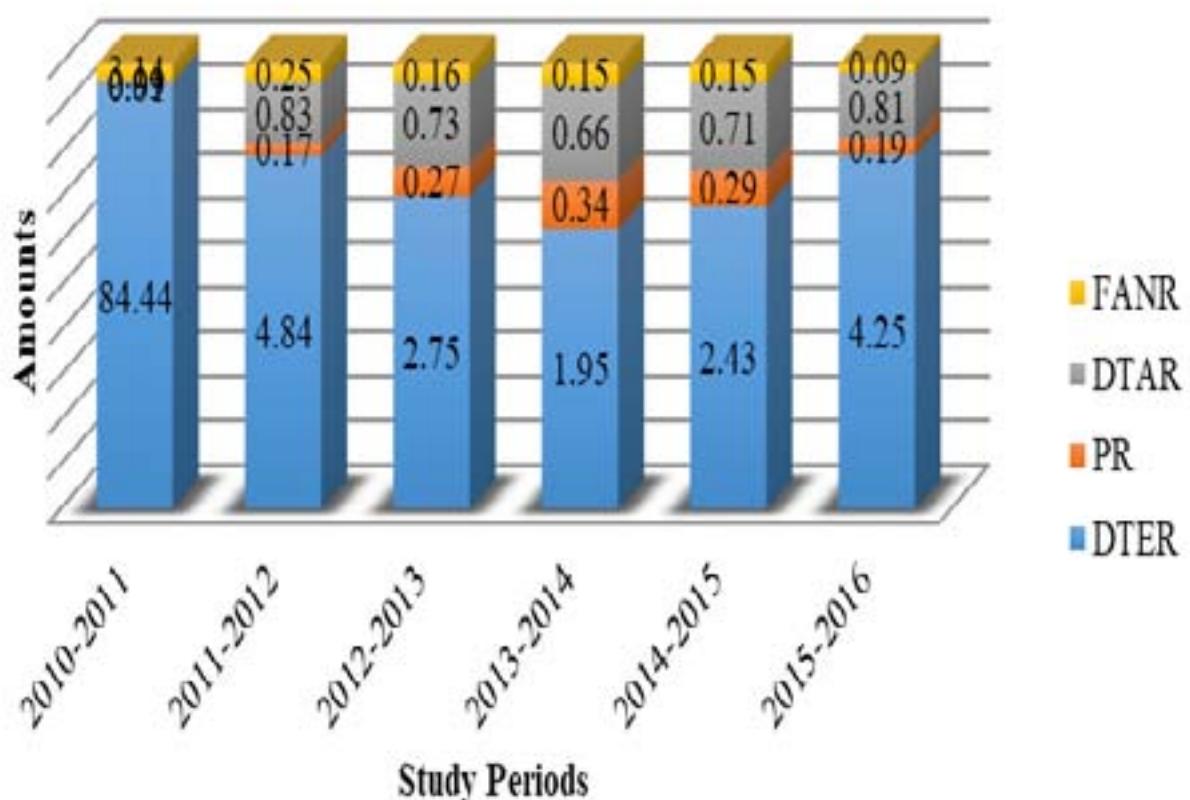


Figure 2: Global

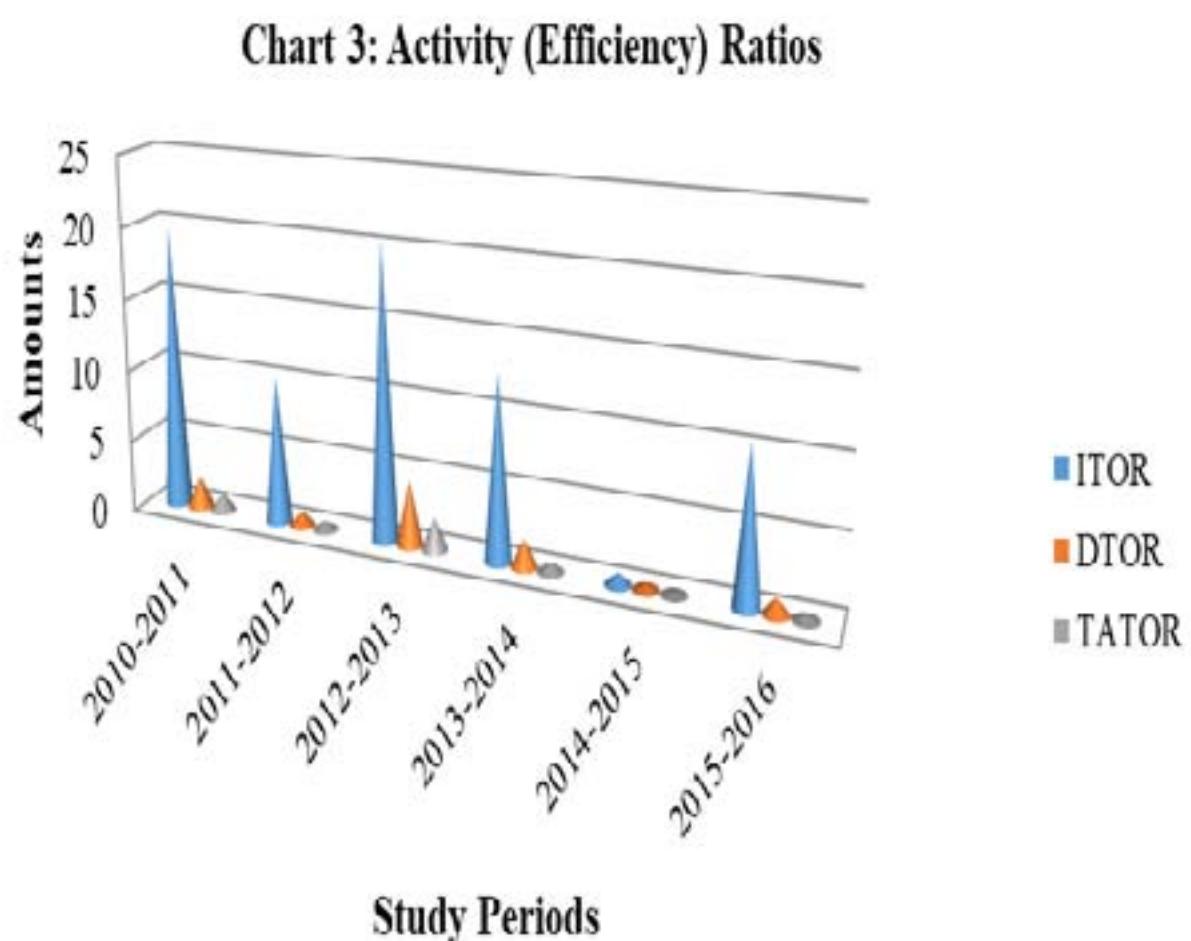


Figure 3:

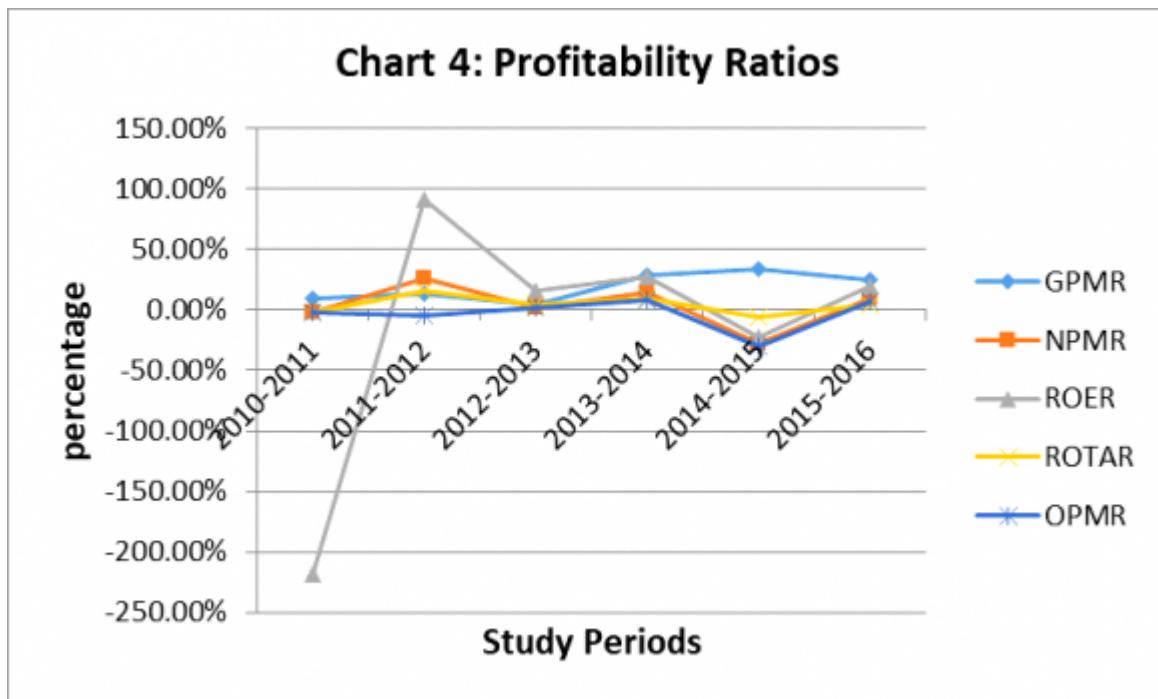


Figure 4:

6 [REDACTED]

Figure 5: 6 Global

[REDACTED]

Figure 6:

[REDACTED]

Figure 7:

[REDACTED]

Figure 8:

Year
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Figure 9:

41

Years	Liquidity Ratios of the Union CR CAR QR NC			
2010-2011	0.91	0.24	0.85 (233,207.09)	
2011-2012	5.78	1.02	5.43 1,535,576.07	
2012-2013	5.50	1.59	4.82 1,838,289.24	
2013-2014	6.22	3.41	5.95 2,085,358.12	
2014-2015	7.31	1.22	5.74 1,886,881.51	
2015-2016	2.74	1.62	2.66 2,902,035.62	
Average	4.75	1.52	4.24	1669155.58
Standard	2:1	1:1	1:1	CA>CL

[Note: Source: Audited financial reports of the union (2010-2016) Source: Depicted from Table 4.1]

Figure 10: Table 4 . 1 :

4

ratios of the union were 0.85, 5.43, 4.82, 5.95, 5.74, and 2.66 in the periods of 2010-2011, 2011-2012, 2012-2013,

1 and chart 1 depicted that the acid

2013- 2014 and 2015-
2014, 2015 2016

respectively. Except in 2010-2011, in all periods even their averages, the union has acid test ratio of above the standard showing that the union can easily satisfy its current liability with its quickest assets such as cash, marketable securities, account receivables and other short term receivables.

iv. Networking Capital (NC)

Figure 11: Table 4 .

42

Years	Solvency Ratios of the Union DTER PR DTAR FANR			
2010-2011	84.44	0.01	0.99	3.14
2011-2012	4.84	0.17	0.83	0.25
2012-2013	2.75	0.27	0.73	0.16
2013-2014	1.95	0.34	0.66	0.15
2014-2015	2.43	0.29	0.71	0.15
2015-2016	4.25	0.19	0.81	0.09
Average	16.78	0.21	0.79	0.66
Standard	2:1	0.5:1	0.78	1:1

[Note: Source: Audited financial reports of the union (2010-2016) Source: Depicted from Table 4.2 i. Debt to Equity Ratios (DTER)]

Figure 12: Table 4 . 2 :

43

Year	Efficiency (Activity) Ratios of the		
	ITOR	Union DTOR	TAOT
2010-2011	19.78	2.18	1.26
2011-2012	10.26	0.97	0.61
2012-2013	20.48	4.49	2.27
2013-2014	12.76	1.91	0.67
2014-2015	0.83	0.43	0.23
2015-2016	10.62	1.10	0.39
Average	12.45	1.85	0.91
Standard	8 times	5 times	2 times

[Note: Source: Audited financial reports of the union (2010-2016) Source: Depicted from Table 4.3]

Figure 13: Table 4 . 3 :

4

Figure 14: Table 4 .

44

Year	2010-	GPMR	9.6%	Profitability Ratios of the Union	NPMR	ROER	ROTAR	-2.0%	-218.7%	-2
2011	2011-	13.3%	4.7%							
2012	2012-	28.1%								
2013	2013-									
2014										
2014-2015		33.2%	-28.1%			-	-	22.0%	6.4%	
2015-2016		24.3%	9.5%			19.4%	3.7%			
Average		18.9%	3.5%			-	4.0%			
Standard		25-30%	>5%			14.5%				
						Higher	2-			
						3%				

Source: Audited financial reports of the union (2010-2016)

[Note: Source: Depicted from Table 4.4]

Figure 15: Table 4 . 4 :

45

Particulars

Figure 16: Table 4 . 5 :

4

.5 and chart 5 also depicted that the shareholders' equity of the union was increased from 100% in 2010-2011 to 1141%, 2102%, and 2949% in the year to 2011-2012, 2012-2013 and 2013-2014 respectively and decreased to 2247% in 2014-2015 and again increased to 2827% in 2015-2016. This denotes

Figure 17: Table 4

SHE
TLIAB
TA
FA
CA
INVEN
A/R
CASH &CE

Figure 18: Percentages Study Periods Chart 5: Growth Trend of Balance Sheet Accounts of the Union

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