ST.MERY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACULTY OF BUSINESS

FINANCIAL PERFORMANCE ANALYSIS OF DEBRE BIRHAN NATURAL SPRING WATER PLC

By

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Declaration

I declare that this thesis titled as the effect of accounting method on the performance of DebreBirhan Natural Spring Water PLC, 2016 constitute my original work, that it had not been submitted for post graduate program in this university or other universities and that all sources of materials used for the thesis have been properly acknowledged.

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June 2016

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies, Faculty of Business for examination with my approval as a university advisor.

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Advisor Signature

St. Mary's University, Addis Ababa June, 2016

ACRONYMS

FASB – Financial Accounting Standard Board

GAAP - Generally Accepted Accounting Standards

DBNSW - DebreBirhan Natural Spring Water

NPAT – Net Profit After Tax

COGS – Cost of Goods Sold

AI – Average Inventory

ITOR – Inventory Turnover Ratio

EPS - Earnings per share

ROCE - Return on capital employed

NPM – Net Profit Margin

NIBT - Net Income Before Tax

NIBTI - Net Income Before Tax & Interest

CR – Cash Ratio

CL – Current Liability

CA – Current Asset

QA – Quick Asset

CTR – Current Ratio

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ABSTRACT

Through financial analysis, companies can review their performance in the past years which enables also helping in identifying their weaknesses and improving on them. Ratio analysis used to reveal the trends in production which provides an opportunity for estimation of future trends and thus the foundation for budget planning so as to determine the course of action for the growth and development of the business. Due to such analysis and measurements most companies loss their retained earnings and become liquidated. The study conducted by collecting secondary data from the company audited financial statements. The descriptive type of research design is used to data analysed accordingly. The performance indicators such liquidity, profitability and leverage ratios are analysed in line with the industry average norms and conclusion and recommendations are stated as ; in order to have a better earning management and better financial analysis results in relation profitability, the company has to implement better cost reduction strategies by cutting off costs and also strategies for more production techniques which enable to increase the sales volume of the company, In order to have a strong ability in relation to liquidity the company has to increase its sales which enables to have more cash inflows and also has to reduce its current liability by using long term financing, In order to have better leverage ration the company's shareholders has to increase their number of shares by investing themselves or inviting the external investors to join which increases the number of share and the cash position of the company.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Financial statement analysis can be referred as a process of understanding the risk and profitability of a company by analyzing reported financial information, especially annual and quarterly reports. Financial statement analysis is an extremely useful tool in understanding the financial performance of any company. It allowsdetermining a business's current position with regards to its commercial strengths (e.g. Customer base) and weaknesses (e.g. Volatile costs). Financial statement analysis is a study about accounting ratios among various items included in the balance sheet. These ratios include asset utilization ratios, profitability ratios, leverage ratios, liquidity ratios, and valuation ratios. Moreover, financial statement analysis is a quantifying method for determining the past, current, and prospective performance of a company (Bruce Mackenzie).

According to Brigham & Houston,there different advantages of financial statement analysis. These are; providing an idea to the investors about deciding on investing their funds in a particular company, ensuring the regulatory authorities (like IASB) that the company was following the required accounting standards, it helps the government agencies in analyzing the taxation owed to the firm, and above all, the company is able to analyze its own performance over a specific time period.Financial statement analysis is an exceptionally powerful tool for a variety of users of financial statements, each having different objectives in learning about the financial circumstances of the entity. There are a number of users of financial statement analysis. They are: Creditors, anyone who has lent funds to a company is interested in its ability to pay back the debt, and so will focus on various cash flow measures. Investors, both current and prospective investors examine financial statements to learn about a company's ability to continue issuing dividends, or to generate cash flow, or to continue growing at its historical rate (depending upon their investment philosophies). Management, the company controller prepares an ongoing analysis of the company's financial results, particularly in relation to a number of operational metrics that are not seen by outside entities.

There are two key methods for analyzing financial statements. The first method is the use of horizontal analysis. Horizontal analysis is the comparison of financial information over a series of reporting periods, while vertical analysis is the proportional analysis of a financial statement, where each line item on a financial statement is listed as a percentage of another item. Typically, this means that every line item on an income statement is stated as a percentage of gross sales, while every line item on a balance sheet is stated as a percentage of total assets. Thus, horizontal analysis is the review of the results of multiple time periods, while vertical analysis is the review of the proportion of accounts to each other within a single period. The second method for analyzing financial statements is the use of many kinds of ratios. There are several general categories of ratios, each designed to examine a different aspect of a company's performance. The general groups of ratios are: Liquidity ratios, this is the most fundamentally important set of ratios, because they measure the ability of a company to remain in business. Leverage ratios, which reveal the extent to which a company is relying upon debt to fund its operations, and its ability to pay back the debt. Profitability ratios, these ratios measure how well a company performs in generating a profit (Steven Bragg).

A company's financial statements provide various financial information that investors and creditors use to evaluate a company's financial performance. Financial statements are also important to a company's managers because by publishing financial statements, management can communicate with interested outside parties about its accomplishment running the company. Different financial statements focus on different areas of financial performances. Of those the first is financial conditions which are the major concern to investors and creditors. As capital providers, investors and creditors rely on a company's financial condition for both the safety and profitability of their investments. More specifically, investors and creditors need to know where their money went and where it is now. The financial statement of balance sheet addresses such issues by providing detailed information about a company's asset investment. The balance sheet also lists a company's outstanding debt and equity components, and so debt and equity investors can better understand their relative positions in a company's capital mix. The second focus is on the performance of operating results which are shown in the balance sheet of a company's assets, liabilities and equity at the end of a financial reporting period, they don't reveal what happened during the period from operations that may have caused changes in financial conditions. Therefore, operating results during the period also concerns

investors. The financial statement of the income statement reports operating results such as sales, expenses and profits or losses. Using the income statement, investors can both evaluate a company's past income performance and assess the uncertainty of future cash flows. The third focus area of performance was a cash flow of a company's profits reported in the income statement are accounting income and most likely contain certain non-cash elements, providing no direct information on a company's cash exchange during the period. Moreover, a company also incurs cash inflows and outflows during a period from other non-operating activities, namely investing and financing. The fourth focus area of performance was on shareholders' equity which is especially important to equity investors because it shows the changes in various equity components, including retained earnings, during a period. The amount of shareholders' equity is a company's total assets minus its total liabilities, representing the company's net worth. A steady growth in a company's shareholders' equity by way of increasing retained earnings, as opposed to expanding shareholder base, means the accumulation of investment returns for current equity shareholders (Elliot, Barry & Elliot, Jamie).

Ratio analysis enables to determine profitability. It assists managers to work out the production of the company by figuring the profitability ratios and also the management can evaluate their revenues to check with their productivity which helps the company in appraising its profitability performance. Ratio analysis helps in evaluating solvency. The companies are able to keep an eye on the correlation between the assets and the liabilities, in any case, the liabilities exceed the assets, and the company is able to know its financial position which enables set up a plan for loan repayment.Ratio analysis is also helpful to recluses, in addition to shareholders, debenture holders, and creditors. Besides, bankers are also able to know the profitability of the company to find out whether they are able to pay the dividend and interests under a specific period.Ratio analysis is also helpful in analyzing the performance of a company. Through financial analysis, companies can review their performance in the past years which enables also helping in identifying their weaknesses and improving on them. Ratio analysis used to reveal the trends in production which provides an opportunity for estimation of future trends and thus the foundation for budget planning so as to determine the course of action for the growth and development of the business (Johnstone).

1.2 Statement of the problem

Nowadays the former and well known water bottling companies are becoming liquidated and lose their company retained earnings. These study paper titled as "Financial Performance Analysis of DebreBirhan Natural Spring Water plc" aims to evaluate and analyze the financial performances in relation to balance sheet and income statement accounts.

1.3 Basics research questions

The study paper analyze the financial statements of DebreBirhan Natural Spring Water plc of nine fiscal periods using comparative financial ratios, enables to seek an answer to the question; what are the norms and industry figures of the company and the water bottling sectors using liquidity, profitability and leverage?

1.4 Objective of the study

1.4.1 General objective

The general objective of the study was analyzing of the financial performance of DebreBirhan Natural Spring Water PLC by using financial tools.

1.4.2 Specific objective

Moreover, this study specifically aims to meet the following objectives:

- To determine the liquidity, profitability and leverage of the company
- To determine norms and industry figures of the company
- At last it states the findings and their recommendation

1.5 Scope of the study

The study coversalmost the entire area of financial operations of the company. The study has been conducted with the help of data obtained from audited financial records. The audited financial records are the company annual reports pertaining to past 9 years from 2006 to 2014.The study analyses and measures the financial performance of the organization by using performance evaluation indicators in relation to liquidity, profitability and leverage by using financial analysis.

1.6 Significance of the study

Financial analysis determines a company's health and stability. The study has importance for the users of financial information that investors and creditors to evaluate a company's financial performance. Stockholders can find out how management employs resources and whether they use them properly. Governments and regulatory authorities use financial statements to determine the legality of a company's fiscal decisions and to use the financial statement analysis to decide the correct taxation for the company. The study enables to know what's happening among a company's competitors and when make an investment decision. It also enables the organization to compare its performance with the industry standards to measure investment opportunities such as the success or failure.

1.7 Limitations of Research

Every research work has its own limitation. The main limitations of this paper are inadequate time which is not possible to analyze allrespects relevant to the study, the analysis is based on annual reports of the company in which the accuracy and reliability of analysis depends on reliability of figures derived from financial statement.

CHAPTER TWO

LITRATURE REVIEW

Financial accounting is the process of systematic recording of the business transactions in the various books of accounts maintained by the organization with the ultimate intention of preparing the financial statement there from. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other.

According to John.N.Meyer, "The financial statement provides summary of accounts of a business enterprise, the balance sheet reflecting assets, liabilities and capital as on a certain date and the income statement showing the result of operation during a certain period". The financial statements are prepared with a view to depict the financial position of the concern. They are based on the recorded facts and are usually expressed in monetary terms. The financial statement are prepared periodically that is generally for the accounting period. The term financial statement has been widely used to represent two statements prepared by accountants at the end of specific period. They are: Profit and loss a/c or income statement and balance sheet or statement of financial position.

Ratio analysis is an important technique. It is a powerful tool of financial Analysis. It is defined as "The indicated quotient of two mathematical expressions" and as "the relationship between two or more things".Systematic use of ratio is to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.A ratio is only comparison of the numerator with the denominator .The term ratio refers to the numerical or quantitative relationship between two figures. Thus, ratio is the relationship between two figures and obtained by dividing a former by the latter. Ratios are designed show how one number is related to another.The data given in the financial statements are in absolute form and are dumb and are unable to communicate

anything. Ratios are relative form of financial data and are very useful technique to check upon the efficiency of a firm. Some ratios indicate the trend or progress or downfall of the firm.

2.1 Liquidity ratios

Liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets.

If the value is greater than 1, it means the short term obligations are fully covered.Generally, the higher the liquidity ratios are, the higher the margin of safety that the company possesses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties.

Most common examples of liquidity ratios include current ratio, acid test ratio (also known as quick ratio), cash ratio and working capital ratio. Different assets are considered to be relevant by different analysts. Some analysts consider only the cash and cash equivalents as relevant assets because they are most likely to be used to meet short term liabilities in an emergency. Some analysts consider the debtors and trade receivables as relevant assets in addition to cash and cash equivalents. The value of inventory is also considered relevant asset for calculations of liquidity ratios by some analysts.

2.1.1 Acid-Test Ratio

The term “Acid-test ratio” is also known as quick ratio. The most basic definition of acid-test ratio is that, “it measures current (short term) liquidity and position of the company”. To do the analysis accountants weight current assets of the company against the current liabilities which result in the ratio that highlights the liquidity of the company.

The formula for the acid-test ratio is:

Quick ratio = (Current Assets – Inventory) / Current liabilities

This concept is important as if the company’s financial statements (income statement, balance sheet) get through the analysis of the acid-test ratio, then the short term debts can be paid by the company.

2.1.2 Cash Ratio

Cash ratio (also called cash asset ratio) is the ratio of a company's cash and cash equivalent assets to its total liabilities. Cash ratio is a refinement of quick ratio and indicates the extent to which readily available funds can pay off current liabilities. Potential creditors use this ratio as a measure of a company's liquidity and how easily it can service debt and cover short-term liabilities. Cash ratio is the most stringent and conservative of the three liquidity ratios (current, quick and cash ratio). It only looks at the company's most liquid short-term assets – cash and cash equivalents – which can be most easily used to pay off current obligations.

Calculation (formula)

Cash ratio is calculated by dividing absolute liquid assets by current liabilities:

Cash ratio = Cash and cash equivalents / Current Liabilities

Both variables are shown on the balance sheet (statement of financial position).

Norms and Limits of cash ratio

Cash ratio is not as popular in financial analysis as current or quick ratios, its usefulness is limited. There is no common norm for cash ratio. In some countries a cash ratio of not less than 0.2 is considered as acceptable. But ratios that are too high may show poor asset utilization for a company holding large amounts of cash on its balance sheet.

2.1.3 Current ratio

Current ratio is balance-sheet financial performance measure of company liquidity. Current ratio indicates a company's ability to meet short-term debt obligations. The current ratio measures whether or not a firm has enough resources to pay its debts over the next 12 months. The current ratio is balance-sheet financial performance measure of company liquidity. The current ratio indicates a company's ability to meet short-term debt obligations. The current

ratio measures whether or not a firm has enough resources to pay its debts over the next 12 months. Potential creditors use this ratio in determining whether or not to make short-term loans. The current ratio can also give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. The current ratio is also known as the working capital ratio**.**

Calculation (formula)

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

The current ratio = Current Assets / Current Liabilities

Both variables are shown on the balance sheet (statement of financial position).

Norms and Limits of current ratio

The higher the ratio, the more liquid the company is. Commonly acceptable current ratio is 2; it's a comfortable financial position for most enterprises. Acceptable current ratios vary from industry to industry. For most industrial companies, 1.5 may be an acceptable current ratio.

Low values for the current ratio (values less than 1) indicate that a firm may have difficulty meeting current obligations. However, an investor should also take note of a company's operating cash flow in order to get a better sense of its liquidity. A low current ratio can often be supported by a strong operating cash flow.

If the current ratio is too high (much more than 2) , then the company may not be using its current assets or its short-term financing facilities efficiently. This may also indicate problems in working capital management. All other things being equal, creditors consider a high current ratio to be better than a low current ratio, because a high current ratio means that the company is more likely to meet its liabilities which are due over the next 12 months.

2.1.4 Working capital

Working capital is the amount by which the value of a company's current assets exceeds its current liabilities. It was also called net working capital. Sometimes the term "working capital" is used as synonym for "current assets" but more frequently as "net working capital", i.e. the

amount of current assets that is in excess of current liabilities. Working capital is frequently used to measure a firm's ability to meet current obligations. It measures how much in liquid assets a company has available to build its business.

Working capital is a common measure of a company's liquidity, efficiency, and overall health. Decisions relating to working capital and short term financing are referred to as working capital management. These involve managing the relationship between an entity's short-term assets (inventories, accounts receivable, cash) and its short-term liabilities.

Calculation (formula)

Working capital (net working capital) = Current Assets - Current Liabilities

Both variables are shown on the balance sheet (statement of financial position).

Norms and Limits of working capital

The number can be positive (acceptable values) or negative (unsafe values), depending on how much debt the company is carrying. Positive working capital generally indicates that a company is able to pay off its short-term liabilities almost immediately. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations.Companies with negative working capital may lack the funds necessary for growth. Analysts are sensitive to decreases in working capital; they suggest a company is becoming overleveraged, is struggling to maintain or grow sales, is paying bills too quickly, or is collecting receivables too slowly. Though in some businesses (such as grocery retail) working capital can be negative (such business is being partly funded by its suppliers).

2.2 Profitability ratios

It measures a company’s ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed.

Common examples of profitability ratios include return on sales, return on investment, return on equity, return on capital employed (ROCE), gross profit margin and net profit margin. All

of these ratios indicate how well a company is performing at generating profits or revenues relative to a certain metric. For most of these ratios, a higher value is desirable. A higher value means that the company is doing well and it is good at generating profits, revenues and cash flows.

2.2.1 Inventory turnover

Inventory turnover is a measure of the number of times inventory is sold or used in a given time period such as one year. It is a good indicator of inventory quality (whether the inventory is obsolete or not), efficient buying practices, and inventory management. This ratio is important because gross profit is earned each time inventory is turned over. It was also called stock turnover.

Calculation (formula)

Inventory turnover is calculated by dividing the cost of goods sold by the average inventory level ((beginning inventory + ending inventory)/2):

Inventory turnover = Cost of goods sold / Average Inventory

In the income statement (statement of comprehensive income, IFRS) cost of goods sold (COGS) is named "Cost of sales". The number of days in the period can then be divided by the inventory turnover formula to calculate the number of days it takes to sell the inventory on hand or "inventory turnover days":

Days inventory outstanding = 365 / Inventory turnover

Norms and Limits of inventory turnover

There is no general norm for the inventory turnover ratio; it should be compared against industry averages. A relatively low inventory turnover may be the result of ineffective inventory management (that is, carrying too large an inventory) and poor sales or carrying out-of-date inventory to avoid writing off inventory losses against income. Normally a high number indicates a greater sales efficiency and a lower risk of loss through un-saleable stock. However, too high an inventory turnover that is out of proportion to industry norms may suggest losses due to shortages, and poor customer-service.A high value for inventory turnover

usually accompanies a low gross profit figure. This means that a company needs to sell a lot of items to maintain an adequate return on the capital invested in the company.

2.2.2 Earnings per share

Earnings per share (EPS) are the portion of the company's distributable profit which is allocated to each outstanding equity share (common share). Earnings per share are a very good indicator of the profitability of any organization, and it is one of the most widely used measures of profitability.

The earning per share is a useful measure of profitability, and when compared with EPS of other similar companies, it gives a view of the comparative earning power of the companies. EPS when calculated over a number of years indicates whether the earning power of the company has improved or deteriorated. Investors usually look for companies with steadily increasing earnings per share. Growth in EPS is an important measure of management performance because it shows how much money the company is making for it's shareholders, not only due to changes in profit, but also after all the effects of issuance of new shares (this is especially important when the growth comes as a result of acquisition).

Calculation (formula)

The EPS is calculated by dividing net profit after taxes and preference dividends by the number of outstanding equity shares. This can be expressed in terms of the following formula:

Earnings per share = (Net Profit after Taxes – Preference Dividends) / No of Equity Shares

If the capital structure changes (i.e. the number of shares changes) during the reporting period, a weighted average number of equity shares is used to for the calculations of EPS.

Norms and Limits of earning per share

It should be noted that two different companies could generate the same EPS but one could do so with a lesser equity. All other things being equal, this company is better than the other one because it is more efficient at using its capital for generating profits. It is important that the

investors do not rely on only measure of earnings per share for making investment decisions. Instead they should use in conjunction with other measures and financial statement analysis.

2.2.3 Net profit margin (or profit margin, net margin, return on revenue)

It is a ratio of profitability calculated as after-tax net income (net profits) divided by sales (revenue). Net profit margin is displayed as a percentage. It shows the amount of each sales dollar left over after all expenses have been paid. Net profit margin is a key ratio of profitability. It is very useful when comparing companies in similar industries. A higher net profit margin means that a company is more efficient at converting sales into actual profit.

The profit margin ratio, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with each Birr of sales generated by comparing the net income and net sales of a company. In other words, the profit margin ratio shows what percentage of sales are left over after all expenses are paid by the business.

Calculation (formula) of net profit margin

Net profit margin = Profit (after tax) / Revenue

Both variables are shown on the income statement or statement of comprehensive income.

2.2.4 Return on capital employed (ROCE)

It is a measure of the returns that a business is achieving from the capital employed, usually expressed in percentage terms. Capital employed equals a company's Equity plus Non-current liabilities (or Total Assets − Current Liabilities), in other words all the long-term funds used by the company. ROCE indicates the efficiency and profitability of a company's capital investments.ROCE should always be higher than the rate at which the company borrows otherwise any increase in borrowing will reduce shareholders' earnings, and vice versa; a good ROCE is one that is greater than the rate at which the company borrows.

Calculation (formula) of ROCE

ROCE = EBIT / Capital Employed = EBIT / (Equity + Non-current Liabilities) = EBIT / (Total Assets - Current Liabilities)

A more accurate variation of this ratio is return on average capital employed (ROACE), which takes the average of opening and closing capital employed for the time period. One limitation of ROCE is the fact that it does not account for the depreciation and amortization of the capital employed. Because capital employed is in the denominator, a company with depreciated assets may find its ROCE increases without an actual increase in profit.

2.3 Leverage ratio

Financial leverage can be aptly described as the extent to which a business or investor is using the borrowed money. Business companies with high leverage are considered to be at risk of bankruptcy if, in case, they are not able to repay the debts, it might lead to difficulties in getting new lenders in future. It is not that financial leverage is always bad. However, it can lead to an increased shareholders' return on investment. Also, very often, there are tax advantages related with borrowing, also known as leverage.

Calculating financial leverage

Financial leverage indicates the reliability of a business on its debts in order to operate. Knowing about the method and technique of calculating financial leverage can help you determine a business' financial solvency and its dependency upon its borrowings.

The key steps involved in the calculation of Financial Leverage are:Compute the total debt owed by the company. This counts both short term as well as long term debt, also including commodities like mortgages and money due for services provided.Estimate the total equity held by the shareholders in the company. This requires multiplying the number of outstanding shares by the stock price. The total amount thus obtained represents the shareholder equity.Divide the total debt by total equity. The quotient thus obtained represents the financial leverage ratio.

Formula of leverage ratio

The most well-known financial leverage ratio is the debt-to-equity ratio (see also debt ratio, equity ratio). It is calculated as:

Total debt / Shareholders Equity

Norms and Limits of leverage ratio

If the financial leverage ratio of a company is higher than 2-to-1, it indicates financial weakness. If the company is leveraged highly, it is considered to be near bankruptcy. Also, it might not be able to secure new capital if it is incapable of meeting its current obligations.

The ratios used to determine about the companies' financing methods, or the ability to meet the obligations. There are many ratios to calculate leverage but the important factors include debt, interest expenses, equity and assets. The most important leverage ratio is the debt to equity ratio that gives you an idea about the debt one company is in and the equity it has at its disposal. It can also be said that leverage ratios tend to find the debt a company has on its balance sheet or its financial health. For a shareholder the first claim he has is against the company's assets, therefore a company might not be left with nothing in the phase of bankruptcy after satisfying the debt holders besides the assets. The most well-known debt to equity ratio determines the risk that a company is in if it has taken tones of death. Companies with less debt equity ratio are less risky than the companies having a high ratio. It is important for a shareholder to look at the financial ratios in order to invest in it. The formula for debt to equity ratio is:

Debt/Equity = (Short term debt + Long term debt)/Equity

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the detail of methodology which showthe frame work that discussed the research design and method, the method and source of data collection and the method of data analysis of the study.

2.1 Research design and methods

The research paper used both descriptive and quantitative research in context and in design. Quantitative data in the sense that it aims to draw out conclusions from the financial data gathered, summarized, and processes. As a research procedure, the researcher obtained the audited financial statements for the last nine periods (2006 to 2014) of DebreBirhan Natural Spring Water plc. Financial information's which are necessary for financial performance analysis were derived from these financial statements. These were then summarized and processed to come up with comparative financial ratios and computed in the statistical package for social science computer package to obtain the descriptive results of the mean and standard deviation that were used in the analysis phase was compared with the norms and industry average figures of the standard financial ratios.

2.2 Method and sources of datacollection

To analyze and measure the financial performance analysis of the company the secondary data collection method wereused. The study used the past nine year's data from the audited financial statements of the company. In addition the study used various reports, books, journals and different website sources which are related to the study objectives.

2.3 Method of data analysis

To describe the financial performance analysis of DebreBirhan Natural Spring Water plc the quantitative data were analyzed and interpreted by using descriptive method of data analysis. The data that was collected through secondary source which was the audited financial statements were analyzed by using the descriptive statics of the computer application for social scientists of various financial ratio indicators for evaluating the financial performance analysis of the company.

For much easier to read and understand the data were presented on tabular form to prepare the result of the financial ratio performance indicators for final analysis and to compare it with industry average norms and limits of the financial ratios in relation to the liquidity, profitability and leverage.

2.4 Research ethical consideration

Ethical clearances were primarily obtained from St. Marry University and then permission from the organization. Finally informed verbal consent wasobtained from the study subjects and data collection on the basis of voluntarily participation with the company. The obtained audited financial statements were consumed only for the purpose of academic and any of these and other information’s are confidential.

CHAPTER FOUR

DATA ANALYSIS

4.1 Financial ratio analysis

4.1.1 Liquidity Ratios

Liquidity ratios analyze the ability of a company to pay off both its current liabilities as they become due as well as their long-term liabilities as they become current. In other words, these ratios show the cash levels of a company and the ability to turn other assets into cash to pay off liabilities and other current obligations. Liquidity is not only a measure of how much cash a business has. It is also a measure of how easy it will be for the company to raise enough cash or convert assets into cash. Assets like accounts receivable, trading securities, and inventory are relatively easy for many companies to convert into cash in the short term. Thus, all of these assets go into the liquidity calculation of a company. The most common liquidity ratios are cash ratio, current ration, quick ratio, working capital ratio.

4.1.1.1 Cash Ratio

The cash ratio or cash coverage ratio is a liquidity ratio that measures a firm's ability to pay off its current liabilities with only cash and cash equivalents. The cash ratio is much more restrictive than the current ratio or quick ratio because no other current assets can be used to pay off current debt other than cash. This is why many creditors look at the cash ratio. They want to see if a company maintains adequate cash balances to pay off all of their current debts as they come due. Creditors also like the fact that inventory and accounts receivable are left out of the equation because both of these accounts are not guaranteed to be available for debt servicing. Inventory could take months or years to sell and receivables could take weeks to collect. Cash is guaranteed to be available for creditors. The cash coverage ratio is calculated by adding cash and cash equivalents and dividing by the total current liabilities of a company. Most companies' list cash and cash equivalents together on their balance sheet, but some companies list them separately. Cash equivalents are investments and other assets that can be converted into cash within 90 days. These assets are so close to cash that GAAP considers

them an equivalent. Current liabilities are always shown separately from long-term liabilities on the face of the balance sheet.

The analysis of cash ratio shows how well a company can pay off its current liabilities with only cash and cash equivalents. This ratio shows cash and equivalents as a percentage of current liabilities. A ratio of 1 means that the company has the same amount of cash and equivalents as it has current debt. In other words, in order to pay off its current debt, the company would have to use all of its cash and equivalents. A ratio above 1 means that all of the current liabilities can be paid with cash and equivalents. A ratio below 1 means that the company needs more than just its cash reserves to pay off its current debt. As with most liquidity ratios, a higher cash coverage ratio means that the company is more liquid and can more easily fund its debt. Creditors are particularly interested in this ratio because they want to make sure their loans will be repaid. Any ratio above 1 is considered to be a good liquidity measure.

Table 4.1 the cash ratio analysis of the company

Fiscal period	Reported Balance Sheet data's		
	Cash	CL	CR
JULY 7,2006	323,477	2,556,771	0.13
JULY 7,2007	1,782,836	3,111,526	0.57
JULY 7,2008	606,543	3,103,669	0.2
JULY 7,2009	424,961	5,616,857	0.08
JULY 7,2010	1,033,262	4,074,119	0.25
JULY 7,2011	1,049,801	4,856,238	0.22
JULY 7,2012	527,416	6,303,107	0.08
JULY 7,2013	16,200,988	6,129,887	2.64
JULY 7,2014	1,024,416	15,654,089	0.07
Total	**22,973,700**	**51,406,263**	**0.45**

Source; Audited financial statement of DBNSW

Table 4.2 The SPSS result of cash ratio of the company

Case Processing Summary			
RPSL		**Ratio Statistics of CASH / CL**	
	Count	Mean	0.47
Overall	9	Median	0.195
Excluded	0	Weighted Mean	0.447
Total	9	Std. Deviation	0.83

Source; Audited financial statement of DBNSW

The above table describes the cash ratio of the company. Based on the audited financial statement of the company nine years data was analyzed. To analyze cash ratio of the company's nine years data the SPSS package was used. To analyze the descriptive statistics of ratio the cash and the current liability was entered in the system as an input data by considering the variables. The SPSS system result of case processing summary result shows the included and excluded data input of the reported cash and cash balances of those data nine were included and the other none was excluded. These are because for analyzing input data the system considers all of the reported cash and current liability amounts for all periods. The total of cash balances for all periods was 22,973,700 and the current liability was 51,406,263. The cash ratio of nine periods was 0.447, which mean that in order to pay 1 Birr the entire current liability the company's cash amount was .45 cents. From these the company ability to cover debt with only cash was unsatisfied and had a liquidity problem. The highest cash ratio from all years was during fiscal period 2013 which is Birr 2.67 and the lowest was during fiscal period 2014 which is 0.07 cents.

4.1.1.2 Quick ratio

The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets that can be converted to cash within 90 days or in the short-term. Cash, cash equivalents, short-term investments or marketable securities, and current accounts receivable are considered quick assets. The acid test of finance shows how well a company can quickly convert

its assets into cash in order to pay off its current liabilities. It also shows the level of quick assets to current liabilities.

The quick ratio is calculated by adding cash, cash equivalents, short-term investments, and current receivables together then dividing them by current liabilities. Sometimes company financial statements don't give a breakdown of quick assets on the balance sheet.

Table 4.3 The Quick ratio of the company

Fiscal period	RPSL		
	Quick asset	Current liability	Quick ratio
JULY 7,2006	573,743	2,556,771	0.22
JULY 7,2007	2,268,093	3,111,526	0.73
JULY 7,2008	810,550	3,103,669	0.26
JULY 7,2009	1,428,011	5,616,857	0.25
JULY 7,2010	2,940,295	4,074,119	0.72
JULY 7,2011	3,179,276	4,856,238	0.65
JULY 7,2012	4,415,033	6,303,107	0.7
JULY 7,2013	16,934,447	6,129,887	2.76
JULY 7,2014	25,182,519	15,654,089	1.61
Total	**57,731,967**	**51,406,263**	**1.12**

Source; Audited financial statement of DBNSW

Table 4.4 The SPSS result of quick ratio of the company

Case Processing Summary			
Data entered		**Ratio Statistics for QA / CL**	
	Count	Mean	0.88
Overall	9	Median	0.7
Excluded	0	Weighted Mean	1.123
Total	9	Std. Deviation	0.822

Source; Audited financial statement of DBNSW

The above table describes the quick ratio of the company. Based on the audited financial statement of the company nine years data the quick ratio was analyzed. To analyze quick ratio of the company's nine years data the SPSS package was used. To analyze the descriptive statistics of ratio the quick asset and the current liability was entered in the system as an input data by considering the variables. The SPSS system result of case processing summary result shows the included and excluded data input of the reported quick asset and current liability of the nine were included and the other none was excluded. These are because for analyzing input data the system considers the entire reported quick asset and current liability amounts for all periods. The total of quick asset balances for all periods was 57,731,967 and the current liability was 51,406,263. The quick ratio of nine periods was 1.12, which means that in order to pay 1 Birr the entire current liability the company's quick assets was Birr 1.12. The highest quick ratio from all years was during fiscal period 2013 which is Birr 2.76 and the lowest was during fiscal period 2006 which was 0.22 cents.

4.1.1.3 Current ratio or working capital ratio

The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the next year. This means that a company has a limited amount of time in order to raise the funds to pay for these liabilities. Current assets like cash, cash equivalents, and marketable securities can easily be converted into cash in the short term. This means that companies with larger amounts of current assets will more easily be able to pay off current liabilities when they become due without having to sell off long-term, revenue generating assets.

The current ratio is calculated by dividing current assets by current liabilities. This ratio is stated in numeric format rather than in decimal format. GAAP requires that companies separate current and long-term assets and liabilities on the balance sheet. This split allows investors and creditors to calculate important ratios like the current ratio. The current ratio helps investors and creditors understand the liquidity of a company and how easily that company will be able to pay off its current liabilities. This ratio expresses a firm's current debt in terms of current assets. So a current ratio of 2 would mean that the company has 2 times more current assets than current liabilities. A higher current ratio is always more favorable than

a lower current ratio because it shows the company can more easily make current debt payments. If a company has to sell of fixed assets to pay for its current liabilities, this usually means the company isn't making enough from operations to support activities.

Since the working capital ratio measures current assets as a percentage of current liabilities, it would only make sense that a higher ratio is more favorable. A WCR of 1 indicates the current assets equal current liabilities. A ratio of 1 is usually considered the middle ground. It's not risky, but it is also not very safe. This means that the firm would have to sell all of its current assets in order to pay off its current liabilities. A ratio less than 1 is considered risky by creditors and investors because it shows the company isn't running efficiently and can't cover its current debt properly. A ratio less than 1 is always a bad thing and is often referred to as negative working capital. On the other hand, a ratio above 1 shows outsiders that the company can pay all of its current liabilities and still have current assets left over or positive working capital.

Table 4.5the current ratio of the company

Fiscal period	**RPSL**		
	CA	**CL**	**CTR**
JULY 7,2006	3,143,174	2,556,771	1.23
JULY 7,2007	3,808,135	3,111,526	1.22
JULY 7,2008	7,683,737	3,103,669	2.48
JULY 7,2009	8,705,735	5,616,857	1.55
JULY 7,2010	9,226,919	4,074,119	2.26
JULY 7,2011	7,289,779	4,856,238	1.5
JULY 7,2012	5,922,698	6,303,107	0.94
JULY 7,2013	18,276,726	6,129,887	2.98
JULY 7,2014	33,187,335	15,654,089	2.12
Total	**97,244,238**	**51,406,263**	**1.89**

Source; Audited financial statement of DBNSW

Table 4.6 The SPSS result of current ratio of the company

Case Processing Summary			
RPSL		**Ratio Statistics for CA / CL**	
	Count	Mean	1.81
Overall	9	Median	1.55
Excluded	0	Weighted Mean	1.892
Total	9	Std. Deviation	0.682

Source; Audited financial statement of DBNSW

The above table describes the quick ratio of the company. Based on the audited financial statement of the company's nine years data was analyzed. To analyze current ratio of the company's nine years data the SPSS package was used. To analyze the descriptive statistics of ratio the current asset and the current liability was entered in the system as an input data by considering the variables. The SPSS system result of case processing summary result shows the included and excluded data input of the reported current asset and current liability of the data nine years were included and the other none was excluded. These are because for analyzing input data the system considers the entire reported current asset and current liability amounts for all periods. The total of current asset balances for all periods was 97,244,238 and the current liability was 51,406,263. The current ratio of nine periods was 1.89, which means that in order to pay 1 Birr the entire current liability the company's current assets was Birr 1.89. The highest current ratio from all years was during fiscal period 2013 which is Birr 2.98 and the lowest was during fiscal period 2011 which was Birr 1.5.

4.1.2 Profitability Ratios

Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations. Investors and creditors can use profitability ratios to judge a company's return on investment based on its relative level of resources and assets. In other words, profitability ratios can be used to judge whether companies are making enough operational profit from their assets. In this sense, profitability ratios relate to efficiency ratios

because they show how well companies are using their assets to generate profits. Profitability is also important to the concept of solvency and going concern.

4.1.2.1 Inventory turnover ratio

The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period. In other words, it measures how many times a company sold its total average inventory Birr amount during the year. This ratio is important because total turnover depends on two main components of performance. The first component is finished goods production. If larger amounts of inventory are manufactured during the year, the company will have to sell greater amounts of inventory to improve its turnover. If the company can't sell these greater amounts of inventory, it will incur storage costs and other holding costs. The second component is sales. Sales have to match inventory purchases otherwise the inventory will not turn effectively.

The inventory turnover ratio is calculated by dividing the cost of goods sold for a period by the average inventory for that period. Average inventory is used instead of ending inventory because many companies' production fluctuates greatly throughout the year. Average inventory is usually calculated by adding the beginning and ending inventory and dividing by two. The cost of goods sold is reported on the income statement.

Inventory turnover is a measure of how efficiently a company can control its products, so it is important to have a high turn. This shows the company does not overspend by manufacturing too much finished goods inventory and wastes resources by storing non-salable inventory. It also shows that the company can effectively sell the finished products that were manufactured. This measurement also shows investors how liquid a company's finished goods inventory is. Finished product inventory is one of the biggest assets manufacturing company’s reports on its balance sheet. If this finished goods inventory can't be sold, it is worthless to the company. This measurement shows how easily a company can turn its inventory into cash. Creditors are particularly interested in this because inventory is often put up as collateral for loans. Banks want to know that this inventory will be easy to sell. Inventory turns vary with industry.

Table 4.7 Inventory turnover ratio of the company

Fiscal periods	RPSL		
	COGS	AI	ITOR
JULY 7,2006	2,808,429	69,345	41
JULY 7,2007	11,290,669	106,692	106
JULY 7,2008	10,751,621	141,608	76
JULY 7,2009	12,441,648	156,016	80
JULY 7,2010	10,291,253	265,650	39
JULY 7,2011	15,210,202	285,752	53
JULY 7,2012	12,929,779	122,832	105
JULY 7,2013	1,587,257	122,832	13
JULY 7,2014	2,578,858	90,963	28
Total	**79,889,716**	**1,361,689**	**59**

Source; Audited financial statement of DBNSW

Table 4.8 The SPSS result of inventory turnover ratio of the company

Case Processing Summary			
RPSL		**Ratio Statistics for COGS / AVGINV**	
	Count	Mean	60.056
Overall	9	Median	53.229
Excluded	0	Weighted Mean	58.67
Total	9	Std. Deviation	33.332

Source; Audited financial statement of DBNSW

The above table describes the inventory turnover ratio of the company. Based on the audited financial statement of the nine years data average inventory turnover ratio was 59 times, which means that the company sold its average inventory 59 times during the fiscal years. From the those nine years the highest inventory turnover was 106 times during the fiscal year 2007 and the lowest was 13 times the fiscal year 2013.

4.1.2.2 Earnings per share

Earnings per share, also called net income per share, is a market prospect ratio that measures the amount of net income earned per share of stock outstanding. In other words, this is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year. Earnings per share are also a calculation that shows how profitable a company is on a shareholder basis. So a larger company's profits per share can be compared to smaller company's profits per share. Obviously, this calculation is heavily influenced on how many shares are outstanding. Thus, a larger company will have to split its earning amongst many more shares of stock compared to a smaller company.

Earnings per share or basic earnings per share is calculated by subtracting preferred dividends from net income and dividing by the weighted average common shares outstanding. The preferred dividends are removed from net income in the earnings per share calculation. This is because EPS only measures the income available to common stockholders. Preferred dividends are set-aside for the preferred shareholders and can't belong to the common shareholders.

Most of the time earning per share is calculated for year-end financial statements. Since companies often issue new stock and buy back treasury stock throughout the year, the weighted average common shares are used in the calculation. The weighted average common shares outstanding is can be simplified by adding the beginning and ending outstanding shares and dividing by two.

The analysis of earning per share is the same as any profitability or market prospect ratio. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders. Although many investors don't pay much attention to the EPS, higher earnings per share ratio often make the stock price of a company rise. Since so many things can manipulate this ratio, investors tend to look at it but don't let it influence their decisions drastically.

Table 4.9 the Earnings per share of the company

Fiscal period	RPSL		
	Net income after tax	Common stock outstanding	EPS
JULY 7,2006	-1,909,083	1,000	-1,909
JULY 7,2007	-2,520,719	1,000	-2,521
JULY 7,2008	1,803,924	1,000	1,804
JULY 7,2009	-158,345	1,000	-158
JULY 7,2010	435,653	1,000	436
JULY 7,2011	-457,433	1,000	-457
JULY 7,2012	-1,852,315	1,000	-1,852
JULY 7,2013	-2,532,902	1,000	-2,533
JULY 7,2014	-418,231	1,000	-418
Total	**-7,609,451**	**9,000**	**-7,609**

Source; Audited financial statement of DBNSW

Table 4.10 The SPSS result of Earnings per share of the company

Case Processing Summary			
		Ratio Statistics for NIAT / CS	
	Count	Mean	1.12E+03
Overall	2	Median	1.12E+03
Excluded	7	Weighted Mean	1.12E+03
Total	9	Std. Dev.	967.514

Source; Audited financial statement of DBNSW

The above tables describe the EPS of the company. Based on the audited financial statement of the company of the nine years data was analyzed. From those years the company reported a profit for only two fiscal period's i.e. (FY 2007, FY 2008, FY 2009 and FY 2010) and a loss the five fiscal periods i.e. (FY 2006, FY 2011, FY 2012, FY 2013 and FY 2014). To analyze the EPS of the company's nine years data the SPSS package was used. To analyze the

descriptive statistics of ratio the net income after tax and the shares outstanding was entered in the system as an input data by considering the variables. The SPSS system result of case processing summary result shows the included and excluded data input of the reported profit statement under straight line method only four were included and the other five was excluded. These are because for analyzing input data the system considers only the reported profit amounts for the periods. Based on these analyses during those years the company's weight mean of the EPS was 1.12E+03 and the standard deviation was 967.514.

4.1.2.3 Net Profit Margin Ratio

The profit margin ratio, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with each Birr of sales generated by comparing the net income and net sales of a company. In other words, the profit margin ratio shows what percentage of sales are left over after all expenses are paid by the business. Creditors and investors use this ratio to measure how effectively a company can convert sales into net income. Investors want to make sure profits are high enough to distribute dividends while creditors want to make sure the company has enough profits to pay back its loans.The return on sales ratio is often used by internal management to set performance goals for the future. The profit margin ratio formula can be calculated by dividing net income by net sales. A net sale is calculated by subtracting any returns or refunds from gross sales. Net income equals total revenues minus total expenses and is usually the last number reported on the income statement.

The profit margin ratio directly measures what percentage of sales is made up of net income. In other words, it measures how much profits are produced at a certain level of sales. This ratio also indirectly measures how well a company manages its expenses relative to its net sales. That is why companies strive to achieve higher ratios. They can do this by either generating more revenues why keeping expenses constant or keep revenues constant and lower expenses. Since most of the time generating additional revenues is much more difficult than cutting expenses, managers generally tend to reduce spending budgets to improve their profit ratio. Like most profitability ratios, this ratio is best used to compare like sized companies in the same industry. This ratio is also effective for measuring past performance of a company.

Table 4.11 Net profit margin of the company

Fiscal period	RPSL		
	NIBT	Net sales	NPM
JULY 7,2006	-1,909,083	2,270,851	-84%
JULY 7,2007	-2,520,719	13,055,841	-19%
JULY 7,2008	1,803,924	16,910,172	11%
JULY 7,2009	-158,345	18,298,132	-1%
JULY 7,2010	645,186	16,451,527	4%
JULY 7,2011	-457,433	19,882,498	-2%
JULY 7,2012	-1,852,315	16,187,536	-11%
JULY 7,2013	-2,532,902	4,460,853	-57%
JULY 7,2014	-418,231	4,055,494	-10%
Total	**-7,399,918**	**111,572,904**	**-7%**

Source; Audited financial statement of DBNSW

Table 4.12 The SPSS result of Net profit margin of the company

Case Processing Summary		**Ratio Statistics for NIBT / NS**	
	Count	Mean	0.073
Overall	2	Median	0.073
Excluded	7	Weighted Mean	0.073
Total	9	Std. Deviation	0.048

Source; Audited financial statement of DBNSW

The above table describes the net profit margin ratio of the company. Based on the audited financial statement of the company of the nine years data was analyzed. From those years the company reported a profit for only two fiscal period's i.e. (FY 2008, and FY 2010) and a loss the five fiscal periods i.e. (FY 2006, FY 2007, FY 2011, FY 2012, FY 2013 and FY 2014). To analyze the net profit margin of the company's nine years data the SPSS package was used. To analyze the descriptive statistics of ratio the net income before tax and the net sales was entered in the system as an input data by considering the variables. The SPSS system result of

case processing summary result shows the included and excluded data input of the reported profit statement under straight line method only two were included and the other seven was excluded. These are because for analyzing input data the system considers only the reported profit amounts for the periods i.e. net income of 1,8003,924 and 645,186 which equals to the total of 2,449,110 and the net sales 16,910,172 and 16,451,527 which equal to the total 33,361,699. Therefore from those two profitable periods total net income was divided by total a net sale that provides 7.3% which states that the company obtains a 7.3% profit from the net sales. And the standard deviation which the difference of net profit during the years divided by the difference of the net sales was deviated from the mean was 0.048 (4.8%).

4.1.2.4 Return on Capital Employed

Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. In other words, return on capital employed shows investors how many Birr in profits each Birr of capital employed generates. ROCE is a long-term profitability ratio because it shows how effectively assets are performing while taking into consideration long-term financing. This is why ROCE is a more useful ratio than return on equity to evaluate the longevity of a company.

This ratio is based on two important calculations: operating profit and capital employed. Net operating profit is often called EBIT or earnings before interest and taxes. EBIT is often reported on the income statement because it shows the company profits generated from operations. EBIT can be calculated by adding interest and taxes back into net income. Capital employed is a fairly convoluted term because it can be used to refer to many different financial ratios. Most often capital employed refers to the total assets of a company less all current liabilities. Return on capital employed formula is calculated by dividing net operating profit or EBIT by the employed capital or by subtracting current liabilities from total assets. The return on capital employed ratio shows how much profit each Birr of employed capital generates. Obviously, a higher ratio would be more favorable because it means that more Birr of profits are generated by each Birr of capital employed.

Table 4.13 Return on capital employed of the company

Fiscal period	RPSL		
	NIBTI	Capital employed	ROCE
JULY 7,2006	-1,463,805	18,575,574	-8%
JULY 7,2007	-1,303,327	14,230,631	-9%
JULY 7,2008	2,749,459	13,037,604	21%
JULY 7,2009	692,010	6,591,632	10%
JULY 7,2010	1,422,960	5,330,886	27%
JULY 7,2011	-35,956	2,676,937	-1%
JULY 7,2012	-1,143,142	459,741	-249%
JULY 7,2013	-1,832,438	13,317,996	-14%
JULY 7,2014	166,906	45,295,155	0%
Total	**-747,333**	**119,516,156**	**-222%**

Source; Audited financial statement of DBNSW

Table 4.14 The SPSS result of return on capital employed of the company

Case Processing Summary			
RPSL		**Ratio Statistics for NIBET / CEMP**	
	Count	Mean	0.147
Overall	4	Median	0.158
Excluded	5	Weighted Mean	0.072
Total	9	Std. Deviation	0.117

Source; Audited financial statement of DBNSW

The above table describes the return on capital employed of the company. Based on the audited financial statement of the company of the nine years data was analyzed. From those years the company reported a net income before tax and interest expense was only for four fiscal period's i.e. (FY 2008, FY 2009, FY 2010 and FY 2014) and a loss the five fiscal periods i.e. (FY 2006, FY 2007, FY 2011, FY 2012, and FY 2013). To analyze return on capital employed

of the company's nine years data the SPSS package was used. To analyze the descriptive statistics of ratio the net income before tax and interest expense and the capital employed was entered in the system as an input data by considering the variables. The SPSS system result of case processing summary result shows the included and excluded data input of the reported profit before tax and interest expense statement under straight line method only four were included and the other five was excluded. These are because for analyzing input data the system considers only the reported profit amounts for the period's i.e. net income before tax and interest expense of FY 2008 2,749,459.00, FY 2009 692,010.00, FY 2010 1,422,960.00 and FY 2014 166,906.00 which equals to the total of 5,031,335 and the capital employed FY 008 13,037,604.00, FY 2009 6,591,632.00, FY 2010 5,330,886.00 and FY 2014 45,295,155 which equal to the total 70,255,277. Therefore from those four the total net income before tax and interest expense periods was divided by total a total capital employed that provides a weight mean of 7.2 % which states that for every Birr invested in capital employed the company obtains Birr 7.2 profit. And the standard deviation was 11.7%.

4.1.3 Leverage ratio

4.1.3.1 Debt to equity ratio

The debt to equity ratio is a financial, liquidity ratio that compares a company's total debt to total equity. The debt to equity ratio shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

The debt to equity ratio is calculated by dividing total liabilities by total equity. The debt to equity ratio is considered a balance sheet ratio because all of the elements are reported on the balance sheet. The analysis of ratio in industry has different debt to equity ratio benchmarks, as some industries tend to use more debt financing than others.

A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered more risky to creditors and investors than companies with a lower ratio. Unlike equity financing, debt must be repaid to the lender. Since debt financing also requires debt servicing or regular interest payments, debt can be a far more expensive form of financing than equity financing. Companies leveraging large amounts of

debt might not be able to make the payments. Creditors view a higher debt to equity ratio as risky because it shows that the investors haven't funded the operations as much as creditors have.This could mean that investor's don't want to fund the business operations because the company isn't performing well. Lack of performance might also be the reason why the company is seeking out extra debt financing.

Table 4.15 the debt to equity ratio of the company

Fiscal period	RPSL		
	Total Liability	**Total Equity**	**Debt to Equity ratio**
JULY 7,2006	17,041,428	23,041,428	0.74
JULY 7,2007	15,771,959	21,771,959	0.72
JULY 7,2008	13,309,602	19,309,602	0.69
JULY 7,2009	16,529,892	22,529,892	0.73
JULY 7,2010	13,475,206	19,475,206	0.69
JULY 7,2011	11,933,059	17,933,059	0.67
JULY 7,2012	13,101,232	19,101,232	0.69
JULY 7,2013	29,260,896	35,260,896	0.83
JULY 7,2014	49,154,501	55,154,501	0.89
Total	**179,577,775**	**233,577,775**	**0.77**

Source; Audited financial statement of DBNSW

Table 4.16 The SPSS result of debt to equity ratio of the company

Case Processing Summary			
RPSL		**Ratio Statistics for TL / TEQT**	
	Count	Mean	0.739
Overall	9	Median	0.724
Excluded	0	Weighted Mean	0.769
Total	9	Std. Deviation	0.075

Source; Audited financial statement of DBNSW

The above table describes the debt to equity ratio of the company. Based on the audited financial statement of the company of the nine years data was analyzed. To analyze debt to equity ratio of the company's nine years data the SPSS package was used. To analyze the descriptive statistics of ratio the total liability and the total equity was entered in the system as an input data by considering the variables. The SPSS system result of case processing summary result shows the included and excluded data input of the reported balance sheet accounts of the nine were included and the other none was excluded. These are because for analyzing input data the system considers the entire reported total liability and total equity amounts for all periods. The total of liability balances for all periods was 179,577,775 and the total equity was 233,577,775. The debt to equity ratio of nine periods was 0.77, which means that 0.77 cents of the business is owned by the creditors and only 0.23 cents of company equity was owned by the shareholders. The company has fewer stakes in the business asset. From these one can understand that the company use a debt financing capital structure. The highest debt to equity ratio from all years was during fiscal period 2014 which is Birr 0.89 and the lowest was during fiscal period 2011 which was Birr 0.67.

Summary of the financial ration analysis

The result of regression model and the researcher constructions on the effect of depreciation methods on the performance of the company's report of financial statements was summarized in the following table 4.17.

Variables		RPSL	
		Mean	Std. Deviation
Profitability Ratios	Inventory turnover ratio	60.056	33.332
	Earnings per share	1.12E+03	967.514
	Net Profit Margin Ratio	0.073	0.048
	Return on Capital Employed	0.147	0.117
Liquidity Ratios	Cash Ratio	0.47	0.83
	Quick ratio	0.88	0.822
	Current ratio	1.81	0.682
Leverage ratio	Debt to equity ratio	0.739	0.075

Source: researcher's own constructions

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

1. The ***liquidity indicator*** of the management performance was discussion and presented to evaluate the financial performance of the company. The cash ratio which is the ability of firm to settle its current liability by cash and cash balances, of the nine years fiscal periods was 0.45 cents and as standard norms the cash ratio of not less than 0.2 is considered as acceptable. On the other side of testing liquidity is by analyzing the quick asset, which is the ability of the firm to pay off company current liability by its current asset with the exception of stock, of the nine years weight mean was Birr 1.12. The ability to pay off the company's current liability of Birr 1 by only using of quick assets without selling of any fixed asset was 1.12 and was an acceptable with the standards of norm. The last liquidity indicator was the current ratio, which states that the ability of a company's 1 Birr of current liability by using the company's current asset was Birr 1.80. As a concluding point, in all management performance indicator of liquidity analysis the ability of the firm to pay off its obligations by cash ratio, quick ratio and current ratio was better in a comparison to the standards of norms.

2. The ***profitability indicator*** of management performance was discussion and presented to evaluate the financial performance of the company's financial statement, the average inventory turnover of the nine years fiscal periods was 59. These means that the cost of goods sold was lower. The other profitability indicatory was the earning per share analysis. The EPS of the financial statement reported was Birr 1.12E+0. On the Net Profit Margin analysis which enables a profit percentage of the sales, the company obtains 7.3% of profit from net sales. Again the net profit margin of the reported profit was 10%. The last profitability indicatory was Return on Capital Employed, a percentage that states the invested Birr amount in capital employed a profit. It was 7.2%. The return on capital employed rate for every one birr invested in capital

employed the company obtains profit of Birr 28.8. Therefore based on the analysis of the comparative financial statement of the DebreBirhan Natural Spring Water PLC, it was clearly seen that the financial performance analysis of profitability was not satisfactory.

3. The ***leverage indicator*** of the management performance was discussion and presented to evaluate financial performance of the company. The leverage ratio which is the debt to equity ratio, which indicates the percentage of the business equity, was owned by the shareholders or creditors. The debt to equity ratio of the last nine years fiscal period presents that 77% of the business was owned by creditors and the remaining only 23% of the business equity was owned by the shareholders in reference to the reported balance sheet statement of the company. Therefore most of the company equity was owned by the creditors, which indicates that the company uses a debt financing capital structure.

5.2 Recommendations

1. As a recommendation, in order to have a better earning management and better financial analysis results in relation profitability, the company has to implement better cost reduction strategies by cutting off costs and also strategies for more production techniques which enable to increase the sales volume of the company.
2. In order to have a strong ability in relation to liquidity the company has to increase its sales which enables to have more cash inflows and also has to reduce its current liability by using long term financing.
3. In order to have better leverage ration the company's shareholders has to increase their number of shares by investing themselves or inviting the external investors to join which increases the number of share and the cash position of the company.

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DEBRE BIRHAN NATURAL SPRING WATER PLC
BALANCE SHEET STATEMENT

Annex -A

	JULY 7,2006	JULY 7,2007	JULY 7,2008	JULY 7,2009	JULY 7,2010	JULY 7,2011	JULY 7,2012	JULY 7,2013	JULY 7,2014
ASSETS EMPLOYED									
FIXED ASSETS (net)	15,537,690	11,751,127	7,343,227	3,057,031	178,076	243,386	469,909	515,977	22,666,377
Construction on progress			-	-	-	-	370,231	655,180	5,095,532
DEFFERED CHARGES (net)	2,451,481	1,782,895	1,114,309	445,723	10	10	10	-	-
Total Fixed Asset	17,989,171	13,534,022	8,457,536	3,502,754	178,086	243,396	840,150	1,171,157	27,761,909
CURRENT ASSETS									
Stock and goods in transit	2,569,431	1,540,042	6,873,187	7,277,724	6,286,624	4,110,503	1,507,665	1,342,279	8,004,816
Goods in transit of imported Machineries									20,882,627
Debtors and prepayments	249,166	363,020	204,007	854,812	1,758,795	1,703,471	3,640,867	453,418	2,304,456
VAT receeivables			-	-	-	354,776	72,764	104,160	775,582
Withholding tax receivable	1,100	122,237	-	148,238	148,238	71,228	73,986	75,881	95,438
Cash and cash balances	323,477	1,782,836	606,543	424,961	1,033,262	1,049,801	527,416	16,200,988	1,024,416
Government Bond (non interest bearing)	-	-	-	-	-	-	100,000	100,000	100,000
	3,143,174	3,808,135	7,683,737	8,705,735	9,226,919	7,289,779	5,922,698	18,276,726	33,187,335
LESS;- CURRENT LIABILITIES									
Creditors and accruals	439,938	542,231	517,717	4,834,445	3,036,038	4,110,210	6,220,370	6,033,309	9,016,849
Provision for taxation			215,207	-	139,896	-	-	-	-
VAT payable	123,967	246,474	194,647	197,080	176,398	-	82,737	96,578	-
Long term bank loan- Current maturity	1,992,866	2,322,821	2,176,098	585,332	721,787	746,028	-	-	6,637,240
	2,556,771	3,111,526	3,103,669	5,616,857	4,074,119	4,856,238	6,303,107	6,129,887	15,654,089
NET CURRENT ASSETS	586,403	696,609	4,580,068	3,088,878	5,152,800	2,433,541	(380,409)	12,146,839	17,533,246
TOTAL ASSET EMPLYOED	**18,575,574**	**14,230,631**	**13,037,604**	**6,591,632**	**5,330,886**	**2,676,937**	**459,741**	**13,317,996**	**45,295,155**
FINANCED BY									
SHARE CAPITAL									
6,000 ordinary shares of 1,000 Birr each	.	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
LEGAL RESERVE	-		63,074	63,074	84,857	84,857	84,857	84,857	84,857
PROFIT AND LOSS ACCOUNT	(1,909,083)	(4,429,802)	(3,231,403)	(10,384,477)	(10,155,058)	(10,484,741)	(12,423,241)	(15,897,871)	(15,172,741)
SHAEHOLDERS'S ACCOUNT	1,525,359	1,174,980	192,479	569,240	569,240	733,686	6,798,125	1,637,016	5,647,125
LONG TERM BANK LOAN	12,959,298	11,485,453	10,013,454	10,343,795	8,831,847	6,343,135	-	21,493,993	27,853,287
	12,575,574	**14,230,631**	**13,037,604**	**6,591,632**	**5,330,886**	**2,676,937**	**459,741**	**13,317,995**	**24,412,528**

DEBRE BIRHAN NATURAL SPRING WATER PLC
INCOME AND LOSS STATEMENT

Annex -B

	JULY 7,2006	JULY 7,2007	JULY 7,2008	JULY 7,2009	JULY 7,2010	JULY 7,2011	JULY 7,2012	JULY 7,2013	JULY 7,2014
SALES	2,270,851	13,055,841	16,910,172	18,298,132	16,451,527	19,882,498	16,187,536	4,460,853	4,055,494
LESS;- ROYALITY TAX	(45,417)	(261,117)	(338,203)	(365,963)	(329,104)	(397,650)	(323,751)	(89,217)	(81,110)
	2,225,434	12,794,724	16,571,969	17,932,169	16,122,423	19,484,848	15,863,785	4,371,636	3,974,384
COST OF SALES	(2,808,429)	(11,290,669)	(10,751,621)	(12,441,649)	(10,291,253)	(15,210,202)	(12,929,779)	(1,587,258)	(2,578,858)
GROSS PROFIT (LOSS)	(582,995)	1,504,055	5,820,348	5,490,520	5,831,170	4,274,646	2,934,006	2,784,378	1,395,526
OTHER INCOME	-	13,137	73,214	50,154	37,711	47,288	27,936	6,172	5,760
	(582,995)	1,517,192	5,893,562	5,540,674	5,868,881	4,321,934	2,961,942	2,790,550	1,401,286
GENERAL AND SELLING EXPENSES									
Salaries, wages and benefits	109,857	399,115	542,052	814,415	1,201,210	1,257,975	1,391,140	2,041,669	168,788
Perdiem and travel	21,550	154,399	162,566	178,023	299,152	323,978	118,444	214,637	4,287
Water and electricity	583	3,939	25,319	7,954	-	13,496	10,278	56,902	876
Communication	7,126	23,405	14,052	38,374	68,567	84,173	59,099	30,758	5,745
Frieght and transport	34,705	56,167	35,681	44,996	10,395	19,615	84,183	121,170	1,615
Bank charges and interest	445,278	1,217,392	945,535	850,355	777,774	421,477	709,173	700,464	585,137
Insurance	6,978	83,005	143,912	104,825	145,963	139,128	168,554	183,912	3,155
Rent	120,407	344,382	312,394	321,658	261,406	286,071	496,543	471,902	63,563
Car running	75,728	186,900	575,505	460,883	523,699	960,561	962,693	224,860	69,385
Repair and maintenance	4,800	221,572	14,464	522,418	333,684	345,796	395,756	424,518	54,849
Printing, stationery and supplies	33,247	43,089	23,534	42,651	29,899	93,332	80,265	37,443	9,722
Advertisement	175,114	113,459	57,547	80,070	5,120	142,198	5,296	2,300	5,000
Sales commission	21,963	158,402	194,442	166,939	113,937	115,610	103,016	19,470	6,837
Professional fee	7,000	31,970	23,000	19,550	10,500	211,991	52,100	15,000	15,000
Depreciation	247,275	965,274	985,767	1,997,301	1,355,530	19,135	73,923	171,027	68,302
Entertainment	4,105	11,773	4,250	22,435	23,566	24,427	54,278	31,627	76,009
Miscellaneous	1,097	22,669	6,080	17,967	5,799	24,612	15,256	4,241	6,067
Registration and license fee	9,275	999	23,538	8,205	4,640	7,255	4,555	36,713	-
Penalities	-	-	-	-	12,582	244,846	-	533,259	313,253
Uniform and outfits	-	-		-	23,163	10,520	29,705	1,580	3,720
Gifts and donation	-	-	-	-	17,109	7,173	-	-	-
Bad debts	-	-	-	-	-	25,998	-	-	358,207
	(1,326,088)	(4,037,911)	(4,089,638)	(5,699,019)	(5,223,695)	(4,779,367)	(4,814,257)	(5,323,452)	(1,819,517)
PROFIT/LOSS BEFORE TAX	(1,909,083)	(2,520,719)	1,803,924	(158,345)	645,186	(457,433)	(1,852,315)	(2,532,902)	(418,231)
PROVISION FOR TAXATION	-	-	-	-	(209,533)	-	-	-	-
NET PROFIT/LOSS AFTER TAX	(1,909,083)	(2,520,719)	1,803,924	(158,345)	435,653	(457,433)	(1,852,315)	(2,532,902)	(418,231)
LEGAL RESERVE	-	-	-	-	(21,783)	-	-	-	-
NET PROFIT/LOSS AFTER LEGAL RESERV	(1,909,083)	(2,520,719)	1,803,924	(158,345)	413,870	(457,433)	(1,852,315)	(2,532,902)	(418,231)
LOSS BROUGHT FORWARD	-	(1,909,083)	(4,429,802)	(3,231,403)	(10,384,477)	(10,155,058)	(10,484,741)	(12,423,241)	(15,897,871)
DIVIDEND PAID	-	-	-	(1,198,399)				-	-
PRIOR YEARS ADJUSTMENT	-	-	-	(5,796,331)	(184,451)	127,751	(86,185)	(948,730)	1,143,359
LOSS CARRIED FORWARD	**(1,909,083)**	**(4,429,802)**	**(2,625,878)**	**(10,384,478)**	**(10,155,058)**	**(10,484,740)**	**(12,423,241)**	**(15,904,873)**	**(15,172,743)**

DEBRE BIRHAN NATURAL SPRING WATER PLC

COST OF SALES STATEMENT

Annex -C

	JULY 7,2006	JULY 7,2007	JULY 7,2008	JULY 7,2009	JULY 7,2010	JULY 7,2011	JULY 7,2012	JULY 7,2013	JULY 7,2014
Direct material	1,441,532	6,403,575	5,310,404	7,305,450	5,924,680	11,022,980	8,009,357	1,157,404	1,578,868
Direct labour	94,989	473,034	564,986	698,165	705,911	901,765	1,096,325	240,768	151,545
Manufacturing overheads	86,560	368,671	1,026,508	479,184	521,656	312,329	630,746	11,572	42,043
Raw material damaged & wastages						169,749	1,155,596	-	-
Excise tax				883,768	1,439,450	2,429,060	1,955,279	219,271	354,491
Depreciation	1,101,176	3,312,807	3,314,964	2,301,485	1,578,119	90,247	40,708	-	124,859
Amortization	222,862	668,586	668,586	668,586	445,714	-	-	10	221,545
Cost of manufacturings	2,947,119	11,226,673	10,885,448	12,336,638	10,615,530	14,926,130	12,888,011	1,629,025	2,473,351
ADD;- Finished Products- Beginning	-	138,690	74,694	208,521	103,511	427,788	143,716	101,948	143,716
LESS;- Finished Products- Ending	(138,690)	(74,694)	(208,521)	(103,511)	(427,788)	(143,716)	(101,948)	(143,716)	(38,209)
	2,808,429	**11,290,669**	**10,751,621**	**12,441,648**	**10,291,253**	**15,210,202**	**12,929,779**	**1,587,257**	**2,578,858**

DEBRE BIRHAN NATURAL SPRING WATER PLC

DEPRECIATION EXPENSES FOR FIXED ASSETS

FIXED ASSET

Annex -D

	JULY 7,2006	JULY 7,2007	JULY 7,2008	JULY 7,2009	JULY 7,2010	JULY 7,2011	JULY 7,2012	JULY 7,2013	JULY 7,2014
Fixed asset costs	16,886,034	17,377,552	17,203,716	17,207,975	17,262,669	17,437,361	17,778,517	17,786,611	17,819,621
Total Depreciation Expense	**1,348,344**	**4,278,081**	**4,234,064**	**4,298,788**	**2,933,649**	**109,382**	**114,633**	**171,026**	**193,161**
Dep Expense- Cost of sales	730,457	2,203,291	2,210,814	2,210,815	1,487,872	-	40,708	40,705	40,705
Dep Expense- Admin + Sales	617,887	2,074,790	2,023,250	2,087,973	1,445,777	109,382	73,925	130,321	152,456
Accumulated depreciation	1,348,344	5,626,425	9,860,489	14,159,277	17,092,926	17,202,308	17,316,941	17,487,967	17,681,128
Book Value	**15,537,690**	**11,751,127**	**7,343,227**	**3,048,698**	**169,743**	**235,053**	**461,576**	**298,644**	**138,493**