



**WALLAGA UNIVERISTY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**ANALYSIS OF FINANCIAL PERFORMANCE OF LALISA GULISO**  
**AGRICULTURAL MULTIPURPOSE COOPERATIVES (A CASE STUDY OF**  
**GULISO WOREDA)**

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## **CERTIFICATION SHEET**

As the advisor, I certified that I have read and evaluated the thesis prepared under my guidance by Mr Tolesa Yadesa entitled “**Analysis of Financial Performance of Lalisa Guliso Agricultural Multipurpose Cooperatives (A Case Study of Guliso Woreda)**”. I recommended that the thesis is fulfilling the thesis requirements for the award of the **MSc Degree in Accounting and Finance**.

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DECLARATION

I hereby declare that the thesis entitled “**Analysis of financial Performance of Lalisa Guliso Agricultural Multipurpose Cooperatives in Guliso District, Western Wollega Zone, Oromia Regional State, Ethiopia**”. It has been carried out by me under the guidance by Mr. Lemesa Diriba (Assistant. Professor). The thesis is original work of mine and has not been submitted for the award of any Degree or Diploma of any candidate of any university and all the sources used in this research report have been duly acknowledged.

Declared by Tolesa Yadesa

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## **DEDICATION**

First of all, I dedicate this work to Almighty God, who gave me the Ability, Healthy, Willingness, and Opportunity to come up this level, complete my study and for his endless support throughout the entire my life and in all that I did. Next, I dedicated this thesis manuscript also to my wife who have stood with me by the untold of encouragements and share moral support during the study period.

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## **ABSTRACT**

*The study was focused on analysis of financial Performance of Lalisa Guliso Agricultural multipurpose cooperative a case of Guliso District, Western Wallega Zone Oromia Regional state, Ethiopia. The cooperative is selected purposely, based on the cooperative duration of five years' work and availability of financial documents. To attain the objectives of the study the researcher was considered five years audited financial Statements report with regard quantitative data analysis by using the financial analysis tools; such as common size balance sheet and income statement analysis, trend analysis, and ratio analysis to attains the objectives of the study over a period of 2017-2021 years; The result of financial performance analysis illustrated that the financial position of the Lalisa Guliso Agricultural multipurpose cooperatives has not maintained satisfactory performance. The study results indicate that the borrowing power of those primary cooperative and the profitability of the Lalisa Guliso Agricultural multipurpose cooperatives are lower than the average. The Asset utilization of the Lalisa Guliso Agricultural multipurpose cooperatives is not satisfactory and the Lalisa Guliso Agricultural multipurpose cooperatives have to sale additional share capital liquidity ratios, does not maintain sufficient current asset against its current liabilities, however it is recommended that more invested on current assets were required to increase the value of current assets, so that optimum level of short-term solvency can be achieved. Although, the Lalisa Guliso Agricultural multipurpose cooperatives to improve liquidity position, it should be maintained adequate cash reserves from operating activities. The leverage position of Lalisa Guliso Agricultural Multipurpose Cooperative was shows that highly leveraged, the cooperative required to increase internal funds to be greater than external funds. Therefore, it is recommended that the cooperative should be maintain proper balance of total debt to shareholders funds as well as it should be additional share to increase their owns capital. To improve their efficiency and in order to gain enough profit the Lalisa Guliso Agricultural multipurpose cooperatives must decrease administrative and operating expenses. The Lalisa Guliso Agricultural multipurpose cooperatives have been improving their working capitals efficiency, it should be helping to gain enough profit and save accumulated profit for capital growth in Lalisa Guliso Agricultural multipurpose cooperative.*

**Keyword: common size Analysis, Financial performance; Ratio Analysis, and Trend Analysis**

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## **LIST OF ACRONYMS AND ABBRIVIATIONS**

ADCP	Average Debt Collection Period
AOAR	Average of Account Receivables
AOI	Average of Inventory
ADLI	Agriculture Development Led Industrialization
ALR	Absolute Liquidity Ratio
APPR	Average Payment Period Ratio
CA	Current Assets
CATNWR	Current Assets to Net Worth Ratio
CL	Current liability
COGS	Cost of Goods Sold
CR	Current Ratio
CSA	Central Statistical Agency
CTOR	Creditors Turnover Ratio
DCPR	Debt Collection Periods Ratio
DTAR	Debt to Asset Ratio
DTER	Debt to Equity Ratio
DTOR	Debt to Turnover Ratio
ETB	Ethiopian Birr
FA	Fixed Assets
FATOR	Fixed Assets to Turnover Ratio
FATNWR	Fixed Asset to Net Worth Ratio
FDRE	Federal Democratic Republic of Ethiopia
FSA	Financial Statement Analysis
AMC	Agricultural Multi-Purpose Cooperative
G.C	Gregorian Calendar
GPR	Gross Profit Ratio
ICA	International Cooperative Alliance
ILO	International Labor Organization
ITOR	Inventory Turnover Ratio
LR	Leverage Ratio
LR	Liquidity Ratio
MOARD	Ministry of Agriculture and Rural Development
NCS	Net Credit Sales
NFA	Net fixed assets
NI	Net Income
NPR	Net Profit Ratio
NS	Net Sales
NWCR	Net Working Capital Ratio
OPMR	Operating Profit Margin Ratio

PF	Proprietary Funds
P \$ L	Profit and Loss
PR	Proprietary Ratio
QR	Quick Ratio or Acid Test Ratio
ROA	Return on Asset
ROE	Return on Equity
ROTAR	Return on Total Assets Ratio
TA	Total Assets
TATOR	Total Assets Turnover Ratio
TD	Total Debt

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the Study

Cooperative is widely recognized as a democratically controlled and voluntarily joint member-owned-and-governed business (Aris, Marzuki, Othman, Rahman, & Ismail, 2018). Through self-help efforts, while prioritizing the general welfare and inclusivity of the community, cooperative as argued by many (Dave, 2021) is able to generate employment and income, reduce poverty as well as foster social integration. Across the globe, cooperatives have contributed almost 7% of the world's gross domestic product (GDP) (Zakaria, Rahim, & Aman, 2020).

Cooperative unions have been established in Ethiopia with the objective of achieving greater economies of scale through increasing the bargaining power of primary cooperatives. Cooperative unions are a recent phenomenon in the history of cooperatives in Ethiopia. Lume- Adama Cooperative Union was the first cooperative union established in 1997. Since then, several unions have been established. Appropriate by-laws, articles of associations, minutes of the founding meetings, name and address of members and members of the management committee are a pre-requisite for the formal registration of both primary cooperatives and cooperative unions. (Emana, 2009)

Different empirical studies indicate that cooperatives management body and employees' lack managerial skills, especially their financial resources management and accounting practice, is poor due to lack of professional knowledge and experience, low educational level. If so, the huge number of financial resources, mobilized from members (equity capital) and from Government borrowings (debt capital) which requires efficient utilization is under question.

According to (Assefa, Dawit, Lencho, & Hunduma, 2015), the weak performance of the agricultural markets (both input and output markets) in Ethiopia has been described in various studies as a major barrier to growth in the agricultural sector and the overall economy. With an inefficient marketing system, the surplus resulting from increased production benefits neither the farmers nor the country.

In 1994, the government issued proclamation No. 85/1994 with the objective of restructuring agricultural cooperatives to enhance the development of the national economy. The proclamation is generally characterized by the principles of cooperation such as voluntary formation, business orientation and democratic membership control. However, the proclamation dealt only with agricultural cooperatives by neglecting the societies in other sectors. Consequently, proclamation No. 85/1994 was replaced by a more comprehensive and multispectral cooperatives promotion proclamation No. 147/1998. After this proclamation, a number of agricultural cooperatives have been established in the country.

Agricultural co-operatives are agricultural-producer-owned coops whose primary purpose is increase member producers' production and incomes by helping better link with finance, agricultural inputs, information, and output markets

Agricultural cooperatives are the means to agricultural economic development for self- reliance, higher increased productivity promotion of industry raising community, economic and social consciousness(Mackie, Lai, Westenbroek, & Mitchell, 1995)

Financial statement analysis is the process of identifying the financial strengths and weakness of the firm from the available accounting data. The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. However, the analysis of financial statements is a process of evaluating relationship between component of financial statements to obtain a better understanding of the firm's financial position and performance(Choudhary, Thakur, & Suri, 2013)

Operational Performance of Cooperative is the selection, evaluation and interpretation of financial data, along with other relevant information, to assist in investment and financial decision making. Moreover, it is also the process of identifying financial strength and weaknesses of the firms by properly establishing relationship between the items of the balance sheet and the profit and loss account(AMONDI, 2020)

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management as reflected in the financial

records and reports. The analysis attempt to measure the firm's liquidity, profitability and other inductors that the business is conducted is a rational and normal way, ensuring enough returns to the shareholders to maintain at least its market value (Fahmi & Saputra, 2011)

Financial analysis is referring to the process of determining financial strengths and weaknesses of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other cooperative data. Financial statement analysis the evaluation of firms' performance can be a guide that would greatly assist and provide directions for future decisions regarding development, investment, management and control. The authors observed that financial evaluations/analysis is the oldest and important approaches used to measure performance of organizations using financial statements.

Such an analysis can provide valuable information on corporate strength, its weakness and the quality of the firm's financial position. (Tadesse, Sefera, Asmare, & Tekalign, 2021) An Analysis of Operational Performance of Cooperative can be a very useful tool for understanding a firm's performance and conditions. However, there are certain problems and issues encountered in such analysis which call for care, circumspection, and Judgment of the organizations. The problem during if there is no operational performance financial statement analysis are the decision making of the organization is not truly, the creditors cannot get good information, the debtors cannot get good results and all the management of the finance is not truly. According to (Fernandes, Brito, & Gonçalves, 2015)

Like any other business organizations cooperative should possess adequate knowledge in their financial administration and proper financial and accounting policies such as fixed asset management, account receivable, purchasing and inventory management etc. which guides their day-to-day actions in decision making.

Management should be particularly interested in knowing financial strength of their cooperative to make their best use and to be able to spot out financial weaknesses of the cooperative to take suitable corrective action. The ability of cooperatives to produce pecuniary returns for the members is affected by decision made by its management and conditions outside management control. Cooperative management can use financial ratios to gauge the stability of the cooperative. Financial ratios have been used to analyze the economic efficiency of cooperatives.

Financial planning is important to maintaining a stable financial house hold. Good financial planning and achieving financial stability will also help to prevent financial crisis. Financial planning means deciding in advance, the financial activities to be carried into achieve the basic objectives of the firm. The basic objective of the firm is to get maximum profits out of minimum efforts or to maximum the wealth of the corporation to its shareholders in an efficient manner. So the basic purpose of the financial planning is to make sure that adequate funds are raised at the minimum cost and that they are used wisely (Xu, Li, Li, Zhou, & Nakkeeran, 2003). In cooperative, profit is not the motive and financial plan has to deals with raising and deploying resources.

Financial planning pertains only to the function of finance and includes the determination of the firm's financial objectives, formulating and promulgating financial policies and developing financial procedures (Höffler, Prechtel, & Nerdel, 2010)

Financial stability analysis will interpret and converts raw data from the financial statements into use full financial indicators. Financial statement analysis of the cooperative society is to protect the finance of the business organizations. (Coria et al., 2021) To know and understand the level of cooperatives financial performance, efficiency in utilization of resources and administration activities, and draw possible recommendations, continuous assessment and evaluation is required by cooperative promoters. This requires developing and use of performance measurements and benchmarks that can fit to cooperatives objectives.

Analysis of financial statement of Lalisa Guliso Agricultural Multipurpose Cooperative focused on standard ratio analysis, common size analysis and trend analysis according to its ability to trade off for the cooperative under investigation to study the strength and weakness of financial position, financial efficiency and growth and profitability of cooperative. Specifically, this research would be conducted on how the financial performance and strategies should be applied to influence the ultimate financial stability of the cooperative. This study would be made an attempt to analysis financial presence of Lalisa Guliso Agricultural Multipurpose Cooperatives in Guliso Woreda, Western Wallaga zone, Oromia Regional State, Ethiopia.

## **1.2. Statement of the Problem**

Despite that agriculture is the main sector of the national economy and the development of the country is correlated with progress, the methods and techniques of Agricultural multipurpose cooperatives financial control is traditional. Due to these, the level of its finance control is exceedingly low (Riinawati, 2021). To meet their objective, cooperative mobilize and utilizes huge number of financial resources from internal and external sources. Maximum utilization of assets demands financial administrative policies and application of financial management activities.

Despite its relevance to the field, a more rigorous and scientific evaluation of the impact of management practices in financial performance still shows mixed results. Several reasons can account for these mixed results (Goertz, 2020). being affected by multiple variables simultaneously, making any investigation limited in terms of controls. Second, some operational practices may deliver positive outcomes in some settings, but negative outcomes in others, and identifying these interactions is not simple. Outsourcing is one example, as indicated by (Rossetti, Paladini, Riva, & Molteni, 2020) Third, identifying what constitutes a practice is also not simple. Powell (1995) showed that the soft, cultural aspects of quality management are the ones that can affect performance and not simply the adoption of practices (Collins, 2021) Fourth, imitation of successful practices continuously wears out financial benefits through competition, following the RBT logic. Finally, given all the above points, large samples are necessary to have the power to identify relationships that may have been weakened or diluted by all of these factors.

There are number of constraints in all aspects of the agricultural cooperatives. In agricultural cooperatives and marketing system that affects financial stability that leads members dissatisfaction of cooperatives in Ethiopia as identified include weak bargaining power, poor marketing skills, marketing transaction cost, poor financial management, lack of knowledge in cooperatives and poor infrastructure are the problems of an agricultural cooperatives (Tamru, Minten, Alemu, & Bachewe, 2017).

Even though FDRE (Federal Democratic Republic of Ethiopia) government policies are encouraging and supporting the establishment of cooperatives in various spheres for the improvement of individual to contribute the country economy. However still some major problems that hinder cooperatives stability is there from year to year. As a result, many of the

cooperative are not able to repay their short term and long-term obligation on time due to weaknesses of their financial positions. On the other hand, cooperatives are avoided their failure, if they know their financial position well in advance. Furthermore, agricultural cooperatives involve complex financial and operational planning to run their organizations: they are facing big challenges from their members, management, competitors and even from the public (nonmembers) that forces them to losses (Wann, Lu, Lozada, & Cangahuala, 2017)

Financial management is the fore most functional area of management requiring through investigation. Financial management in cooperative is some particular feature. The high Debt to Equity ratio have an advantage to the private enterprises, as it enables them to pay higher rate of dividend on equity capital: but it is harmful to cooperative to maximizing the rate of dividend on paid up capital, however, to render service to members at a minimum cost. But unfortunately, this is not be realized by the cooperative management (Dube, A. K, 2019)

Financial Performance of Cooperative provides the information of the past and current financial performance of cooperatives and it can predict also the future financial position of the cooperatives. However, many of Cooperative are not strong on their financial positions So, those cooperatives are not able to take correct decisions due to their weak financial positions. Financial stability provides the firm's ability to remain in business in the long run, without having to sustain significant losses in the conducting of the business.

Financial stability analysis will interpret and converts raw data from the financial statements in to useful financial indicators by using trend analysis, common size analysis, ratio analysis, fund flow analysis and cash flow analysis. So that the activities performed by cooperatives should be meet institutional or individual member's goal. The nature of the asset owned by the cooperative, the rates of returns and cost, the level of liquidity and growth maintained in the cooperative should be within standard to create credibility by members of the cooperative.

Agricultural Multipurpose Cooperative is needed to sustainably serve their members and meet what they are expected to contribute towards the country's national development. In effect, it is vital to monitor how these people's organizations are financially operating. Finance is a blood not only for corporate businesses but also for cooperative societies. Unless the financial position and financial performance of cooperatives are healthy, it may be a nightmare for cooperative societies to sufficiently serve their members and contribute to the national economic development (Assfaw, 2018).

A good working knowledge of financial analysis is desirable because of such analysis and number derived from this analysis are key means of communicating financial information both within and outside the firm.

Thus, the researcher was going to identify problems related with asset utilization, liquidity position, debt management and profitability of cooperatives. So, this paper would attempt to assess whether the multipurpose cooperative was financially sound or not and the determinant factors. This is why this study was considered to analyze the financial statement of cooperative to evaluate the financial efficiency, financial growth, sustainability, and earning capacity of the cooperative in order to evaluate the presiding year performance of cooperative and existing time and to recommend suggestions on the system if there is any problem in over all activities of Lalisa Guliso Agricultural multipurpose cooperative. A lot of studies on multi-purpose cooperatives were conducted. However, studies on the analysis of financial performance of cooperatives at woreda level were not undertaken so, in view of realizing this gap, the researcher is motivated to undertake this research to analyze the financial performance of cooperatives in Guliso Woreda for the benefit of the members, management and the general public.

### **1.3 Research Questions.**

1. What is the financial position of Lalisa Guliso Agricultural multipurpose cooperative show?
2. what is the profitability of Lalisa Guliso Agricultural multipurpose cooperative looks like?
3. Does the cooperative utilize the existing various aspects of their assets effectively and efficiently?
4. Does Lalisa Guliso Agricultural multipurpose cooperative have good debt management with in their system?

## **1.4 Object of the study**

The General Objective of the study was analysis of financial Performance of Lalisa Guliso Agricultural Multipurpose Cooperatives in case of Guliso district.

### **1.4.1 Specific objectives**

1. To evaluate the financial position of Lalisa Guliso Agricultural multipurpose cooperative.
2. To examine the profitability of the Lalisa Guliso Agricultural multipurpose cooperative
3. To assess asset utilization/efficiency of the of Lalisa Guliso Agricultural Multipurpose Cooperative
4. Investigate the debt management of the Lalisa Guliso Agricultural Multipurpose Cooperative.

## **1.5. Significance of the study**

Analysis Financial Performance of Cooperative is the process of examining relationships among financial statement elements and making comparisons with relevant information. So, such results are valuable tools which can be used by members, shareholders and creditors, financial analysts, and others in their decision-making processes related to the cooperative under this study. This Study will be helping the cooperative under investigation to suggest ways and means to improve the efficiency of the Lalisa Guliso AMC. Moreover, the study will be serving as a reference material for both academics and practitioners. The main goal of this research is to analysis financial Performance of the Lalisa Guliso Agricultural multipurpose cooperative from the past performance and current financial position so as to make predictions about the future financial analysis of the Lalisa Guliso AMC. The study should be the base for improvement of cooperative effectiveness and efficiency to investigate their financial stability. It reveals to the management the strength and weakness of the financial position of the cooperative society in order to take corrective action on a weak point. The findings of the study also help as a source of information for further academic and application of research.

### **1.6. Scope of the study.**

The focus of the research was on analysis of the financial Performance of Lalisa Guliso Agricultural multi-purpose cooperative that was selected from, Guliso Woreda, Western Wollega zone, Oromia regional States, Ethiopia. The analysis covers the five years 2017- 2021(G.C) based up on examining the annual report, audited financial statement of. Balance sheet, income

statement, fund flow and cash flow statement. The population of the study is multi-purpose cooperatives in Guliso district. Even though there are 26 multi-purpose cooperatives in Guliso district, most of them were not regularly audited. The researcher considered multi-purpose cooperatives which have been regularly audited for five years. Therefore, the study deals with only one Multi-Purpose Cooperatives which are properly audited in the consecutive five years. From a five years' period a better view of the company's profitability can be achieved as profitability ratios usually depict short-term profitability (Niskanen and Niskanen, 2003, 112)

### **1.7. Limitation of the study**

The main limitation of this study were the constraints of materials and the materials is the problem especially since the research concern of secondary data (financial statement) on which the organization suspected to give full-fledged sources. The main limitations of the study are:

- The present study covers only from the year 2017 to 2021. This short period analysis was due to the constraints in collecting authentic data.
- The researcher had problems in accessing the data since cooperatives did not have strong documentation, reporting systems and practices.
- Another problem of the study was that the respondents from the owners' representatives and the hired employees were not aware of the concepts of financial performance analysis. Hence, it took more briefing time for the researcher and so it reduces the objectivity of the answers provided.

### **1.8. Organization of the thesis**

This study was organized in to five chapters. Chapter one is introduction which consists of Background of the study, statement of the research problem, objectives of the study, significance of the study, scope of the study and limitation of the study, Chapter Two is about literature Review, Analytical frame work and operational Definitions, Chapter three deals with Methodology, Description of the study Area, sources of data, method of Data collection, sampling Techniques, Method of Data Analysis. Chapter four is devoted to analysis of data and discussion based on data collected and Chapter five is about Summary, Conclusions and Recommendation.

# CHAPTER TWO

## 2. LITERATURE REVIEW

### 2.1. Theoretical review

#### 2.1.1. Financial cooperatives

##### **Financial performance**

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. However, it is the process of measuring the results of cooperatives policies and operations in monetary terms. Therefore, it is used to measure cooperatives overall financial health over a given period of time and can also be used activities ([www.googlefinance.com](http://www.googlefinance.com)) 2020G.C

According to (Coria et al., 2021) the task of measuring the financial performance of cooperatives was problematic by the nature of cooperatives from the business. In particulars, many of the commonly used financial measure do not account for the cost of using member's equity in the financing cooperatives operations. Therefore, it is to evaluate the financial performance of cooperatives and numbers of financial tools are being used out of which ratio analysis is considered to be the most powerful and popular tools for particulars purposes.

According to (Pada chi, 2006) has made a study on financial performance of the cooperative was not highly encouraging. For instance, the liquidity ratio in the three years was fluctuating and mostly it was below the standard. This shows that the cooperatives ability to meet their financial obligations with in the periods was not in good position.

**Cooperative finance:** Cooperative financing is the process by which cooperatives raise funds needed to finance their operations. The sources of their funds include contributions by members, incomes from business activities, loans from governments and financial institutions. Virtually all cooperatives require some level of member financing, usually in the form of stock purchases or membership fees. (DePasquale, Sarang, & Vena, 2017).

Depending on the phase of development of financial cooperatives in a country they may range from formal cooperative banks to semi-formal financial cooperatives and credit unions to informal village-based saving and loan entities. They are owned by members and flow a one member one vote principle. The higher-level financial cooperatives at the regional or state and national levels are owned by member cooperatives and voting is often according to share

capital invested by the member organizations. Small local cooperatives are usually managed by voluntary members on a part time basis .(Shah, 2016).

***Services provided by financial cooperatives:*** In their original form and still now a days locally based small financial cooperatives provide only basic products that are loans and savings. These products are often the most important financial services for low-income households. However, the range of services needed by the membership and provided by more advanced financial cooperatives even in developing countries, can be much larger, including payment services, such as money transfers and remittances, insurance, and term savings although financial cooperatives where originally established to facilitate credit for poor household, savings services are also very important. Financial cooperatives provide saving for savings, enabling savers to smooth consumption, prepare for emergencies. Gradually accumulate financial resources, self-finance the purchases of durable goods make investments. (Olugbenga, Lateef, & Yusuf, 2018).

In any nation cooperatives get finance to organize, operate, invest and expand mainly two sources those are Equity capital (members share capital and borrowed capital. In a cooperative Equity capital is the portion of assets owned by the members. The other may be from NGO's, government subsidies of current and fixed assets and other facilities that are not quantified in money. Equity capital (members' contribution) is returned members only after all other obligations are met in case of liquidation. Borrowed capital is a capital borrowed through the member's equities in the cooperative.

### ***Elements of Cooperative Finance***

A cooperative is a business operated primarily to provide benefits to members through marketing transactions, including input buying and output selling, and through a distribution of patronage earnings from these transactions; in return, members have a responsibility to provide equity capital ownership and exercise member control governance. Members are quick to seek out the benefits of the cooperative business model but often reluctant to accept the corresponding responsibilities of ownership and control. (Mashange & Briggeman, 2021)

In general, there are four unique and separate roles of users: customers, patrons, owners and members. Those who engage in buy or sell marketing transactions with the co-op are customers. Patrons are customers who are granted a claim on the patronage income proportional to use, as a patron and customer. The claim is not based on ownership unless ownership is managed to be proportional to patronage. This is the core difference between patron-oriented

and investor-oriented business models. Patrons also own the cooperative. They have ownership rights derived from providing equity capital. Patrons who qualify as voting members are granted control through their voting power. In a pure cooperative with no nonmember or non-patronage business a customer or user is also a patron, owner and member(Iliopoulos & Valentinov, 2022)

### **2.1.2. Financial Keys to Success of Cooperatives**

Cooperatives must be competitive like any business. The cooperative business model is unique but it is still a business that is subject to the principles of business finance, business management and economics. It must be managed as a business that can compete in a capitalistic and highly competitive market economy. The primary economic justification for organizing and operating a cooperative is to correct and prevent market failures that are present or could be present. Other related justifications include providing missing services, reducing costs of service, and being price and service competitive in the marketplace known as the “competitive yardstick” role. (Swanson, 2019)

Irrespective of its purpose and role, a cooperative should strive to be as profitable as possible and then distribute those profits to its patrons. A cooperative should implement the core principle of the cooperative business model, service or operation at cost, by being competitive in the marketplace, making as much profit as possible, and then distributing profits and residual cash to patron owners. Distribution should be done in a way that maximizes the long-run benefits to the group, keeping in mind that the group has heterogeneous interests at any one time due to their unique place in their business and personal life cycle. This distribution of patronage refunds or patronage income implements the service at cost principle of cooperatives. The payment of patronage refunds for a “non-pooling cooperative”, or net margins for a “pooling cooperative”, is the primary way cooperatives implement the service at cost principle. Patron-owners get what is left over through a combination of cash patronage payments, cash equity redemption payments and cash payments of net marketing proceeds

Cooperatives should use balance sheet management when making income distribution and equity redemption payments. A cooperative must position and protect the business for short-run and long-run sustainability by adhering to a balance sheet management philosophy that manages both liquidity and solvency. Adequate risk capital must be provided by establishing and following liquidity and solvency guidelines as an element in the overall business strategy.

### **2.1.3. Financial stability**

(Havard, 2020) Financial stability is the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business.

Assessing a cooperative stability requires the use of income statement and the balance sheet, as well as other financial and non-financial indicators. It is the ability to handle your financial obligations in a way that contributes positively to other areas of your life. If you are financially stable, then your finance should enhance not detract from your health.

**Sustainability:** Sustainability refers to the ability of an organization to survive over the long term. Critical aspects of sustainability include the performance or stability of ownership, governance, management, and financial viability. A financial cooperative must be profitable otherwise it will not be able to cover its costs and provide its members with financial services over the long term.

### **2.1.4 Users of Financial Statements**

There are different kinds of users of financial statements. The users of financial statements may be inside or outside the business. They are classified and detailed as follows:

#### ***1. Internal User***

□ ***Managers and Owners:*** For the smooth operation of the organization the managers and owners need the financial reports essential to make business decisions. So as to provide a more comprehensive view of the financial position of an organization, financial analysis is performed with the information supplied in the financial statements.

□ ***Employees:*** The financial reports or the financial statements are of immense use to the employees of the company for making collective bargaining agreements.

#### ***2. External Users***

□ ***Institutional Investors:*** The external users are basically the investors who use the financial statements to assess the financial strength of a company. This would help them to make logical investment decisions.

□ ***Government:*** The financial statements of different companies are also used by the government to analyze whether the tax paid by them is accurate and is in line with their financial strength

□ ***Customers:*** The relationship between a firm and its customers can extend over many years. In some cases, these relationships take the form of legal obligations associated with guarantees, warranties, or deferred benefits.

### **2.1.5 Types of Financial Analysis**

The two most common types of financial statement analysis are Horizontal & Vertical analysis and Ratio analysis

**Horizontal analysis:** A horizontal analysis consists of a two-year comparison of financial data with other years. This type of financial analysis is also known as trend analysis. The horizontal analysis is often expressed in monetary terms (currency) and percentages.

Alternatively, in comparing financial statements for a number of years, the analyst may prefer to use a variation of horizontal analysis called trend analysis. Trend analysis involves calculating each year's financial statement balances as percentages of the first year, also known as the base year. (Valenzuela-Levi & Abreu, 2021)

**Vertical analysis:** When using vertical analysis, the analyst calculates each item on a single financial statement as a percentage of a total. The term vertical analysis applies because each year's figures are listed vertically on a financial statement. The total used by the analyst on the income statement is net sales revenue, while on the balance sheet it is total assets. This approach to financial statement analysis, also known as component percentages, produces common-size financial statements. (Yapa Abeywardhana, 2012)

**Ratio analysis:** Ratios, a ratio between two quantities, are used to represent relationships between various figures on a balance sheet, profit and loss account or other accounting records. Ratios always represent a ratio of one figure related to another.

### **2.1.6. Financial statement**

Financial statements are the main source of financial information for most decision makers. That is why financial accounting and reporting places such a high emphasis on the accuracy, reliability, and relevance of the information on these financial statements.

Financial statements are written records of a business's financial situation. They include standard reports like the balance sheet, income or profit and loss statements, and cash flow statement. They stand as one of the more essential components of business information, and as the principal method of communicating financial information about an entity to outside parties. In a technical sense, financial statements are a summation of the financial position of an entity at a given point in time. Generally, financial statements are designed to meet the needs of many diverse users, particularly present and potential owners and creditors. (Wittrig, Fredriksen, Qian, Clingenpeel, & Harper, 2017)

***The importance's of financial statements***

Financial statements are important for the different firms including any business organization also. It provides:

- The managements to formulate the policies as well as to discharge their day-to-day activities of the business
- It provides for the creditors loan facilities to the firms and suppliers supply goods on credit basis.
- It provides for tax calculation based on the income earned by the business and companies.
- It provides the wages fixations policy, payments of bonus to employees, is determined on the basis of net profits as revealed by income statement of the firms.
- It provides the consumer primarily interested in the price of goods and services

### **2.1.7. Types of financial statements**

The cooperative financial statements consist **four** main types of financial statements are:

#### **2.1.7.1. Balance Sheet (Statement of Financial Position)**

A balance sheet is a quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth (capital). Statement of Financial Position, also known as the Balance Sheet, presents the financial position of an entity at a given date. (Dodge, 2017) Balance sheet consists of the following three elements.

**Assets:** Something a business owns (e.g., cash, inventory, plant and machinery, etc)

**Liabilities:** Something a business owes to someone (e.g., creditors, bank loans, etc)

**Equity:** What the business owes to its owners. Equity therefore represents the difference between the assets and liabilities

#### **2.1.7.2. Income Statement**

An income statement, also referred as profit and loss statement (P&L), earnings statement, operating statement or statement of operations, is a company's financial statement that indicates how the revenue (money received from the sale of products and services before expenses are taken out, Meanwhile, the income statement reflects the effects of management's operating decisions on business performance and the resulting accounting profit or loss for the owners of the business over specified period of time. (Uguru, Chukwu, & Elom, 2018)

##### ***Income Statement Components***

- **Revenue** is the money an entity receives from the sale of goods or services.

### 2.1.8. Financial statement Analysis

(Govindan, Rajendran, Sarkis, & Murugesan, 2015) The first approach is called time series analysis and it is used when the intention is to evaluate ratios of a financial institution over a period of time to track down its performance over time. The second approach is called cross-sectional analysis and it is used when the intention is to compare the performance of a financial institution relative to that of competitor financial institutions at a particular point in time. Financial Statement Analysis (FSA) or Financial Analysis refers to the process of analyzing the feasibility, stability and profitability of an organization, business unit or project. (Oskooee, Marfou, & Asl, 2021) assesses the financial performance of an organization or company is very important, because it describes how the actual condition of the financial management of the organization or company as a whole, and the results of the assessment are also used to determine the level of financial health of the company.

Financial Analysis is the process of assessing the financial position of a company by analyzing its stability, viability and profitability. One of the primary objectives of financial analysis is to recognize changes in financial trends, to help measure the progress made by an enterprise and identify a relationship to draw a logical conclusion on the performance of the company. Another major aspect of a financial analysis is comparing the performance of the company with its competitors (Mousa, Elamir, & Hussainey, 2021)

Steps involved in financial statement analysis and interpretation of financial statement analysis.

- **Analysis:** is the process of regrouping or reclassification of the figures found in the financial statements in to the desired homogenous and comparable component parts. All the information is reclassified in to principal elements like current asset, current liability, total asset and total liability and etc.

(Gupta, Mortal, Chakrabarty, Guo, & Turban, 2020) From this it is possible to appraise the financial stability, position, performance and efficiency of business.

Comparative financial statements may be made to show.

Increase or decrease in absolute data in terms of percentages, Comparisons expressed ratios, percentages of totals, Absolute data (money value or amount), Increase decreases in absolute data in terms of money values.

## **2.1.9. Methods of Financial statement Analysis:**

### **2.1.9.5. Ratio Analysis:**

According to (Kayani, De Silva, & Gan, 2019) states that financial ratio analysis is an analysis of the numbers obtained from the comparison of one financial statement past with another that has a relevant and significant / meaningful relationship. Called ratio because what is done basically is comparing (dividing) between one particular item in the financial statements with other items. Ratio Analysis involves the process of computing, determining and presenting the relationship of items or group of items of financial statements. A ratio is a mathematical relationship between two items expressed in a quantitative form. Ratios can be defined as "Relationships expressed in quantitative terms, between figures which have caused and effect relationships or which are connected with each other in some manner or the other". An accounting ratio can be defined as quantitative relationship between two or more items of the financial statements connected with each other. Ratios may be expressed in proportion, in rate or times or co-efficient, and in percentage that of ways to express the ratio.

#### ***Importance and interpretation of financial Ratios***

Financial ratio analysis helps analysis to identify problem area and opportunities within a firm and investors to derive safe conclusions about a firm relative performance over time, thus making informed investments decisions.

The financial ratios can be called meters that are calculated from the official financial statements. These meters are most commonly being used to depict financial performance of a certain company. From types of financial analysis, it could be said that the ratio analysis is the most common and popular way to analyze financial statements. Financial ratios are very useful for businesses as they can concentrate excessive amounts of data into few numbers (Pääkkö, R, 2017)

#### ***Types of Financial Ratios***

Financial ratios are classified in to four major categories that highlight the financial stability of the cooperatives. (Thukaram, 2020)

##### **□ *Liquidity Ratios***

(KEBEDE, 2015) Liquidity is a measure of the cooperatives ability to pay its financial obligations in time without disrupting the normal operations. It is the relationship between

current assets and current liability. Liquidity ratio is a ratio that describes the ability of a firm to meet its short-term obligations that are soon due.

□ **Leverage Ratio (solvency Ratio)**

Leverage Ratios Is the ability of the cooperatives to meet its long-term obligations. The solvency ratios indicate a cooperatives ability to meet the fixed interest, costs and repayment schedules associated with its long-term borrowings.

□ **Activity Ratio**

Activity Ratios Is the ratio used to measure the level of efficiency for the utilization of the resources owned by the members. Activity Ratio: These ratios evaluate the use of the total resources of the business concern along with the use of the components of total assets. They are intended to measure the effectiveness of the assets management the efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into sales.

□ **Profitability ratio,**

Profitability Ratios is a ratio used to measure a company's ability to generate profits from the normal activities of its business Profitability ratio helps to measure the profitability position of the business concern.

He state that the Profitability Ratio Analysis(Munene & Tibbs, 2018) of Income Statement and Balance Sheet Ratio analysis of the income statement and balance sheet are used to measure company profit performance

## **2.2. Empirical Review**

According to (Sharifi, 2013)stated that financial statements provide certain basic information that focuses on the entity as a whole and meets the common needs of external users. To assess the performance of the cooperatives, different financial ratios can be used. Financial ratios can be designed to manage cooperative's performance. Ratios can be used as one tool in identifying areas of strengths or weakness in cooperatives. (Grashuis & Su, 2019) For example used financial ratio analysis to assess the performance of the sample cooperatives that was calculated from the audited financial reports (balance sheet and income statement of each cooperative society). Among ratio analysis methods, liquidity ratio (with current ratio), financial leverage (finances a portion of assets with debts) and profitability ratios (net profit/total asset) of sample multipurpose cooperatives in Alamata Woreda were used.

According to (Tehrani et.al, 2012) asserted that the evaluation of firms' performance can be a guide that would greatly assist and provide directions for future decisions regarding development, investment, management and control. The authors observed that financial evaluations/analysis is the oldest and important approaches used to measure performance of organizations using financial statements. Such an analysis can provide valuable information on corporate strength, its weakness and the quality of the firm's financial position.

According to (Delon et.al, 2013) the evaluation of performance of a firm with the use of financial ratios is a traditional activity. They further observed that it is a tool that is used by creditors of the business, investors and other stakeholders. Ratio analysis can assist in measuring financial health of a business as well as help across company comparisons.

They emphasized that financial accounting ratios that are calculated using variables in the financial statements of a business can measure the performance of managers for fixing rewards, measuring performance of departments within an organization, projecting the future of the business as well as providing information to stakeholders such as creditors and suppliers. (Babalola, 2013) Found financial analysis as a special accounting technique that aimed at formulating a diagnosis and prognosis relative to the situation and financial performance of an organization.

According to (Sapura, M., 2011) stated that one of the most important indications of a successful Co-operative Society is the existence of a comprehensive accounting system similar to that of profit type firms. Also, the use of financial ratios constitutes an important tool to measure the strengths and weakness of co-operative societies. They concluded that co-operatives should watch their loan policy and old co-operatives require close supervision to improve financial performance.

According to (Sultan et.al, 2014) have conducted their study on the financial performance of Eight Multipurpose cooperative unions in Tigray Region. The study considered three years' (2000 to 2003.E.C)) audited financial reports with regard to quantitative data analysis using financial analysis ratios such as liquidity ratios using current ratios (with acceptable standard of 2:1) and net working capital (with acceptable standard of current asset > current liabilities), leverage ratios using total debt to asset ratio (with acceptable industry standard of <0.5:1) and Total asset to debt ratio (with acceptable standard >1:1), and profitability ratio using gross profit margin (with acceptable industry standard of 25%-30%), operating profit margin (with acceptable industry standard of 75%- 85%), net profit margin (with acceptable industry

standard of higher in amount) and return on net asset ratio (with acceptable industry standard of higher in amount). The result of the above study revealed that the current ratio is below the industry standard; the leverage position of the unions indicated that the debt-to-asset ratios of the unions are above the average in all the respected years; the gross profit margins of the unions are efficient in which management produces in each unit of products and services; the operating margin ratio in most of the unions was very poor which is far from the standard, and the borrowing power of the unions are lower than the average.

According to (Lakew, 2014) carried out a trend analysis of Income statement and statement of financial position to reflect on the changes in Income, expenditure, assets and liabilities of multi-purpose societies.

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

Furthermore, these researchers analyze the activity performance of the union using Inventory turnover ratios (with acceptable standard of 8 times), Debtor turnover ratios (with acceptable standard of 5 times) and Total assets to turnover ratios (with acceptable standard of 2 times). Finally, to measure the profitability of the union, different ratios are used like Gross profit ratios (with acceptable standard of 25-30%), Net profit ratios (with acceptable standard of >5%), Return on shareholders' investment (with acceptable standard of Higher), and Return on total

assets Ratios (with acceptable standard of 2-3%). The results of the study indicated that the overall financial performance of the union was not in the satisfactory position

According to (Muhabie, 2015) examined the financial performances of five coffee marketing cooperatives in Yirga cheffe Woreda, Gedeo Zone, SNNPRS, Ethiopia using current ratios, debt to equity ratios, accounts payable to sales and profitability ratios based on the cooperatives' audited financial statements which help to evaluate the efficiency of operations, the managerial performance and credit policies, potential investments and the credit worthiness of borrowers. In his study, the liquidity position of cooperative societies is measured using current ratio (acceptable standard of 2:1). Furthermore, the financial leverage management position was measured using debt to equity ratio (DER). Finally, for measuring the profitability of the cooperatives, the simplest and widely used profitability ratio called Net Profit Margin Ratio was utilized.

According to (Natarajan, 2015) conducted research on evaluation of the effectiveness of financial performance of LumeAdama farmers' Cooperative Unions in Oromia Regional State at East Shoa Zone, Lume district. For this purpose, the researchers used different ratios. In order to measure the quality of the cooperatives union' receivables and how efficiently it uses and controls its assets, and how effectively the firm is paying suppliers on its equity (using borrowed funds), they used Efficiency ratios include inventory turnover ratio (ITOR) (with acceptable standard of 8 times), debtors' turnover ratio (DTOR) (with acceptable standard of 5 times), average debtors' collection period ratio (ADCPR) (with acceptable standard of 45 days), creditor's turnover ratio (CTOR) (with acceptable standard of 5 times) and average payment period ratios (APPR) (with acceptable standard of 30 days). They depicted that the inventories turnover was not a sign of efficiency. In order to measure the profitability of the unions, profitability ratios were used that includes gross profit margin (with acceptable standard of 25%-30%), operating profit margin (with acceptable standard of 75-78%), net profit margin (with acceptable standard of >5%), return on net asset (with acceptable standard of 2-3%) and return on equity (with acceptable standard of 15-20%).

The result showed that in all the years, the gross profit ratio of the union was under the standard; the union has poor financial liquidity position, leverage position, profitability position, and has not operating the activities in financial efficiency and effective way. As per the researchers' knowledge, there is no study done in multipurpose cooperative related with operational performance of financial statement analysis asses.

Therefore, by taking the above theories in to consideration the researcher tries to assess the analysis operational financial performance of Lalisa Guliso Agricultural multipurpose cooperative by taking appropriate ratio measurements from the previous study. The researcher assesses the financial statement analysis of cooperative in terms of four performance measurements, that the researcher believes profitability analysis, liquidity analysis, leverage analysis, and operating efficiency performance.

The main research gap is that some researcher done about an analysis of operational performance of small business enterprise. However, while the researcher searching through websites, books, journals, and other secondary data sources until now there is no study about an analysis of operational performance of Lalisa Guliso Agricultural multipurpose cooperative in Guliso District. Hence the researcher wants to study an analysis of operational performance of financial statement of Lalisa Guliso Agricultural multipurpose cooperative in Guliso District.

## **CHAPTER THREE**

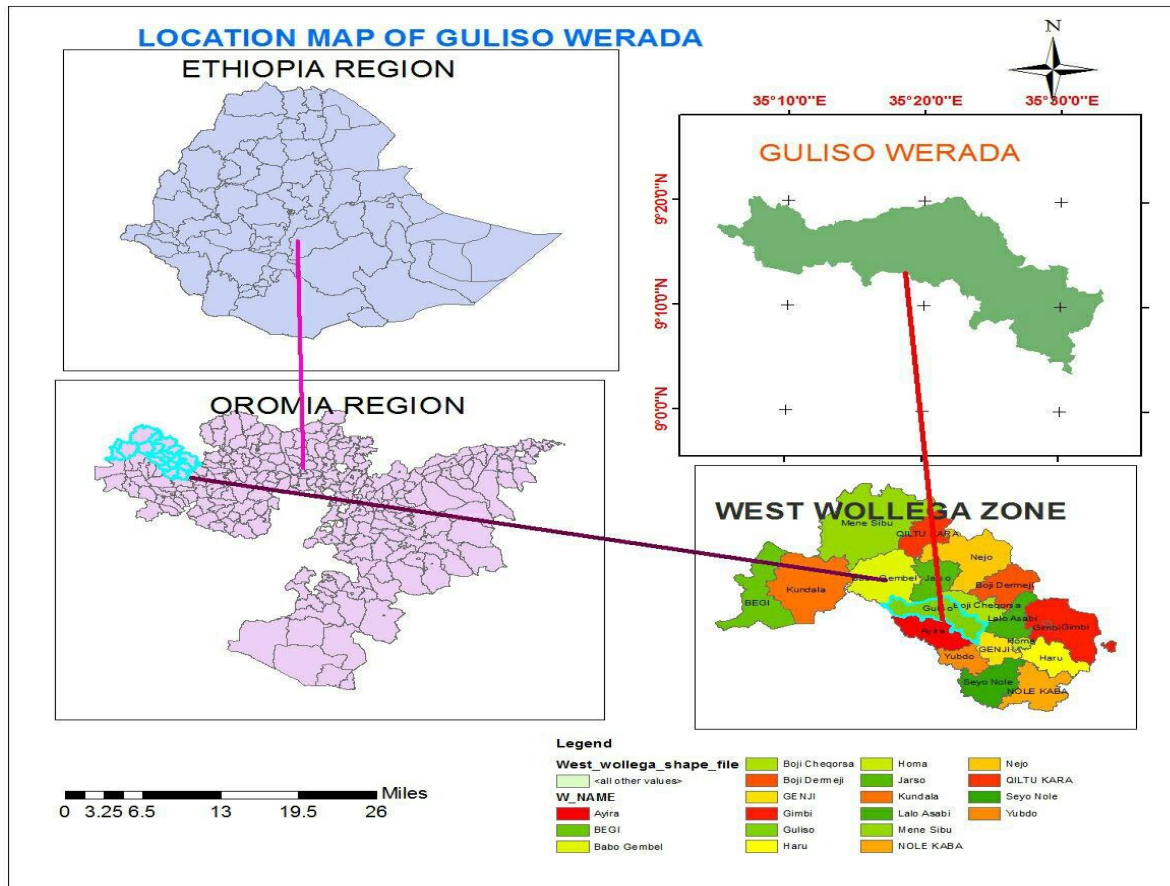
### **3. METHODOLOGY OF THE STUDY**

#### **3.1 Description of the study Area**

This study was conducted in Guliso Woreda. which is located east to Lalo Asabi and Ganji, west to Dalle Wabara and Babo Gambel, North to Bodge Cokorsa and South to Yubdo Woreda. It is 60km far from Gimbi town which is the capital city of Western Wollega Zone

The total area of the district is 63640 hectares out of for Agriculture 49730 hec, for cattle grazing 2005 hec, for forest 9493 hec, Mountain 100 hec, for construction 967 hec, without any use 1345 hec. According to the report of the Central Statistical Agency (CSA) of the FDRE (2007) of the woreda central statistical agency the total population of the districts is 116577 of which male 60753 female 55724 the majority of population in this district derives its livelihood through Agriculture and cattle raring. (Source: CSA, 2007).

It has a total of 58 primary cooperatives which are 27 saving and credit cooperatives,5 consumer cooperatives and 26 agricultural multipurpose cooperatives from which Lalisa Guliso purposively select for the study. Lalisa Guliso Agricultural Multi-purpose cooperative is established in August 1991 G.C with members of male 109 female 0 totals 109 and the initial authorized share capital was Birr 11163.13. At current time it has members of male 841 female108 total 948 and with capital of birr 247142.77. It provides different service such as input supply fertilizers and selected seed to increase member's productivity provide credit service to purchase members produce, gathering market information for their produce, supplying farm tools and commodity goods in order to improve the life standard of the members and social community. (Source: - Lalisa Guliso AMC, 2021 annual report)



Map of study area from Guliso Administrative office

### 3.2 Research design

This study used descriptive research design that was aimed to draw out conclusions from the financial data gathered, summarized, and processed. As a research procedure, the researcher was obtained the Audited financial statements for the last five periods (2017 - 2021 G.C) of Lalisa Guliso AMC. Financial information's which are necessary for analysis financial performance was derived from financial statements, then summarizing and processed to come up with comparative financial ratios to obtain the descriptive results of the average figures of the standard financial ratios.

### 3.3. Research Approach

Quantitative research is based on the measurement of quantity or amount as the term indicated, dealt with the collection and analysis of data in numeric form. it consists of the researches that the data gathered must be analyzed in terms of numbers. According to (Saunders, M., Lewis, P.Tornhill, 2007), quantitative research is generally associated with positivism philosophy.

Accordingly, (Saunders, M., Lewis, P.Tornhill, 2007) the main advantage of using secondary data is the enormous saving in resources, in particular your time and money a secondary source of data that is panel in nature was preferred by the researcher since it is less expensive in terms of time and money while collecting..

### 3.4. Sampling Design

Lalisa Guliso agricultural multipurpose cooperative was selected purposively from among 26 multipurpose farmers' cooperative existed in this area and the rational for the selection of this study area is because of;

- There was no research made regarding analysis of operational performance of financial statement in this study Area and study unit.
- The durability of organizations of cooperative is in 1991G.C in study area
- The availability of financial statement for five years in study areas. There are no such available financial statements in other similar cooperatives in the woreda
- Lalisa Guliso agricultural multipurpose cooperative wider in its scope to serve the society more than others in the woreda.

Table 3.1 Status of Agricultural Multipurpose cooperative in Guliso Woreda

s.no	Name of cooperatives	Year of established	Members			Current Capital in ETB
			Male	Female	Total	
1	Laliso Jarso	3/10/1997	752	85	837	79155.43
2	Lalisa Guliso	8/5/1991	841	108	949	247142.77
3	Walda Fiyan	1/13/1995	511	104	615	-99792.63
4	Marge Kobara		421	168	589	-91191.57
5	Burka Gudina Galawo	1/7/1995	371	230	601	-1123271.75
6	Biffu Sage	5/13/2002	462	92	554	44724.4
7	Chalia Eka	2/20/1999	508	217	725	46212.29
8	Lalisa Kusaye	8/21/2001	428	68	496	-2256.02

9	Chalia Warre Dale		514	45	559	129627.29
10	Tumsa Jiregna	4/6/2001	729	83	812	161488.59
11	Hora Badesso	8/21/2000	382	44	426	31005.49
12	Burka lalo	6/13/2000	481	21	502	81171.26
13	Ifa Dila	28/3/1999	340	31	371	-79028.85
14	Biltu Maru		390	105	495	37278.1
15	Gudina Dila	6/7/1996	357	181	538	117050.46
16	Burka Boke	30/4/2005	367	50	417	74595.32
17	Bikila Guji		334	78	412	57298.68
18	Gudina Wara Jiru		236	98	361	49446.60
19	Magarsa seka Jirbi	17/7/2006	125	17	142	24148.24
20	Gudina Moga	7/8/2006	464	109	573	75013.08
21	Burka Badas	7/8/2006	346	89	435	56506.45
22	Ifa Gawa	2/13/2007	163	34	197	17591.85
23	Wali Galte Wara Sayo	2/13/2007	352	45	397	-52846.46
24	Lalisa Mani	14/5/2007	550	164	714	70399.07
25	Abdi Bori Tegi	11/7/2007	279	68	347	38579.46
26	Gudina Nawir	12/1/2008	229	61	290	21658.17
	Total		12818	2536	15354	

Source: Guliso woreda cooperative promotion office report 2021G.

### 3.5. Sources of Data.

The data was collected from both primary and secondary sources. Interview was used to collect primary data related to analysis of operational performance of financial statements, study from boards of directors and employs of LGAMC.

The secondary data was collected from board of management minutes, audited financial reports basically from balance sheet, income statement, funds flow statement and cash flow statement results from the Lalisa Guliso Agricultural multipurpose cooperatives (LGAMC), document shows the financial statement of 5 years (2017-2021G.C) of cooperatives. Even though the main source was based on secondary data, some information was collected from primary sources by using Focus Group Discussion (FGD) and Key informant interview (KIIs), which was one of the important techniques used in this study.

#### 3.5.1. Focus Group Discussion

Check list Focus Group Discussion (FGD) were the group of board of directors 7 persons and from Employees 3 person total 10 persons of LGAMC that is used to collect primary data. For this study focus groups discussion were conducted with analysis of financial performance of cooperatives, how they are managed inventory in stock and how they are maintaining the property of the societies.

#### 3.5.2. Key Informant Interview (KIIs)

Check list Key informants were Employees who have much knowledge about the subject matter to be studied. In this case two key informants' interview (KIIs) were employed to conduct the study. Those key informants were 2(two) experts from the woreda cooperative promotion office and 1(one) cooperative promoter from multipurpose cooperative sampled. And it was guided by check list to identify how the cooperative decision-making influence their financial performance.

**Table 3.1 Categories of Respondents and Data Collection Techniques**

s.no	Types of respondents	Method of data collection	Instruments used for the data collection	Number of respondents
1	From board of directors	FGD	Check list	7
2	From Employees	FGD	Check list	3
3	Experts from Guliso Woreda	KII	Interview guide	2

	cooperative office			
4	Cooperative promoters	KII	Interview guide	1
	<b>Total</b>			<b>13</b>

### **3.6. Sampling techniques**

Lalisa Guliso Agricultural Multipurpose Cooperative (LGAMC) was selected as a study area purposively among 26 agricultural multipurpose cooperatives exists in Guliso district. Based on availability and durability of 5(five) years audit financial report and document such as balance sheet, income statement, funds flow statement and cash flow statement can be taken from audit report of cooperatives to analysis financial performances.

### **3.7. Methods of data collection**

Data collection is an important aspect of any- type of research study. So, appropriate attention was given for it while in accurate data collection can impact the result of a study an ultimately lead to invalid results. For this research study, the researcher used mainly quantitative methods for data collection. So, the researcher collected secondary data from audited financial statements mostly the balance sheet, income statement, fund flow and cash flow statement, annual reports, audit and inspection results, documents, cooperative promotion office documents of the multipurpose cooperative for the consecutive five years (2017-2021) for the purpose of this research study by using data sheet.

### **3.8. Method of Data Analysis**

To describe the operational performance financial statement analysis of LGAMC, the data was analyzed and interpreted by using descriptive method of data analysis. The data that were collected through secondary source which was the audited financial statements are analyzes by using the various financial ratio indicators for evaluating the financial performance of the cooperatives. The data from audited balance sheet, income statement, funds flow statement and cash flow statement of the cooperative are analyzed by using comparative analysis and trend analysis to assess the sign of growth trend of cooperatives and also by using ratio analysis, fund flow analysis to assess the financial health and performance of cooperative.

Table 3.2. Standards of Ratios

<i>S.no</i>	<i>Ratios</i>	<i>Description of formula</i>	<i>Acceptable Standards</i>
1	Current Ratio	$\frac{\text{Current Asset(CA)}}{\text{current liability(CL)}}$	2:1
2	Quick Ratio	$\frac{\text{Current asset(CA)}-\text{stock}}{\text{current liability(CL)}}$	1:1
3	Absolute Liquidity Ratio	$\frac{\text{Cash +bank+ marketable security}}{\text{current liability(CL)}}$	0.5:1
4	Cash Ratio	$\frac{\text{cash + cash Equivalent}}{\text{Current liabilities(CL)}}$	1:1
5	Net working capital Ratio	Current asset (CA) –current liability (CL)	CA>CL
6	Debt to Asset Ratio	$\frac{\text{Total liabilities(TL)}}{\text{Total assets(TA)}}$	0.5:1
7	Debt to Equity Ratio	$\frac{\text{Debt(D)}}{\text{Equity(E)}}$	1:1
8	Proprietary Ratio	$\frac{\text{Proprietary(P)}}{\text{Total Tangible Assets(TTA)}}$	0.5:1
9	Total current Asset to Equity Ratio	$\frac{\text{Current Asset(CA)}}{\text{Proprietors' Equity(PE)}}$	0.75:1
10	Fixed asset to net worth ratio	$\frac{\text{Fixed Asset(FA)}}{\text{proprietors fund(PF)}}$	1:1
11	Total Assets to equity Ratios	$\frac{\text{Total Assets(TA)}}{\text{Proprietors equity(PE)}}$	
12	Inventory Turnover Ratio	$\frac{\text{Cost of Goods Sold(CGS)}}{\text{Average Inventory(AI)}}$	8 times
13	Debtor Turnover Ratio	$\frac{\text{Net credit sales(NCS)}}{\text{Average Account Receivable(AAR)}}$	5 times
14	Average Debt Collection Period	$\frac{\text{Debtor +Account Receivable*365}}{\text{credit sales(CS)}}$	45 days
15	Creditors Turnover Ratio	$\frac{\text{Net credit purchase (NCP)}}{\text{Average Account payable(AAP)}}$	5 times
16	Average Payment Period Ratio	$\frac{\text{Creditors+ Account payable *365}}{\text{Net credit purchase(NCP)}}$	30 days
17	Working Capital Turnover Ratios	$\frac{\text{net sale(NS)}}{\text{net working capital(NWC)}}$	
18	Gross Profit Margin Ratio	$\frac{\text{Gross profit(GP)}}{\text{Net sales(NS)}} \times 100$	25%-30%)
19	Operating Profit Margin Ratio	$\frac{\text{Operating net profit margin(ONPM)}}{\text{net sales(NS)}} \times 100$	75-85%
20	Net Profit Margin	$\frac{\text{Net profit(NP)}}{\text{net sales(NS)}} \times 100$	>5%
21	Return on Net Asset	$\frac{\text{Net income}}{\text{Average total assets(ATA)}} \times 100$	2% -3%
22	Return on Equity	$\frac{\text{Net income(NI)}}{\text{Equity share capital(ESC)}} \times 100$	15-20%

Source: Standard ratio from literature reviews

## CHAPTER FOUR

### 4. RESULTS AND DISCUSSIONS

In the preceding chapters literatures relating to the topic were reviewed that gives enough understanding about the topic and used to identify knowledge gap in the study area. However, in order to obtain relevant materials and information for knowing the strength and weakness of the Lalisa Guliso cooperatives financial positions, analysis and interpretation of operational performance of financial statements were necessary. Therefore, this chapter presents the results and discussions of the key findings in connection with theoretical issues reviewed in the previous chapters. Analysis of the operational performances of financial statement of Lalisa Guliso Agricultural multi-purpose cooperatives in the study area was the main objective of this study. The Lalisa Guliso Agricultural multipurpose cooperative was established in August 1991 G.C as the first multipurpose cooperative in Guliso district with total of members of 109 male and the initial authorized share capital was Birr 11163.13. At current time it has members of 841 male and 108 female total 949 and with capital of birr 247142.77ETB

**Table. 4. 1. shows the trend of membership for the year 2017-2021G.C**

S no	years	members	New members added during the year	Total	Trend
1	2017	708	65	773	100
2	2018	773	58	831	107.50
3	2019	831	52	883	114.23
4	2020	883	43	926	119.79
5	2021	926	19	945	122.25

Source: Audited financial reports of Lalisa Guliso AMC for the years 2017-2021 G.C

Table 4.1 showed that the level of total membership in year 2017G.C was 773. It was increased to 945n the year 2021G.C as the member increased; the Lalisa Guliso AMC builds more share capital from the members. The percent of the membership was also increased from 100% in year 2017G.C to122.25 % in year 2021G.C during the study period. Therefore, it can be concluded that the membership status increased by 22.25 % at decreasing rate of membership from 65 to 19 per years during the study period.

### *Growth of share capital*

The capital that is needed for development and growth of the cooperative come from three sources: the members themselves, net surpluses generated by the cooperative and external finance

**Table. 4. 2. Shows share capital position for the years 2017 -2021 G.C**

s.no	Years	Members	Government	Any others	Total	Trend Percentages
1	2017	28,940.90	----	29,871.53	58,812.43	100
2	2018	66,697.90	----	3,428.00	70,125.90	119.24
3	2019	69,665.90	----	3,428.00	73093.90	124.28
4	2020	124,702.40	----	7342.25	132,045.65	224.52
5	2021	124,762.40	----	7342.25	132,104.65	224.62

Source: Audited financial reports of Lalisa Guliso AMC for the years 2017-2021 G.C

The above table 4.2 revealed that the growth of share capital of the LGAMC was 58,812.43 in the year 2017G.C to 132,104.65 in the year 2021G.C it showed share capital was increased trend in the year of 2021G.C. And by percentage also increased from 100% in year 2017G.C to 224.62% in year 2021G.C. So, it can be concluded that the LGAMC was good in share capital growth during the study period because the membership increased year by year. This indicates that positive changes with sustainability share capital growth.

## **4.1. Financial Ratio Analysis**

Ratio analysis is a commonly used tool of operational performance of financial statement analysis. Ratio is a mathematical relationship between one number to another number. Ratio is used as an index for evaluating the financial performance of the business concern. An accounting ratio shows the mathematical relationship between two figures, which have meaningful relation with each other. Ratio can be classified into various types. How to calculate and interpret financial ratios is an important step in analyzing the financial health of an organization. Financial ratio analysis helps in understanding the financial health and trend of a cooperative. Its past performance enables to forecast the future affairs of the cooperative business. The utility of ratio analysis is of great significance to management, shareholders and investors, creditors, employees and government. Looking beyond levels of assets, liabilities, member equities, sales and expenses, managers and boards of directors need comparative measures to evaluate their cooperative financial performance. In this study financial ratio analysis was used to measure financial performance of Lalisa Guliso cooperative in terms of:

- ✓ Liquidity of financial position
- ✓ Efficiency in resource utilization
- ✓ Financial leverage and degree of indebtedness
- ✓ Operational profitability and overall efficiency. The results are compared with the accepted financial standards

### **4.1.1 Liquidity (Short term) Ratios**

The liquidity ratio is the result of dividing the total cash by short term borrowings. Generally, the higher the liquidity ratios, the higher the margin of safety that the cooperative possess to meet its current liabilities. Liquidity ratio greater than 1 indicates that the cooperative is in good financial health and if it is less likely fall into financial difficulties. Liquidity ratios include current ratio, quick ratio, absolute liquid ratio, cash ratio and net working capital ratio.

**Table. 4. 3. Liquidity (Short term) Ratios Lalisa Guliso cooperative for the years 2017-2021G.C (in \* ETB)**

Ratios	YEARS					STR
	2017G.C	2018G.C	2019G.C	2020G.C	2021G.C	
Current Ratio	0.54	1.12	1.07	0.27	0.23	2:1
Quick Ratio	0.51	0.87	0.99	0.25	0.22	1:1
Absolute L. Ratio	0.36	0.69	0.57	0.21	0.19	0.5:1
Cash Ratio	0.36	0.69	0.57	0.21	0.19	1:1
N.W. Capital Ratio	(186,753.62)	40,887.24	95,773.47	(1,731,821.79)	(2,384,769.68)	CA>CL

Source: Audited Financial statement of Lalisa Guliso cooperative for the years 2017-2021G.C

**1.Current Ratio:** this ratio is used to determine whether the cooperative has a sufficient amount of current assets to pay off current liabilities with in the short period of time. One of the most common liquidity ratios is the current ratio which is defined as:

Current Ratio = Current Assets ÷ Current Liabilities

At a minimum a cooperative would need to maintain a current ratio of 1:00 to be able to pay its obligations as they come due. A common benchmark for the current ratio is a minimum of 2:00.

Current ratio:  $\frac{\text{Current Asset(CA)}}{\text{current liability(CL)}}$

**Table. 4. 4. Current ratio of Lalisa Guliso AMC for the years 2017-2021G.C (in \* ETB)**

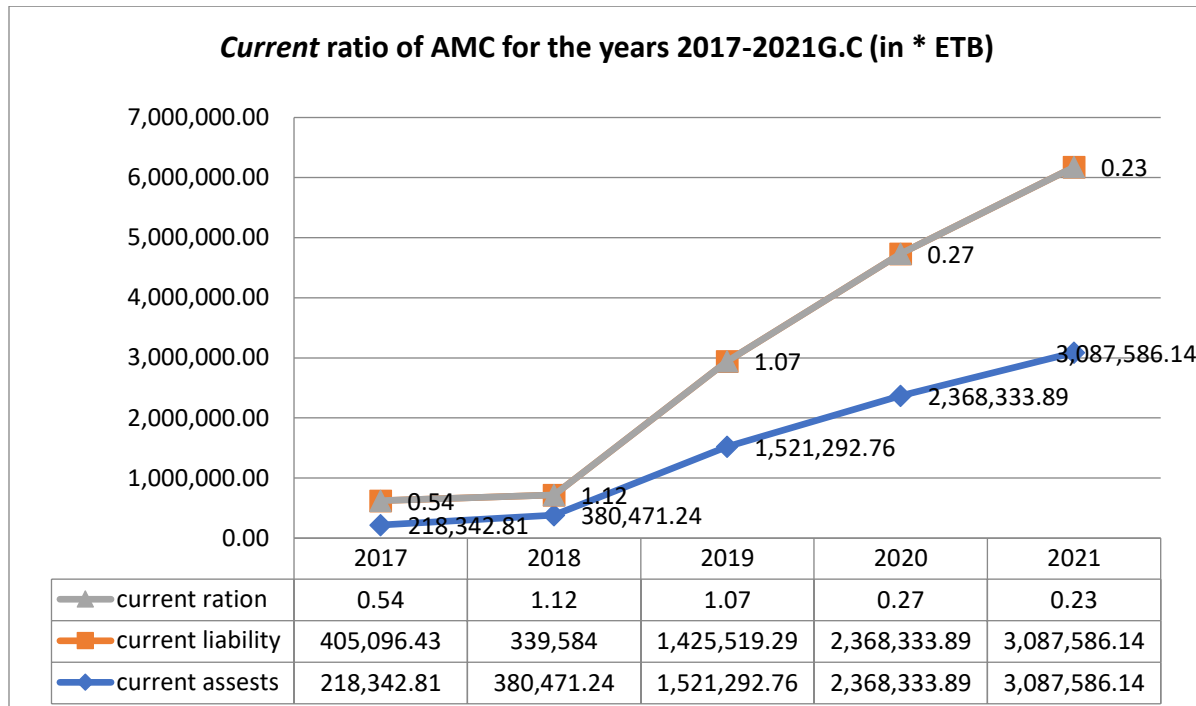


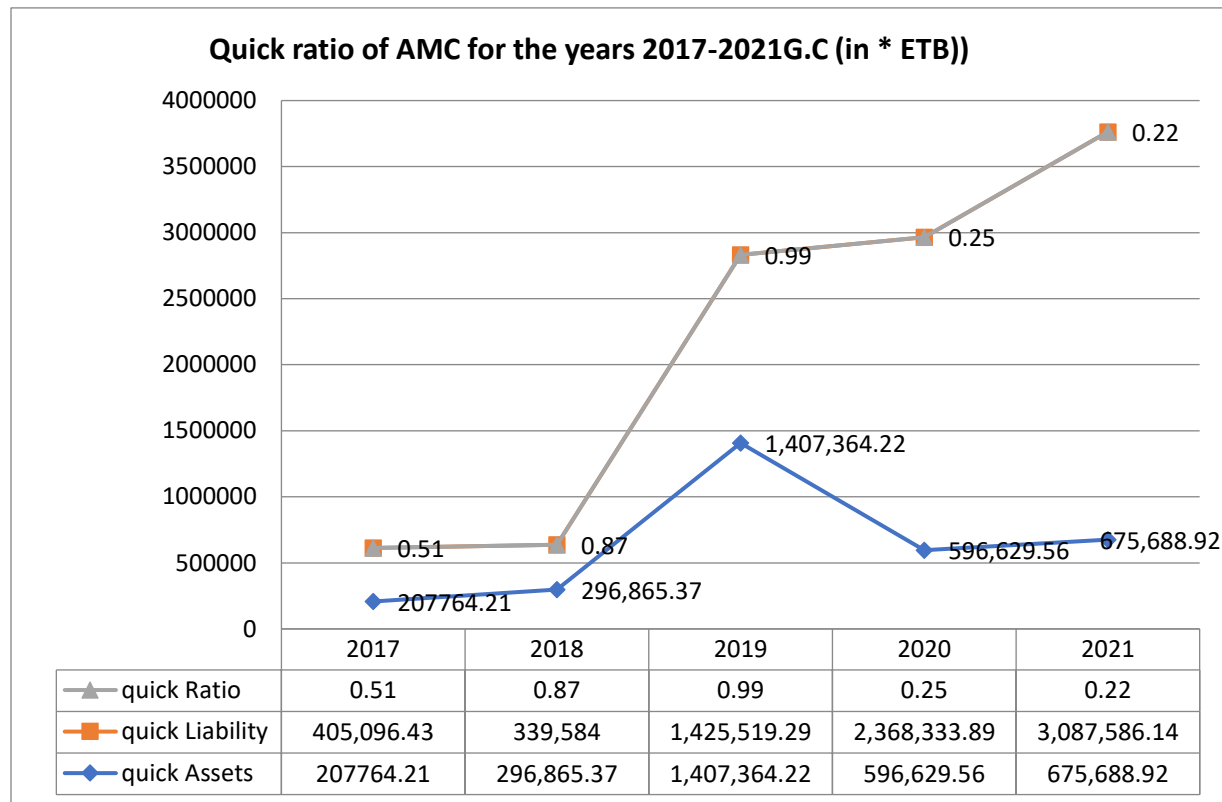
Table above indicates the current ratio of the cooperative.

Current ratio is 0.54:1 in year 2017, 7890=1.12:1 in year 2018, 1.07:1 in year 2019, 0.27:1 in year 2020 and 0.23:1 in year

2021. This indicates that current ratio of cooperative was below the standard, which denotes low level of liquidity, facing problem to pay short term obligations and finance its operational activity under the study. The consistency decreased in the value of current assets will decrease the ability of the cooperative to meet its immediate obligation. Since the standard of current ratio is yes.

**2. Quick Ratio:** The Quick ratio is calculated by taking the total amount of current assets less inventory and dividing it by the total amount of current liabilities. This ratio is used to determine the cooperative ability to repay quick liabilities after the least liquid of its current assets is removed from the equation. Sometimes a company could be carrying heavy inventory as part of its current assets, which might be obsolete or slow moving. Thus, eliminating inventory from current assets and then doing the liquidity test is measured by this ratio. It expresses the true working capital relationship of its cash, account receivables, prepaid and notes receivables available to meet the company current obligations.

**Table. 4. 5. Quick ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (in \* ETB))**



Source: Audited Financial Reports of Lalisa Guliso Cooperative for the years 2017\_2021G.C

It can be seen from the above table that; the Cooperative quick ratio is less than 1.0 for the five years during the study periods. A healthy cooperative will always must keep quick ratio at 1 or higher. But the quick ratio or acid test ratio of the cooperative shows the liquid short term solvency of the cooperative during the study period was 0.51:1 in year 2017, 0.87:1 in year 2018, 0.99:1 in year 2019, 0.25:1 in year 2020 and 0.22:1 in year 2021. Which showed a poorest of the health of the cooperative to meet its short-term obligation Therefore, the Lalisa Guliso Agricultural multipurpose cooperative was not has ability to meet its current obligation. So, the Cooperative was in the poorest position.

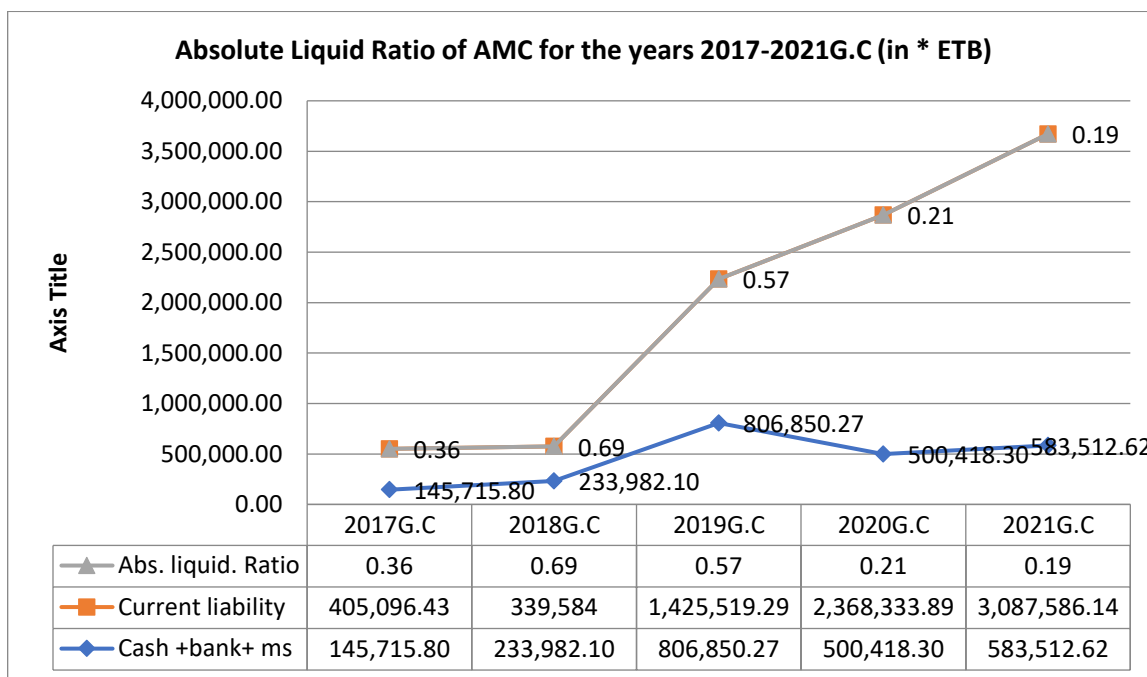
because the standard is 1: 1.but the cooperative exists below the standard, which denotes low level to meet its short-term obligation. Cooperative leaders can develop specific goals for the dollar amount of quick Ratio. The cooperative’s loan covenants often specify quick Ratio level.

**2 Absolute Liquid Ratio:** it includes cash in hand, cash at bank and marketable securities to the current liabilities. Since absolute liquidity ratio lays down very strict and exacting standard of

liquidity, therefore, acceptable norm of this ratio is 50 percent. It means absolute liquid assets worth one half of the value of current liabilities are sufficient for satisfactory liquid position of a business.

$$\text{Absolute liquidity Ratio} = \frac{\text{Cash + bank + marketable security}}{\text{current liability (CL)}}$$

**Table. 4. 6. Absolute Liquid Ratio of Lalisa Guliso cooperative for the years 2017-2021G.C (in \* ETB)**



The above table 4.10 reveals that the absolute liquid ratio for the Lalisa Guliso cooperative is more or less than 0.5 or below the standard for the entire periods under study. This ratio was 0.36:1 in year 2017, 0.21:1 in year 2020, and 0.19:1 in the year 2021, which indicates the short-term solvency of the cooperative, was unsatisfactory to meet its short-term obligation. Only, 0.69:1 in year 2018 and 0.57:1 in year 2019 more than standards. So, it can be concluded that the solvency of the cooperative was not satisfactory because the standard ratio is 0.5:1. The reason was that management of cash, marketable securities and short-term investments were weak during the study period.

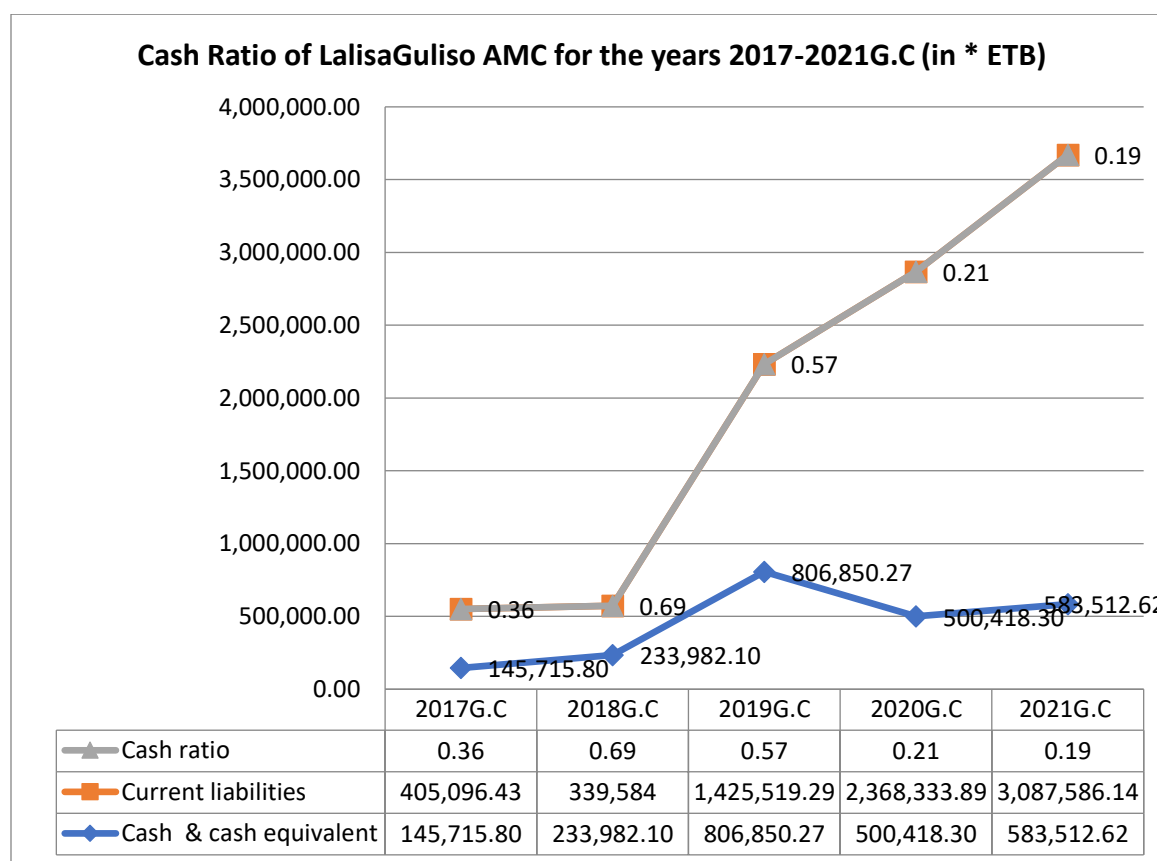
**4. Cash Ratio:** cash ratio measures the ability of a business to repay its current liabilities by only using its cash and cash equivalents and nothing else.

A Cash ratio of 1:1 and above means that the business is able to pay all its current liabilities in immediate short term. It measures to the extent which current obligations can be paid from cash or

near cash assets. It is an extreme liquidity ratio since only cash and cash equivalents are compared with the current liabilities.

$$\text{Cash Ratio} = \frac{\text{cash} + \text{cash Equivalent}}{\text{Current liabilities(CL)}}$$

**Table. 4. 7. Cash Ratio of Lalisa Guliso AMC for the years 2017-2021G.C (in \* ETB)**



Source: Audited Financial Reports of Lalisa Guliso Cooperative from year 2017-2021G.C

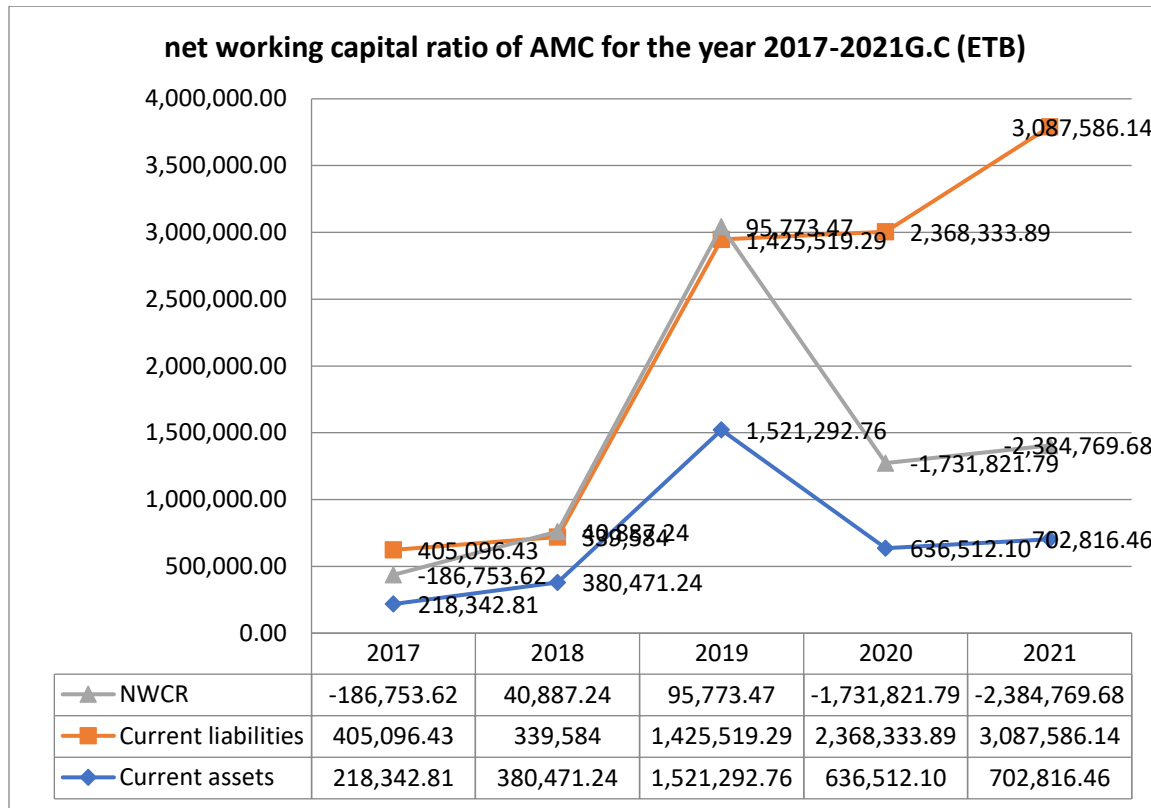
The above table shows the cash ratio of the cooperative was 0.36 in year 2017, 0.69 in year 2018, 0.57 in year 2019, 0.21 in year 2020 and 0.19 in year 2021, which was below the standard in all the years during the study periods. This indicates that the financial position of cooperative was not sound enough to meet its short-term obligation.

**5. Net working Capital Ratio:** working capital is the amount needed to operate day to day activities of the organizations. It indicates the extent to which short term debt is exceeded by short term

assets. Net working capital is more a measure of cash flow than a ratio. It is an indication of short-term financial health of a business.

Net working capital ratio: current asset- current liabilities

**Table. 4. 8. Net working capital ratio of Lalisa Guliso Cooperative LGAMC for the year 2017-2021G.C (ETB)**



Source: Audited Financial Statement of Lalisa Guliso Cooperative for the years 2017-2021G.C.

Table 4.8 illustrates that net working capital ratios of the cooperative were birr (186,753.62) in the year 2017, 40,887.24 in the year 2018, 95,773.47 in the year 2019, (1,731,821.79) in year 2020 and (2,384,769.68) in the year 2021. From five years NWCR, only NWCR of 2018 and 2019 were positive. These indicate that the cooperative has highest current liability than current assets which are great problem for cooperative to run the day-to-day operation successfully.

#### 4.1.2 Leverage Ratio: Solvency/ financial position

They give indications about the financial health of a cooperative. These ratios give indications whether the cooperative has got enough financial resources to cover its financial obligations when the creditors and lenders seek their payments.

The lower the ratio, the higher the creditors' claims on the assets, possibly indicating the cooperative is extending its debt beyond its ability to repay. However, an extremely high ratio may indicate that the cooperative is managing its assets too conservatively. Leverage ratio includes debt to asset ratio, debt to equity ratio, proprietary ratio and fixed asset to net worth ratio

**Table. 4. 9. Leverage Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C**

Ratios	years					STR
	2017G.C	2018G.C	2019G.C	2020G.C	2021G.C	
Debt to asset	1.08	0.69	0.81	0.88	7.61	0.5:1
Debt to Equity	12.87	2.22	4.18	7.08	22.58	1:1
FATNWR	6.9	1.41	1.07	6.5	19.76	0.75:1
TATER	11.87	3.22	5.18	8.10	21.58	

Source: Audited Financial Statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

**1. Debt- to- Asset Ratio:** is the percentages of total debt financing by the Agricultural multipurpose cooperative uses as compared to the percentages of the similar activities of cooperative total asset. The situation is helping to see how much of the assets are financed using debt. the amount of debt the cooperative is employing relative to its assets and owner's equity. This category of ratios also can measure whether the firm's cash flow is sufficient to meet the required debt payments.

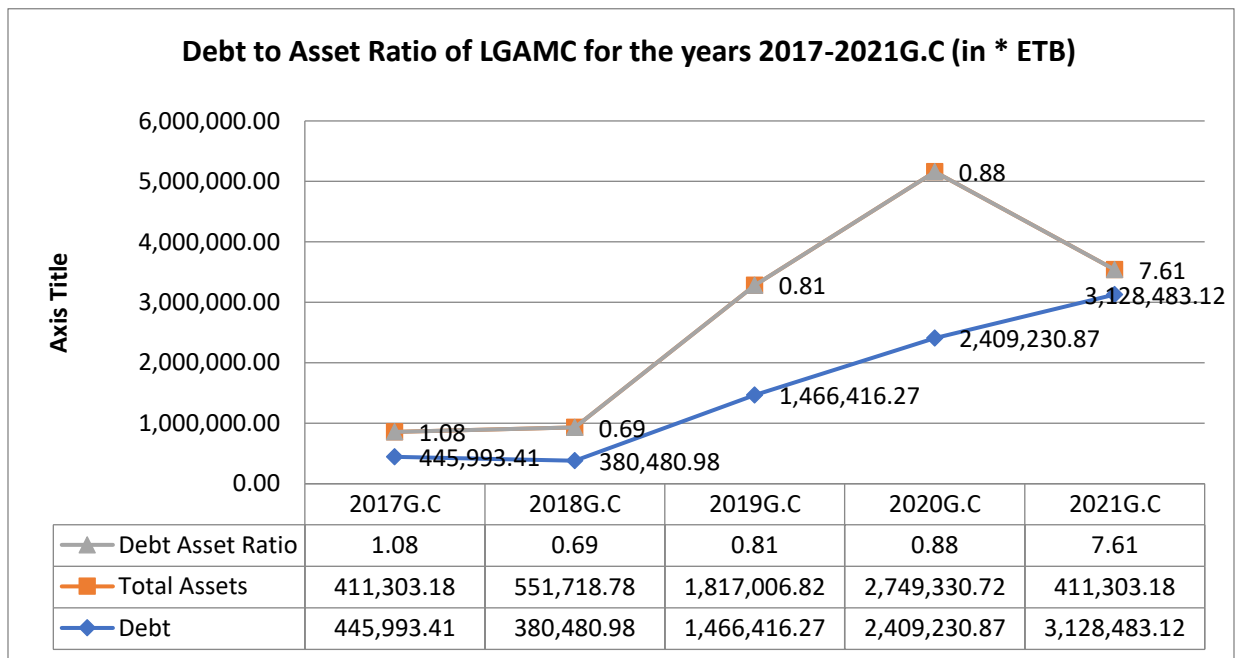
**Debt-to-Asset Ratio = Total Debt ÷ Total Assets**

In many cooperatives the seasonal debt or short-term debt can be a significant part of the total debt. There is also significant variation in the amount of short-term debt during a normal year. A good

portion of the seasonal debt is used to finance inventory which is ordinarily converted to cash within the year. For that reason, many cooperatives place more focus on solvency ratios measuring long term debt

$$\text{Debt to asset ratio} = \frac{\text{Total liabilities(TL)}}{\text{Total assets(TA)}}$$

**Table. 4.10 Debt to Asset Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (in \* ETB)**



Source: Audited Financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

As depicted in the above table, the debt-to-asset ratio of the Lalisa Guliso Cooperative were 1.08, in year 2017, 0.69 in the year 2018, 0.81 in the year 2019, 0.88 in the 2020 and 7.61 in the year 2021.

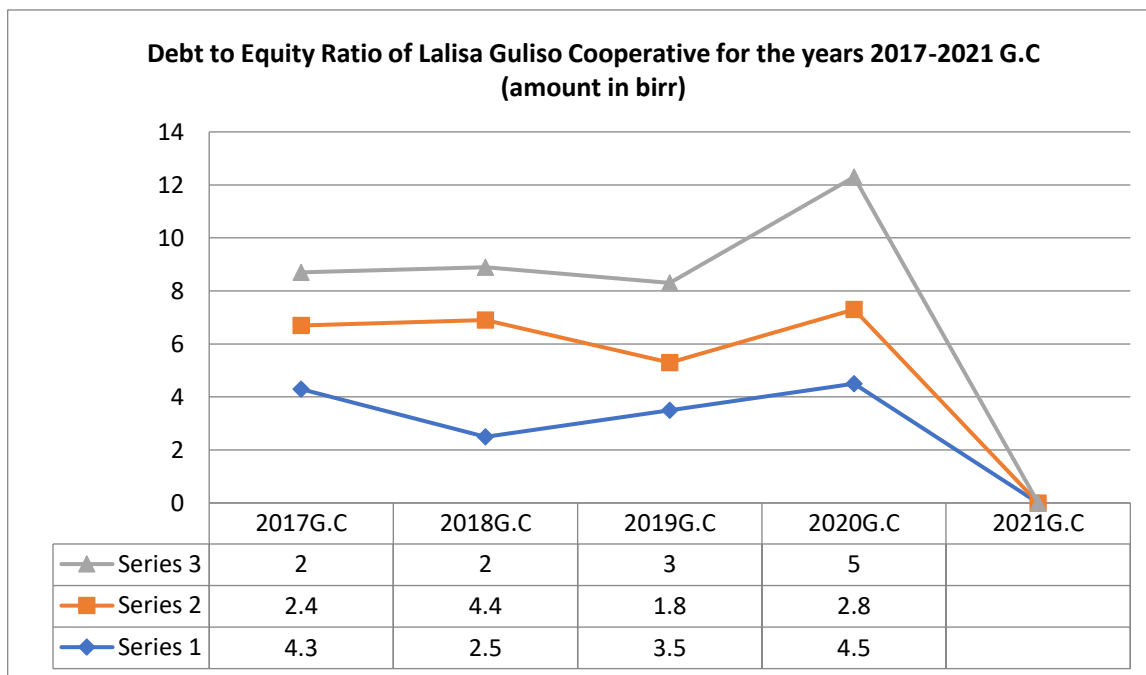
This implies that the debt-to-asset ratios of the Lalisa Guliso Cooperative are above the average. This means that cooperative have higher debt-to-asset ratio in all the respected years in the study period. The lower the ratio, the higher the creditors' claims on the assets, possibly indicating the cooperative is extending its debt beyond its ability to repay. However, an extremely high ratio may indicate that the cooperative is managing its assets too conservatively.

## ***2. Debt to Equity Ratio***

The debt-to-equity ratio is a financial, liquidity ratio that compares total debt to total equity. The debt-to-equity ratio shows the percentage of 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. Cooperative with a higher debt to equity ratio is considered riskier 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. It expresses the relationship between the external equities and internal equities or the relationship between borrowed funds and owners' capital. It is popular measure of the long-term financial solvency of the firm. So, it tells the owners that the extent to which they can gain benefits or maintains control with a limited investment. The higher ratio is the risk to the creditors and vice versa.

$$\text{Debt to Equity Ratio: } \frac{\text{Debt(D)}}{\text{Equity(E)}}$$

**Table. 4. 10. Debt to Equity Ratio of Lalisa Guliso Cooperative for the years 2017-2021 G.C (amount in birr)**



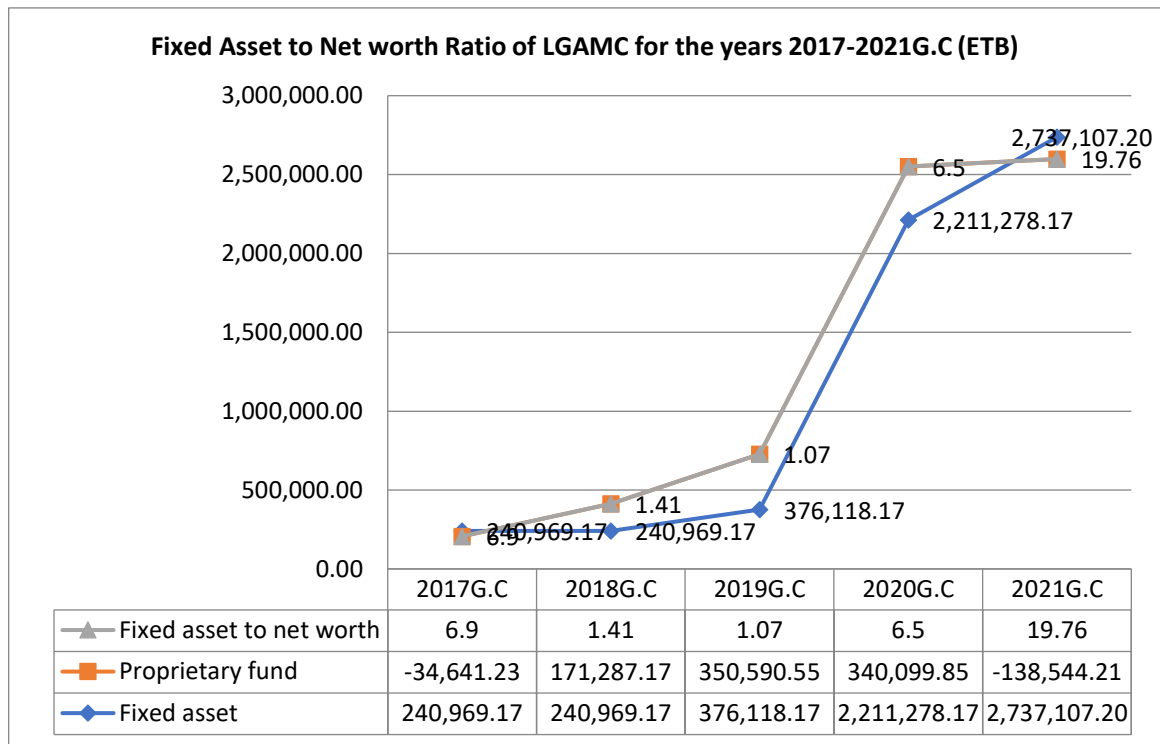
Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

Table 4.11 stated that debt to equity ratio of the cooperatives. Based on the audited financial statement of the cooperative of the five years data were analyzed. From this one can understand that the cooperatives use a debt financing capital structure. The highest debt to equity ratio from all years were 12.87,2.22, 4.18,7.08and 22.58for years 2017, 2018, 2019,2020 and 2021 respectively. In indicates in all five years debt to equity ratios of Lalisa Guliso Cooperative was above the standard during the study periods. As the result, the majority of assets are financed through debt and the Lalisa Guliso Cooperative has no more equity position. So, it has weak financial position during the study period.

**5. Fixed Asset to Net worth Ratio:** measuring the leverage of Lalisa Guliso Cooperative. However, this ratio indicates that the extent to which the owner’s cash was unmoving in the form of fixed assets, such as property, plant and equipment extent to which funds are available for the institution’s operations. This ratio shows the relationship between fixed assets and proprietor’s fund, the purpose of this ratio is to be fine out the percentages of the owner’s fund invested in

fixed assets Fixed asset to net worth ratio: 
$$\frac{\text{Fixed Asset(FA)}}{\text{proprietors fund(PF)}}$$

**Table. 4. 11. Fixed Asset to Net worth Ratio of LGAMC for the years 2017-2021G.C (ETB)**



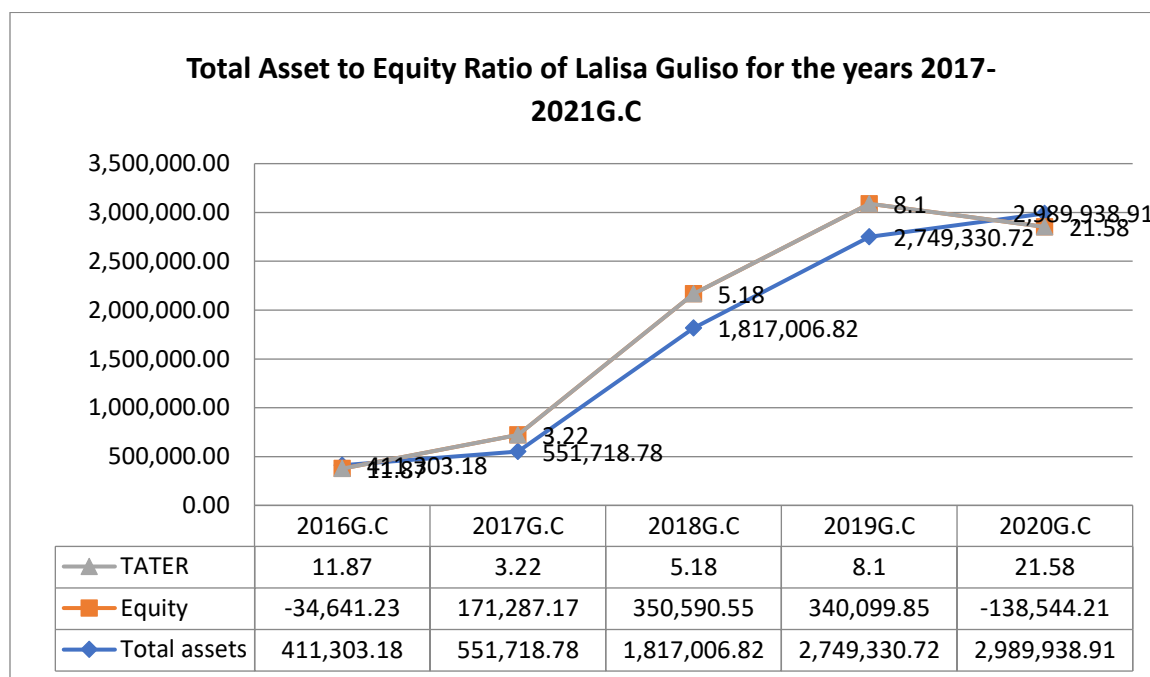
Source: Audited financial Statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

The above table that the relationship between fixed asset to net worth ratio of the cooperative was 6.91 in year 2017, 1.41 in year 2018, 1.07 in year 2019, 6.5 in year 2020 and 19.75 in year 2021 which is above the average ratio or the higher is usually undesirable, because it indicates that the cooperative is vulnerable to unexpected events and changes in the business climate. Therefore, high fixed assets to net worth ratio could signal unfavorable profits relative to shareholders investment result from poor utilization of plant, equipment and other production assets in other word high fixed assets to net worth of the cooperative show excessive amount tied up in fixed assets to generate little returns.

**6. Total Assets to Equity Ratio:** it indicates how much of proprietor's fund is being invested in total assets. It is calculated as:

$$\text{Total assets to equity ratio: } \frac{\text{Total Assets(TA)}}{\text{Proprietors equity(PE)}}$$

**Table. 4. 12. Total Asset to Equity Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C**



Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017 2021G.C

From table above the total asset to equity ratio was 11.87, 3.22, 5.18, 8.10 and 21.58 in years from 2017, 2018, 2019, 2020 and 2021 respectively.

Just like in the case of total current assets to proprietor’s ratio the ratios of total assets to equity were very high that means the proportion of proprietor’s equity invested in the total assets of the cooperative was very low.

#### **4.1.3 Activities or Efficiency (Asset management) Ratios**

These ratios evaluate the use of tool resources of the business concern along with the use of components of total assets. They are intended to measure the effectiveness of the assets management, the efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted in to sales. The majority types of activity ratios used for this study were Inventory Turnover Ratio, Debtor’s turnover Ratio, Creditor turnover Ratio, Average debt collection period Ratio, Average payment period Ratio and Working capital turnover Ratio. Etc.

**Table. 4. 13. Efficiency Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C**

ITOR	182.13	38.78	13.43	10.51	111.83	8 times
DTOR	35.40	36.43	2.78	10.60	52.24	5 times
ADCPR	10.31	10.02	131.19	34.43	6.99	45 days
CTOR	5.09	6.05	1.01	0.37	1.26	5 times
APPR	71.68	76.02	361.35	977.03	289.28	30 days

Source: Audited financial Statement of LGAMC for the years 2017-2021G.C

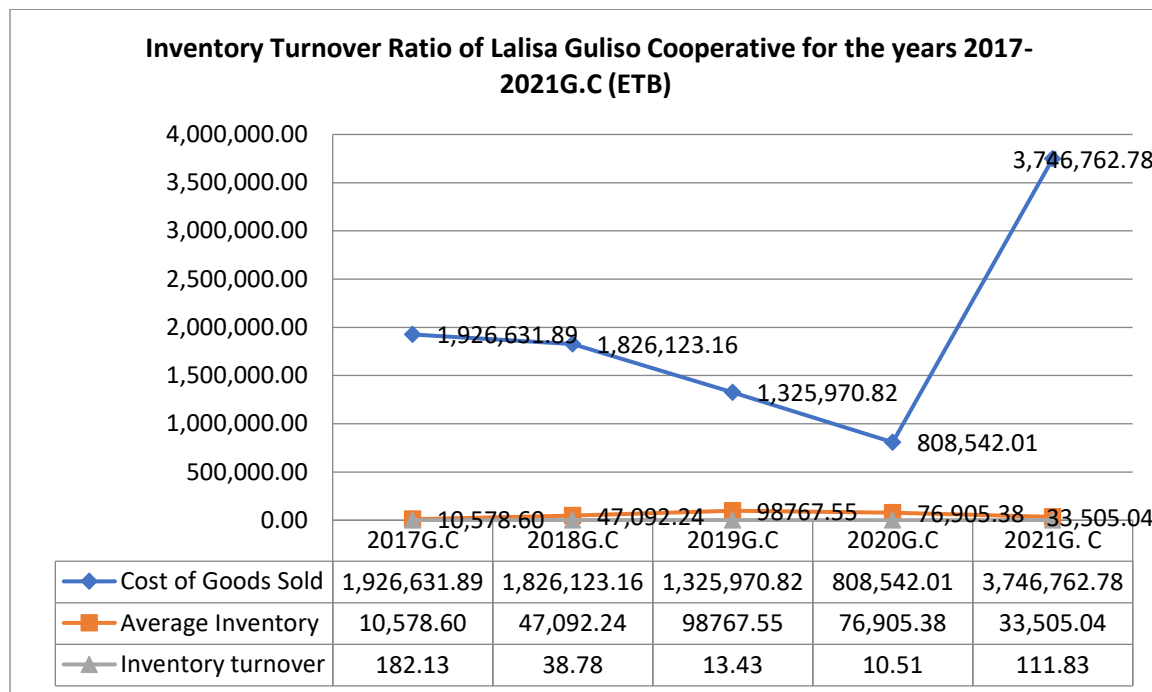
### ***1.Inventory/stock turnover Ratio***

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. 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 Ratio:  $\frac{\text{Cost of Goods Sold (CGS)}}{\text{Average Inventory (AI)}}$

**Table. 4. 14. Inventory Turnover Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (ETB)**



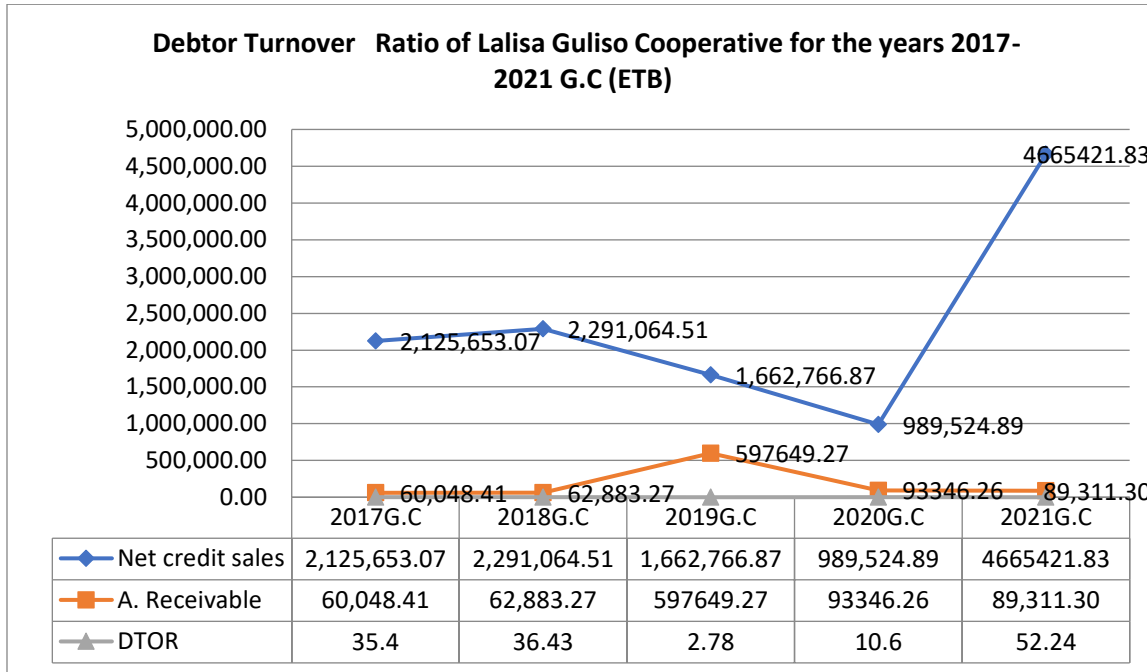
Source: Audited financial statement of Lalisa Guliso for the years 2017-2021G.C (ETB)

The largest volume of activities of the Lalisa Guliso agricultural multipurpose cooperatives were purchasing different types of inventories mainly agricultural inputs such as fertilizer, selected seeds, different goods which needs farmers etc. in order to generate a profit. The above tables reveals that the inventory turnover ratio of the cooperative. This ratio was 182.13 times in year 2017, 38.78 times in year 2018, 13.43 times in yea 2019, 10.51 times in year 2020 and 111.83 times in year 2021. The average standard is 8 times in a year. The ITOR of the cooperative are above the standards. High ratio indicates that the trend is stable, this shows that cooperative was efficiently managing inventory and more inventories were sold during the study period

**3. Debtor turnover Ratio:** debtor velocity indicates the number of times the receivables are turned over in the cooperatives during a particular period. In other words, it represents how quickly the debtors are converted into cash. The purpose of this ratio is to discuss the credit collection power and policy of the firm. This ratio is establishing between accounts receivables and net credit sales of the period, the debtor's turnover ratio is calculated as follows

$$\text{Debtor turnover Ratio: } \frac{\text{Net credit sales(NCS)}}{\text{Average Account Receivable(AAR)}}$$

**Table. 4. 15. Debtor Turnover Ratio of Lalisa Guliso Cooperative for the years 2017-2021 G.C (ETB)**



Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

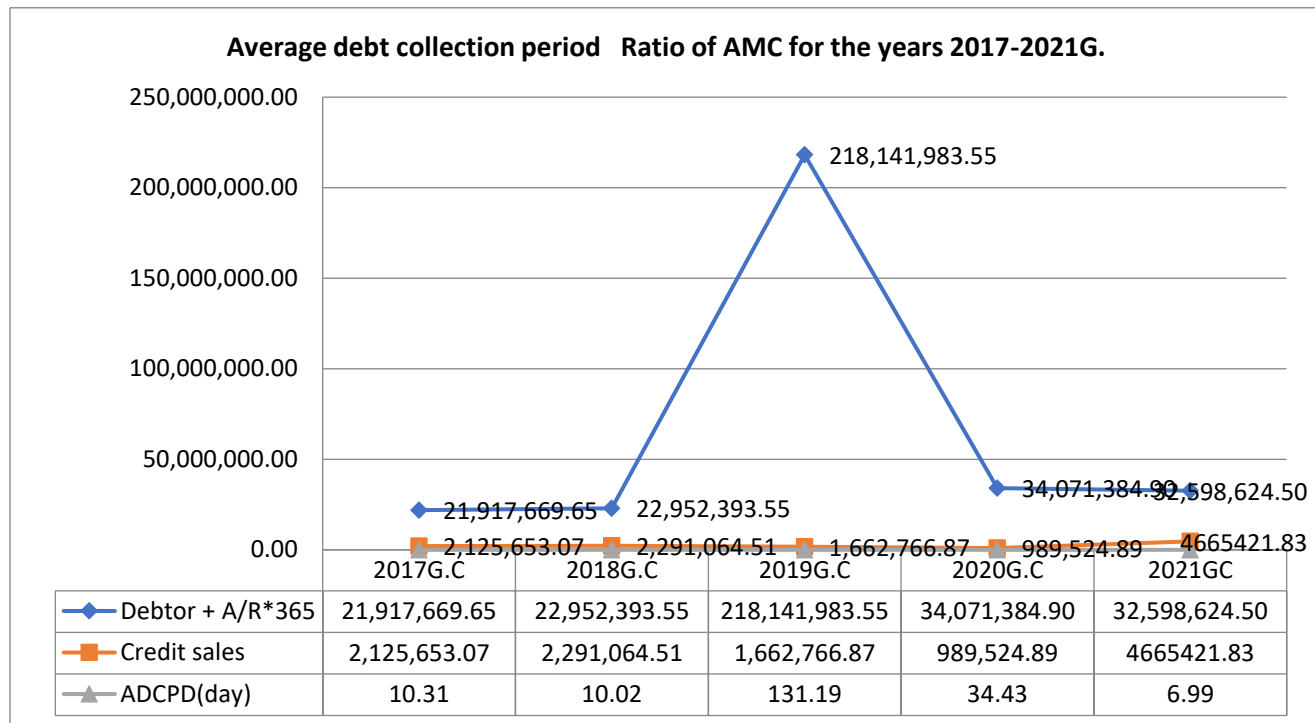
The above table analysis shows that the debtor turnover ratio of the LGAMC. It was above the standards to 35.40 in year 2017, 36.43 in year 2018, 2.78 in year 2019, 10.60 in year 2020 and 52.24 in year 2021, this indicates that it is not good at 2019 which shows 2.78 it tells us that cooperative was not managed debtors in better ways and money from debtors are not collected fairly. So, that the employees of the cooperative were not strong in collecting debt during the study period. But in the 2017,2018, 2020 and 2021 cooperative was managed debt and money from debtors in better ways. So, that the employees of the cooperative were strongly in collecting debt fairly.

### 3. Average debt collection period Ratio

The figures show the average number of days that lapsed between the receipt of the invoice by the customers and the actual payment of the invoice. When measured against the credit term obtained from suppliers, the average the account period shows the length of time during which the firm in financing the accounts receivables either with its own funds or borrowed funds. An increase in the period will results in grater blockage of funds in the debtors. The ratio may be calculated as follows

**Table. 4. 16. Average debt collection period Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.**

Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.



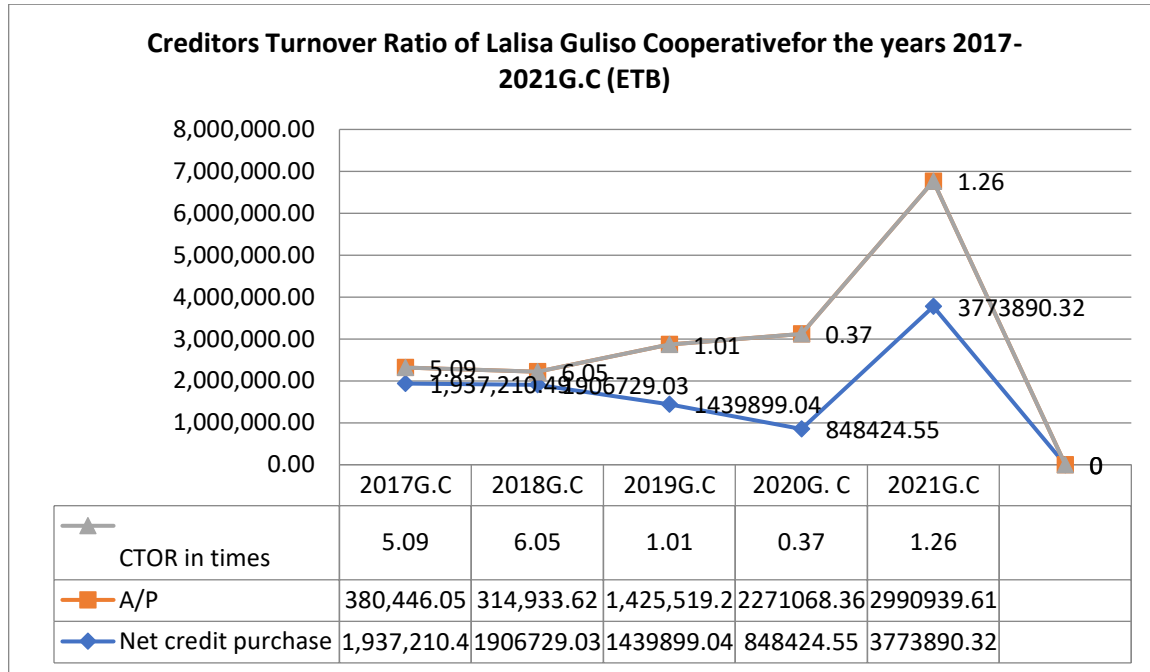
The above table analysis shows the average debt collection period ratio of the cooperative was 10.31 days in year 2017, 10.02 days in year 2018, 131.19 days in year 2019, 34.43 days in year 2020 and 6.99 days in year 2021, 131.19 days in the year 2019, which indicates the cooperative has longer credit collection period. So, this implied that too liberal and inefficient credit collection performance by the cooperative in years 2019 under the study period

#### **4. Creditors turnover Ratio:**

It indicates the number of items on the average that the creditors turnover each year. Creditors' turnover ratio indicates the number of times the accounts payable rotate in a year. It signifies the credit period enjoyed by the firm in paying its creditors.

$$\text{Creditors' turnover ratio} = \frac{\text{Net credit purchase (NCP)}}{\text{Average Account payable(AAP)}}$$

**Table. 4. 17. Creditors Turnover Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (ETB)**

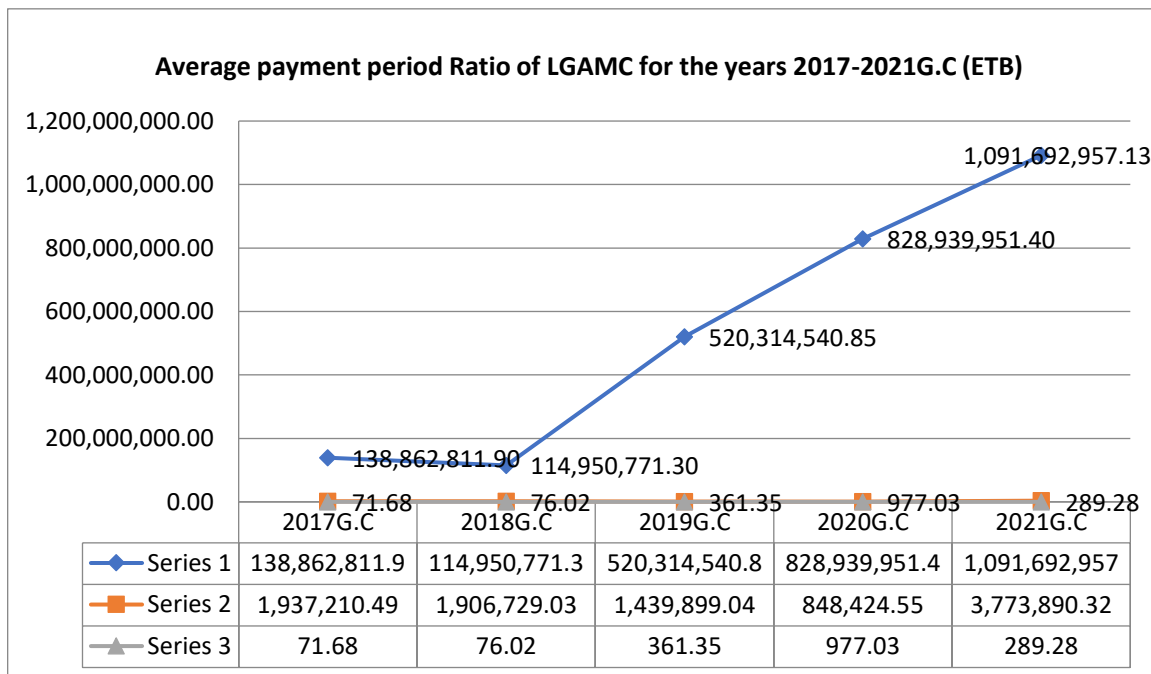


Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

From the above table analysis that the creditors turnover ratio of the cooperative was 5.09 times in year 2017,6.05 times in year 2018,1.10 times in year 2019,0.37 times in year 2020 and 1.26 times in year 2021, which is less than the standards ratio. This indicates that the cooperative pays its account payable was good at the year of 2019,2020, and 2021 because it decreased the average payment period. So, it is concluded that the cooperative made the payment with more speed to the creditors. But the years at 2017 and 2018 it increased the average payment of account payable which was not good for the cooperative during the study period.

**5.Average payment period Ratio:** this ratio is used to measure the rate at which the company is able to pay its creditors. It is also known as “creditors” payment period.” Average payment period ratio (days)

**Table. 4. 18. Average payment period Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (ETB)**



Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

The average payment period ratio of the cooperative from the above table was 71.68 days for the years 2017, 76.02 days in year 2018, 361.35 days in year 2019, 977.03 days in year 2020 and 289.28 days in year 2021. In light of this information, it is evident that payment of accounts payable is inadequately managed. If the cooperative will not attend to this issue in a timely manner, the current payment practices may lead to a number of harmful effects. Such harmful effects may include the inability to buy on credit from current suppliers, damage to the credibility of the business and a significantly deteriorating credit rating. This will be very harmful for the cooperative due to the further limitations it will impose on obtaining credit.

#### **4.1.4. Profitability Ratio Analysis**

**Profitability ratios:** measure the ability to generate earning relative to sales, assets and equity. Profitability ratios measure the success of the firm in earning a net return on its operations. Profit is an important objective of a cooperative, so poor performance indicates a basic failure that, if not corrected, would probably result in the firm's going out of business. The profitability ratios measure operating efficiency and ability to ensure adequate return to members. These ratios were used to evaluate the overall management effectiveness and efficiency in generating profit on sales, total assets

and owner's equity to measure the profitability and efficiency of the cooperative study used gross profit margin, operating profit margin, net profit margin, return on net asset ratio and Return on Equity

**Table. 4. 19. Profitability ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (ETB)**

Ratios	Years					STR
	2017G.C	2018G.C	2019G.C	2020G.C	2021G.C	
GPMR	9.36%	20.29%	20.26%	18.29%	19.69%	25%-30%
OPMR	10.13%	6.99%	9.67%	15.45%	19.29%	75%-85%
NPMR	(6,74) %	8.72%	10.60%	(2.15) %	(8) %	>5%
RONAR	(34.85)	36.23%	9.70%	(0.77) %	(12.4) %	2-3%
ROE	(49.53) %	299.6%	253%	(17) %	(29932) %	15-20%

Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

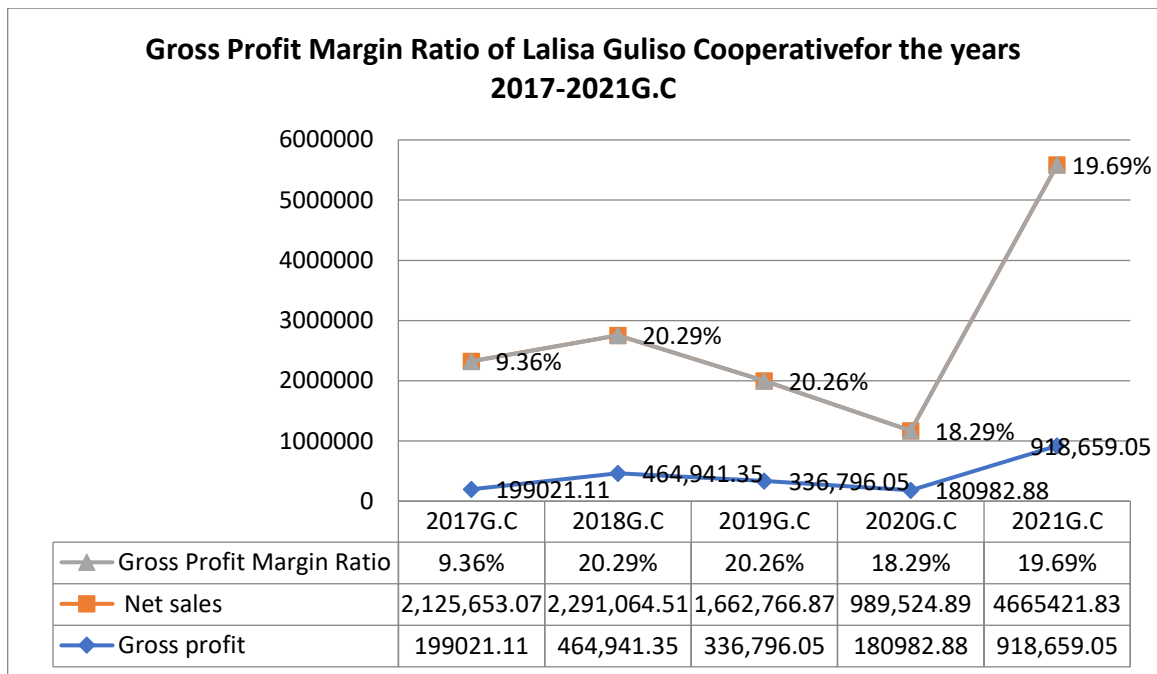
### ***1. Gross Profit Margin Ratio***

The gross profit margins of the cooperative are efficient in which management produces in each unit of products and services. These ratios indicated that the average spread that exists between the cost of goods sold and the sales revenues. It measures the relationship between the gross profit and net sales and is usually represented as a percentage. This ratio plays an important in two management areas. In the area of financial management, the ratio serves as valuable indicator of the firm's ability to utilize effectively outside sources of fund, secondly, this ratio also serves as important tool in shaping the pricing policy of the firm.

This ratio is calculated by dividing Gross Profit by Net Sales.

$$\text{Gross Profit Margin Ratio} = \frac{\text{Gross profit(GP)}}{\text{Net sales(NS)}} \times 100$$

**Table. 4. 20. Gross Profit Margin Ratio of Lalisa Guliso Cooperative for the yeas 2017-2021G.C**



Source: Audited financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

Table 4.21 shows that the percentages of cooperative gross profit margin ratio was 9.36% in year 2017, 20.29% in year 2018, 20.26% in year 2019, which shows increasing trend and decreasing 18.29% in year 2020 and 19% in year 2021. In all the years the gross profit ratio of the cooperative is below the standards. It indicates that the cooperative pricing policy and the cost of goods affected for sales. And it indicates sign of poor management, ineffective management in controlling costs of goods or pricing. This indicates that due to high costs of purchase price and running low gross profit margin ratios were obtained.

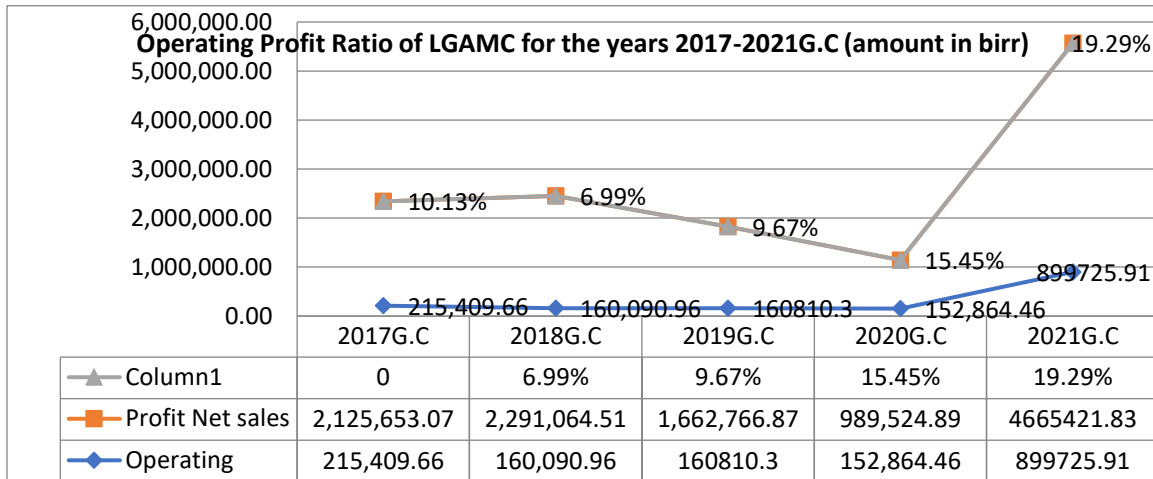
## **2. Operating profit Ratio**

Refers to the pure operating profit of the cooperatives of the profit generated by the operation of the cooperatives and it is calculated before considering any financial charges, non-operating income or loss and tax liability etc. This shows that the percentages of profit earned on every sale made and all indirect expenses are deducted from gross profit to arrive at operating profits.

This ratio establishes the relationship between operating profit and net sales

$$\text{Operating profit Ratio: } \frac{\text{Operating net profit margin (ONPM)}}{\text{net sales (NS)}} \times 100$$

**Table. 4. 21. Operating Profit Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (amount in birr)**



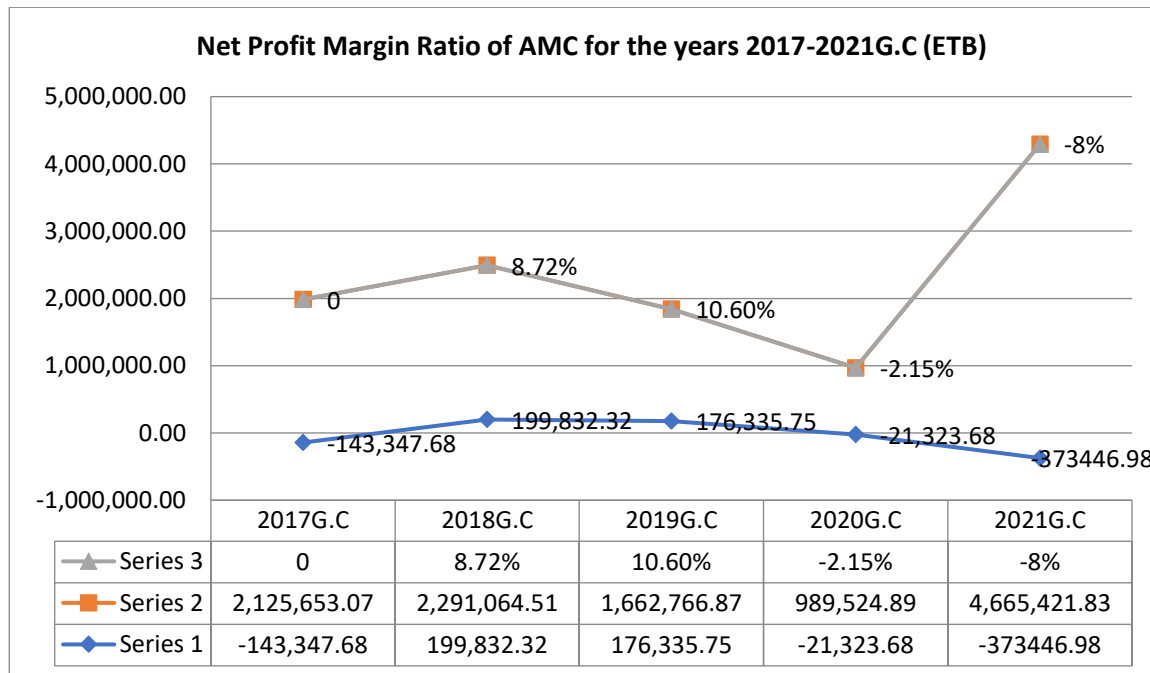
Source: Audited Financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

The above table indicates that the operating *profit* margin ratio of the cooperative was 10.13% in year 2017, decreased to 6.99% in year 2018 and 9.67% in year 2019, increased to 15.45% in year 2020 and 19.29% in year 2021, this shows that the cooperative operating profit margin ratio was very poor. The standard ratio is 75%- 85%, this reveals that the cooperative has lower operating margin ratio by this value of ratios it is difficult for the cooperative in order to fulfill the needs of the concern during the study period.

### **3. Net profit margin Ratio**

Net profit ratio establishes a relationship between net profit (after taxes) and sales; it is estimated by dividing the net income after tax to the net sale for the period and measures the profit per Birr

**Table. 4. 22. Net Profit Margin Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C (ETB)**



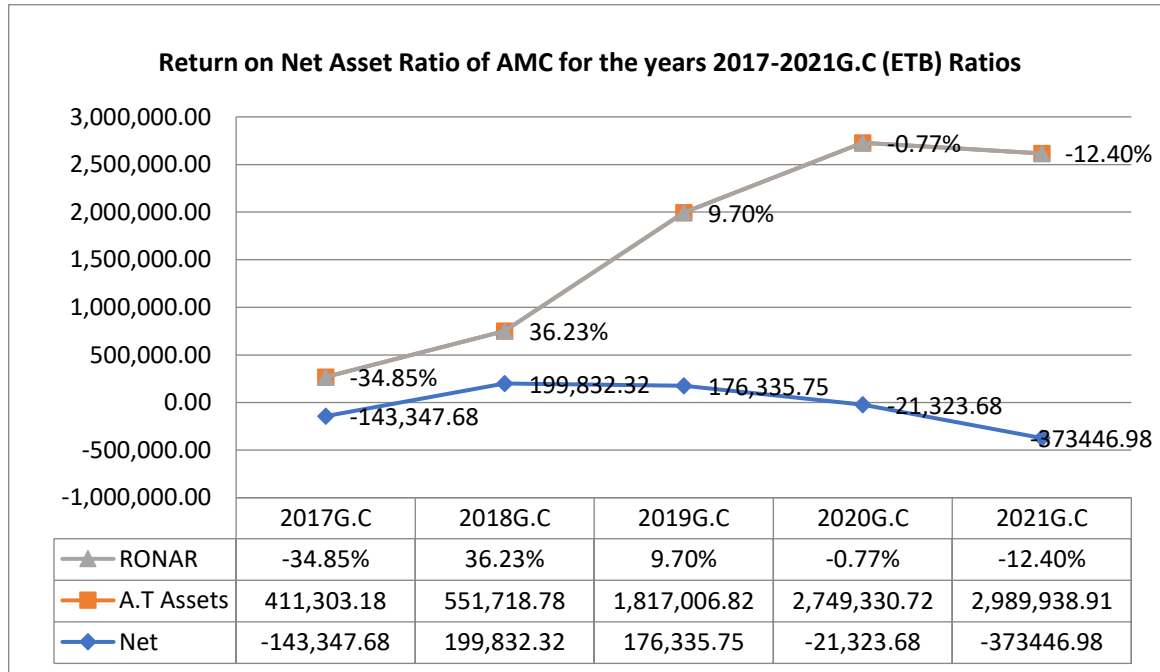
Source: Audited Financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

The table above shows that net profit margin ratio of the cooperative was (6,74) %in year 2017, and increased to, 8.72%in year 2019 and, 10.60% in the year2020 the sign growth and net profit ratio of cooperative was better, because the Lalisa Guliso Cooperative was some amount controlling the operating and non-operating expenses, but the ratio was decreased to (2.15) %in year 2020 and (8) %in year 2021, this shows that the management body of the cooperative was not controlling the operating expenses and non-operating expenses.

#### 4. *Return on Asset Ratio*

The Return on Assets ratio is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and using them to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. The return on assets ratio is related to the asset category of financial ratios. The higher the percentage, the better it will be, because that means the company is doing a good job using its assets to generate profits

**Table. 4. 23. Return on Net Asset Ratio of Lalisa Guliso Cooperative LGAMC for the years 2017-2021G.C (ETB) Ratios**



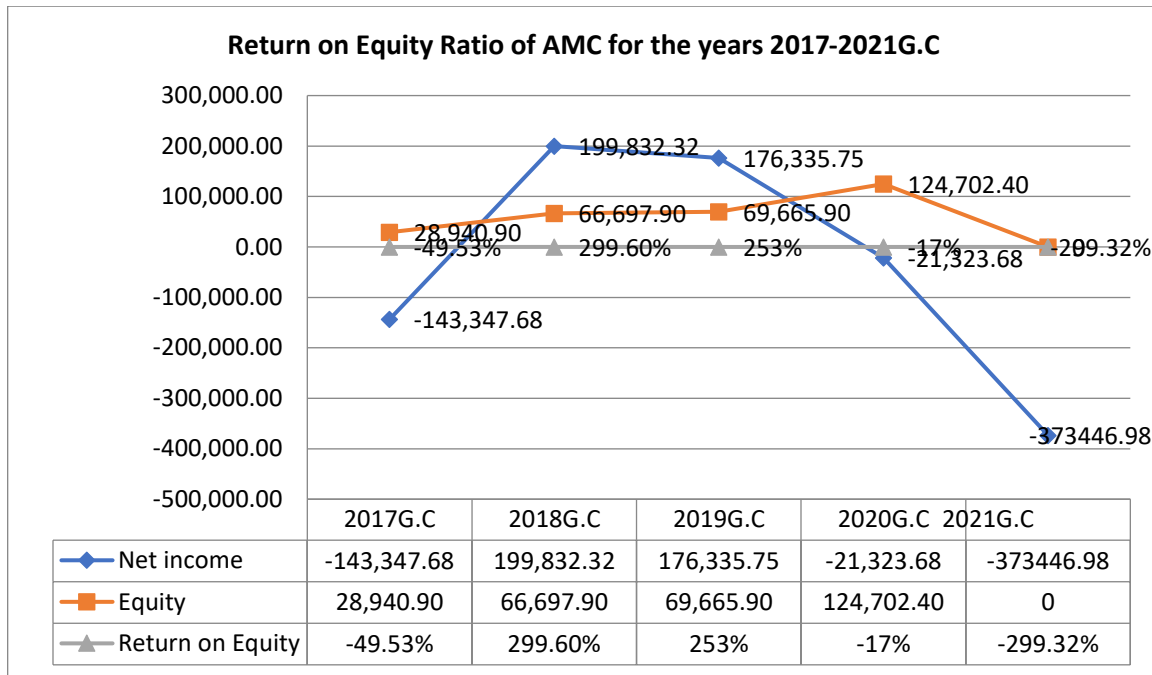
Source: Audited Financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

As it can be seen from the above the return on Average asset of Lalisa Guliso Agricultural multipurpose cooperative has shown increased 36.23% at the year of 2018 and 9.70% at the year of 2019, but in years 2017,2020 and 2021 at the percentage of (34.85) %, (0.77) %and (12.4) % respectively ROA of Lalisa Guliso Cooperative was decreased, this indicates that the inefficient utilization of assets to generate income.

**5. Return on Equity Ratio:** it measures the cooperatives profitability by revealing how much profit the institution generates with the money shareholders have invested. It indicates the amount profit earned (ETB) relative to the equity capital of owners (members, share, reserves, retained profit, unallocated capital). This ratio indicates how profitable the cooperative is by comparing its net income to its average shareholders’ equity. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

$$\text{Return on Equity Ratio: } \frac{\text{Net income(NI)}}{\text{Equity share capital(ESC)}} \times 100$$

**Table. 4. 24. Return on Equity Ratio of Lalisa Guliso Cooperative for the years 2017-2021G.C**



Source: Audited Financial statement of Lalisa Guliso Cooperative for the years 2017-2021G.C

As it can be seen from the above the return on Equity of Lalisa Guliso Agricultural multipurpose cooperatives shown increased at the year 2018 and 2019 by the percentage of 299.6% and 253%, respectively. Hence, return on equity of the cooperatives was above the standards for only these two years. So, cooperatives have the ability generating profit from equity share capital. Therefore, the higher ratio indicates the efficiency of management and effective utilization of equity share capital, as well as the ratio was good for the cooperative ability. But in years 2017, 2020 and 2021 respectively the ability of the cooperatives to generating profit from equity share capital was poor because inefficiency of management and ineffective utilization of equity share capital in this year's.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Summary of Findings

In this study, the financial performance of financial statement of Lalisa Guliso Agricultural multipurpose cooperatives was examined in Guliso Districts of Western Wallega Zone of the Oromia Region, Ethiopia. It also provides some recommendations to the concerned the cooperative from the conclusions derived for the study. The study was based on secondary data obtained from the Lalisa Guliso Agricultural multipurpose cooperative for the years 2017-2021G.C and Guliso promotion office. The financial performance of the cooperatives was examined using Common size Analysis, Trend Analysis, funds flow analysis, cash flow analysis and the financial ratios analysis have been outcome of this research. Therefore, as per the data analysis of the study, the following findings and conclusions were derived. The analyses were examined taking the five years of financial data from 2017 to 2021G.C of the financial statement of Lalisa Guliso Agricultural multipurpose cooperative.

*The study results show that the financial Ratio analyses of the Lalisa Guliso Agricultural multipurpose cooperative are according to below:*

- Current ratio of cooperative was 0.54:1 in year 2017, 1.12:1 in year 2018, 1.07:1 in year 2019, 0.27:1 in year 2020 and 0.23:1 in year 2021. This indicates that the cooperatives current assets were below the standard, which denotes low level of liquidity, and facing the cooperatives to pay short term obligations were greater challenge. The continuous decreased in the value of current assets would be decrease the ability of the cooperative to meet its immediate obligation. Since the standard of current ratio is 2:1
- The Cooperative quick ratio of Cooperative's is less than 1.0 for the five years during the study periods. A healthy of cooperative will always must keep to ratio at 1 or higher. But the quick ratio or acid test ratio of the cooperative shows the liquid short term solvency of the cooperative during the study period was 0.51:1 in year 2017, 0.87:1 in year 2018, 0.99:1 in year 2019, 0.25:1 in year 2020 and 0.22:1 in year 2021. Which shows a poorest health of the cooperative to meet its short-term obligation. Therefore, the Lalisa Guliso Agricultural

multipurpose cooperative was not having ability to meet its current obligation because of the current liability were greater than current assets.

- Absolute liquid ratio for the Cooperative's is more are less than 0.5 or below the standard for the entire periods under study. This ratio was 0.36:1 in year 2017, 0.21:1 in year 2020, and 0.19:1 in the year 2021, which indicates the short-term solvency of the cooperative was unsatisfactory to meet its short-term obligation. Only, 0.69:1 in year 2018, 0.57:1 in year 2019 in year 2017 are more than standards so it is concluded that the solvency of the cooperative was not satisfactory to meet its current debt because of below standard ratio of 0.5:1. The reason that was managing cash, marketable securities and short-term investments were weak during the study period.
- Net working capital ratios of the cooperatives were birr (186,753.62) In year 2017, 40,887.24 in the year 2018, 95,773.47 in the year 2019, (1,731,821.79) in year 2020 and (2,384,769.68) in the year 2020. which means that from five years NWCR only NWCR of 2019 and 2019 were positive, but in 2017, 2020, and 2021 were negative NWCR. These it indicates that the cooperative has highest current liability than current assets which are great problem for cooperative to run the day-to-day operation successfully.
- Debt-to-asset ratio of the Cooperative were 1.08, in year 2017, 0.69 in the year 2018, 0.81 in the year 2019, 0.88 in the 2020 and 7.61 in the year 2021. This implies that the debt-to-asset ratios of the Cooperative are above the average. This means that cooperative have higher debt-to-asset ratio in all the respected years in the study period.
- Debt to equity ratio from all years was 12.87, 2.22, 4.18, 7.08 and 22.58 for years 2017, 2018, 2019, 2020 and 2021 respectively. In indicates in all five years debt to equity ratios of Lalisa Guliso Agricultural multipurpose cooperative was above the standard during the study periods. As the result, the majority of assets are financed through debt and the Lalisa Guliso Agricultural multipurpose cooperative has no more equity position. So, it has weak financial position during the study period.
- proprietary ratio of the cooperative 0.08 in year 2017, 0.31 in year 2018, 0.19 in year 2019, 0.12 in year 2020 and 0.05 in year 2021, which indicates the cooperative has very low proprietary ratio, because most of the share capital was financed through the outsiders and more percentage of capital was financed by creditors. Hence, low proprietor's ratio indicates greater risk to the cooperative's and for creditors during the study periods.
- Current assets to net worth ratio of LGAMC was 6.30, 2.22, 4.34, 1.87 and 5.07 in the years 2017, 2018, 2019, 2020, and 2021 respectively. For that reason, the ratio was above the

standard for all the years, this indicates that the proportion of proprietor's funds invested in the current asset were high.

- Fixed asset to net worth ratio of the Lalisa Guliso Cooperative was 6.41 in year 2017, 1.41 in year 2018, 1.07 in year 2019, 6.5 in year 2020 and 19.75 in year 2021 which is above the average ratio or the higher is usually undesirable, because it indicates that the cooperative is vulnerable to unexpected events and changes in the business climate.
- Total asset to equity ratio was 11.87, 3.22, 5.18, 8.10 and 21.58 in years from 2017, 2018, 2019, 2020 and 2021 respectively. Just like in the case of total current assets to proprietor's ratio the ratios of total assets to equity were very high that means the proportion of proprietor's equity invested in the total assets of the cooperative was very low.
- Inventory turnover ratio of the cooperative was 182.13 times in year 2017, 38.78 times in year 2018, 13.43 times in year 2019, 10.51 times in year 2020 and 111.83 times in year 2021. The average standard is 8 times in a year. The ITOR of the cooperative are above the standards. High ratio indicates that the trend is stable, this shows that cooperative was efficiently managing inventory and more inventories were sold during the study period.
- The debtor turnover ratio of the Cooperative was above the standards to 35.40 in year 2017, 36.43 in year 2018, 2.78 in year 2019, 10.60 in year 2020 and 52.24 in year 2021, this indicates that it is good at 2019 which shows 2.78 because it tells us that cooperative was managed debtors in better ways and money from debtors are collected fairly. So, that the employees of the cooperative were strong in collecting debt during the study period. But in the 2017,2018, 2020 and 2021 cooperative was not managed debt and money from debtors in better ways. So, that the employees of the cooperative were not strongly in collecting debt fairly.
- Average debt collection period ratio of the cooperative was 10.31 days in year 2017, 10.02 days in year 2018, 131.19 days in year 2019, 34.43 days in year 2020 and 6.99 days in year 2021, 131.19 days in the year 2019, which indicates the cooperative has longer credit collection period. So, this implied that too liberal and inefficient credit collection performance by the cooperative in years 2019 under the study period.
- Creditors turnover ratio of the cooperative was 5.09 times in year 2017,6.05 times in year 2018,1.10 times in year 2019,0.37 times in year 2020 and 1.26 times in year 2021, which is less than the standards ratio. This indicates that the cooperative pays its account payable was good at the year of 2019,2020, and 2021 because it decreased the average payment period. So, it is concluded that the cooperative made the payment with more speed to the creditors. But

the years at 2017 and 2018 it increased the average payment of account payable which was not good for the cooperative during the study period.

- The average payment period ratio of the cooperative from the was 71.68 days for the years 2017, 76.02 days in year 2018, 361.35 days in year 2019, 977.03 days in year 2020 and 289.28 days in year 2021. In light of this information, it is evident that payment of accounts payable is inadequately managed. If the cooperative will not attend to this issue in a timely manner, the current payment practices may lead to a number of harmful effects. Such harmful effects may include the inability to buy on credit from current suppliers, damage to the credibility of the business and a significantly deteriorating credit rating. This will be very harmful for the cooperative due to the further limitations it will impose on obtaining credit
- Percentages of cooperative gross profit margin ratio was 9.36% in year 2017, 20.29% in year 2018, 20.26% in year 2019, which shows increasing trend and decreasing 18.29% in year 2020 and 19% in year 2021. In all the years the gross profit ratio of the cooperative is below the standards. It indicates that the cooperative pricing policy and the cost of goods affected for sales. And it indicates sign of poor management, ineffective management in controlling costs of goods or pricing. This indicates that due to high costs of purchase price and running cost low gross profit margin ratios were obtained.
- operating *profit* margin ratio of the cooperative was 10.13% in year 2017, decreased to 6.99% in year 2018 and 9.67% in year 2019, increased to 15.45% in year 2020 and 19.29% in year 2021, this shows that the cooperative operating profit margin ratio was very poor. The standard ratio is 75%- 85%, this reveals that the cooperative has lower operating margin ratio by this value of ratios it is difficult for the cooperative in order to fulfill the needs of the concern during the study period.
- Net profit margin ratio of the cooperative was (6,74) %in year 2017, and increased to, 8.72%in year 2019 and, 10.60% in the year2020 the sign growth and net profit ratio of cooperative was better, because the LGAMC was some amount controlling the operating and non-operating expenses, but the ratio was decreased to (2.15) %in year 2020 and (8) %in year 2021, this shows that the management body of the cooperative was not controlling the operating expenses and non-operating expenses.
- The return on Average asset of Lalisa Guliso Agricultural multipurpose cooperative has shown increased 36.23% at the year of 2018 and 9.70% at the year of 2019, but in years 2017,2020 and 2021 at the percentage of (34.85) %, (0.77) %and (12.4) % respectively ROA

of Lalisa Guliso Cooperative was decreased, this indicates that the inefficient utilization of assets to generate income. percentage

- Return on Equity of Lalisa Guliso Agricultural multipurpose cooperatives shown increased at the year 2018 and 2019 by the percentage of 299.6% and 253%, respectively. Hence, return on equity of the cooperatives was above the standards for only these two years. So, cooperatives have the ability generating profit from equity share capital. Therefore, the higher ratio indicates the efficiency of management and effective utilization of equity share capital, as well as the ratio was good for the cooperative ability. But in years 2017, 2020 and 2021 respectively the ability of the cooperatives to generating profit from equity share capital was poor because inefficiency of management and ineffective utilization of equity share capital in this year's.
- the study results shows that the Trend analysis of the Lalisa Guliso Agricultural multipurpose cooperative are according to below:
  - Current asset of Lalisa Guliso Agricultural multipurpose cooperative was increased 100, 174.25, 696.75, 291.52 and 321.89 percent in the years 2017, 2018, 2019, 2020 and 2021 respectively. So, the cooperative was received short term loans from outsiders and also it maintaining the current asset to repay the short-term liabilities.
  - Fixed assets of Lalisa Guliso Cooperative were increased to 100, 156.09, 917.66, and 1135.87 percent in the years 2017, 2018, 2019, 2020 and 2021 respectively. This indicates that the LGAMC was purchased more fixed assets during the study periods
  - Total Assets of Lalisa Guliso Cooperative were increased from 100 to 134.14, 441.77, 668.44 and 726.94 percent in the years 2017, 2018, 2019, 2020 and 2021 respectively. This reveal LGAMC has more total Asset.
  - Current liabilities of the Lalisa Guliso Cooperative were decreased from 100 to 83.83, in other years 2017 and it increase to 351.90, 584.63, and 762.19 in the years of 2018, 2019, 2020 and 2021 respectively. This shows the LGAM cooperative was received low short-term loan from the outsiders during 2017 and 2018. 2019, 2020 and 2021 were received more short-term loan from the outsiders
  - The members owners' equity was 7.04% in the year 2017, 12.09% in the year 2018, 3.83% in the year 2019, 45.36% in the year 2020 and 4.17% in the year 2021. So, it indicates the

members of equity of that cooperative was increased only at the year of 2020 years. Member's equities consisted (share equity capital, reserve fund, work expansions, social service) and unallocated equity. Therefore, the result of concluded that the trend growth of share capital of Lalisa Guliso Cooperative was not good as needed with the growth of the cooperative during the study periods.

## **5.2. Conclusions**

In general, the researcher has analyzed the financial performance of the cooperatives with the help of Quantitative Data collected from the annual records available in the Lalisa Guliso agricultural multi-purpose Cooperatives, and Cooperative Promotion Office. In order to analyze the financial performance of the cooperatives, the powerful tool, namely, the ratio analysis has been used. In this connection, the researcher has identified different ratios based on the objectives of the present study. On the basis of the results of the ratio analysis, the researcher found that the financial performance of the cooperatives was not highly.

- The profitability ratio of the cooperatives under investigation showed that the profitability of the cooperatives was weak consequently; to improving the performance of agricultural cooperatives requires a joint effort from both the cooperatives and different organization including the government of the country.
- The liquidity ratio: current Ratio, Quick Ratio, Absolute Liquid Ratio, cash Ratio and networking Capital Ratio of Cooperative was not good position during the study periods. So, the liquid ratio is below the standard, hence the Cooperative was not paid short term obligations during the study periods. For the five years was fluctuating and mostly it was below the norm. This shows the cooperatives' ability to meet their financial obligations within the period was not good.
- The current ratios of the cooperatives in the study period were below the standard. These shows the liabilities were of greater amounts. But the quick ratio shows above the norm because of the nature of the cooperatives or absence of inventories.
- The value of Leverage Ratios such as debt to asset ratio, debt to equity ratio, and current Asset to equity ratio, fixed asset to net worth ratios and Total Asset to Equity Ratios of were above the standards. This indicates the total assets of Cooperative were financed through borrowing funds.
- Proprietary ratios of Cooperative were below the standards, this reveals that the share capital of the cooperative has been financed through the creditors.

- The current asset to equity ratio of Cooperative was better during the study period, because the total current asset is greater than equity.
- The ITOR of the cooperative are above the standards. High ratio indicates that the trend is stable, this shows that cooperative was efficiently managing inventory and more inventories were sold during the study period.
- The value of Debtors Turnover ratio of Cooperative was above the standard for almost the years. This indicates bad ways and the money were not collected quickly from debtors during the study periods.
- The value of debt collection period ratio of Cooperative was above the standards, this indicates that it takes long period to collect debtors.
- It is observed from the above findings, the profitability ratio of Cooperative was gross profit margin, operating profit margin, net profit margin, return on net asset ratio and Return on Equity are bad performance because inefficient utilization of shareholders equity and inefficient utilization of assets for return during the study periods.
- The gross profit margin of the cooperatives showed positive amount at fluctuating rate.
- The cooperative gross profit ratio showed problems of management effectiveness in product pricing, generating sales and controlling cost of sales.
- The net profit margin of the cooperatives showed positive amount in most of the cooperatives but the amount was at lower level, this indicates that the management and efficiency of each unit of sales to profit was not good.
- Net profitability ratio as a measure of how effectively the cooperatives' management was generating profits was below the desirable rate in the study area. Upgrading the management capacity of the cooperatives' management body through training, improving the financial capacity of the cooperatives and the participation of the members in the cooperative are thus among the possible solutions in addition, means should be designed to minimize the irrelevant operating expense of the cooperatives in the study area
- The profitability of the owner's share capital of the cooperatives was fluctuating from year to year. This showed the resources of the members were not used well to increase profit and achieving their objectives.
- From the common –size analysis percentage of cost of goods sold percentage increased and net income percentage decreased over the study period of the Cooperative
- The trend analysis of the income statement accounts of the Cooperative showed for sometimes an increase and decreases in some of the cooperatives

- The trend of balance sheet accounts of the Cooperative shows an increased from year to year and this indicates an increase in Assets, Liabilities and Capital.

### **5.3. Recommendations**

The various problems for poor financial performance of cooperatives were identified in the preceding paragraphs, according to data of the cooperatives and the analysis made, the cooperatives operational result was either they earn small profit and the operational activity was limited. Based on this, the final recommendation are as follows:

- ❖ Liquidity position of Cooperative was not good to pay current short-term obligation, it as indicated by liquidity ratios, does not maintain sufficient current asset against its current liabilities, however it is recommended that more invested on current assets were required to increase the value of current assets, so that optimum level of short-term solvency can be achieved. Although, the Cooperative to improve liquidity position, it should be maintained adequate cash reserves from operating activities.
- ❖ The solvency of the cooperatives was not satisfactory to meets its current debt so, the management of the cooperative and employees of the cooperatives should manage cash, marketable securities and investment.
- ❖ The leverage position of Cooperative was shows that highly leveraged, because the external funds were greater than internal funds. Therefore, it is recommended that the Cooperative run the business operation of the cooperative adequately managing account payable to attend the issues in timely manner.
- ❖ should be maintain proper balance of total debt to shareholders funds as well as it should be additional share to increase their owns capital.
- ❖ Members of Cooperative should be allocated part of its equity capital for current assets and working capital in order to run the business operations slowly, attract short term creditors and minimize risks of long-term investment for management.
- ❖ The Cooperative should be revised its credit policy to speed up collection and shorten a period of receivables and minimize associated costs
- ❖ As profitability position of Cooperative are not satisfactory as the standards levels. As the results of Cooperative are recommended that use the resources more efficiently for-profit generating purposes. If assets remain idle in the cooperative, it should be bear high cost and cause low profit margin.

- ❖ Gross profit margin ratios of Cooperative were below the standards and this shows that it could not cover its fixed charges. So, the Cooperative recommended that, the managements of these cooperatives must flow pricing policy which reasonable price for produce and lower price for inputs and commodities.
- ❖ The management of Cooperative must control the operating and non-operating expenses in order to increase the operating profit and net profit of cooperatives members.
- ❖ The Cooperative have been improving their working capitals efficiency, it should be helping to gain enough profit and save accumulated profit for capital growth in Cooperative.
- ❖ The management of Cooperative should be given attention to decreasing administrative expenses, it should be improving their working efficiency to gain enough profit and save accumulated profit for capital growth.
- ❖ In order to improve the operational performance of Cooperative board of directors and managements should be aware and timely informed of major aspects of the Cooperative operational performance as different risk category should be approved and periodically review the overall operation frame work of the cooperatives.
- ❖ To improve the efficiency of the Cooperative the board members and others of committee should be continuous and sustainable supports the effective utilization of resources and managing of inventory in these cooperatives.

#### **5.4. Suggestions for Further Studies**

The aim of any multipurpose cooperatives operation regardless of its size is to make service for their members. Research findings have shown clearly that for multipurpose cooperatives to make service accurate Financial analysis is vital. Research has also shown that multipurpose cooperatives are important for the economic growth of this country. To further support the management and growth of the multipurpose cooperatives this study suggests that:

1. Needed to carry out a study of this kind but targeting the other type of multipurpose cooperatives. Given that the need for accurate financial performance increases with the expansion of growth in size of a business there is a need to find out how the multipurpose cooperatives are performing in terms of the financial analysis practices.
2. Needed to carry out a study of the Cooperative has been suffering from financial mismanagement and underutilization of resources. The Cooperative needs to visualize their operation, policies and strategies for effective utilization of available finance, human resources and other resources. Although, the Cooperative should be changing their vision and bring competitiveness besides transparency in their working to sustain and become dynamic of members of cooperative for their financial.
3. To progress the efficient and performance of the Cooperative have to improve qualified professional employees in addition to existing personnel. So, it suggests that, cooperative was improving qualified professional employees to progress their own cooperatives.

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WALLAGA UNIVERSITY

COLLEGE OF BUSSINESS AND ECONOMICS.

DEPARTMENT OF ACCOUNTING AND FINANCE

POST GRADUATE PROGRAM (MSC) IN ACCOUNTING AND FINANCE:

DATA SHEET TITLE: AN ANALYSIS OF FINANCIAL PERFORMANCE OF LALISA GULISO AGRICULTURAL MULTIPURPOSE COOPERATIVES IN CASE OF GULISO WOREDA WESTERN WOLLEGA ZONE, OROMIA REGIONAL STATE, ETHIOPIA,

THE MAIN PURPOSE OF THIS DATA SHEET IS TO COLLECT ACADEMIC RESEARCH DATA FROM THE COOPERATIVE FOR THE PARTIAL FULFILLMENT OF THE DEGREE OF MSC IN ACCOUNTING AND FINANCE. THUS, YOUR COOPERATION IS A PARAMOUNT OF IMPORTANCE FOR THE DEVELOPMENT AND QUALITY OF THE STUDY. HENCE, I KINDLY REQUEST YOUR SINCERE COOPERATION TO FILL OUT EACH DATA SHEET PATIENTLY AND CLEARLY.

I WOULD LIKE TO THANK YOU HEARTEDLY FOR YOUR SINCERE COOPERATION!

BY TOLESA YADESA

ADVISOR: MR LEMESA DIRIBA (ASST. PROFESSOR)

# Appendix I

## Data Sheet

1. Title: An analysis of financial performance of Lalisa Guliso Agricultural multipurpose Cooperative.
2. Address Oromia Regional state, Western Wollega zone, and Guliso Woreda
3. Year of establishments in May 1991 G.C
4. The cooperative was registered with the number /WHG/1991
5. Growth of membership

s.no	Years	Members			Percentages
		Male	Female	Total	
1	2017G.C	714	59	773	100
2	2018G.C	758	73	831	107.50
3	2019G.C	797	86	883	114.23
4	2020G.C	828	98	926	119.79
5	2021G.C	841	108	949	122.77

6. Growth of share capital

s.no	Years	Sources.				%
		Members	Government	Any others	Total	
1	2017	28,940.90	---	29,871.53	58,812.43	100
2	2018	66,697.90	----	3,428.00	70,125.90	119.24
3	2019	69,665.90	----	3,428.00	73093.90	124.28
4	2020	124,702.40	----	7342.25	132,045.65	224.52
5	2021	124,762.40	----	7342.25	132,104.65	224.62

## 7.2 Income statement

Table below shows the income statement of LGAMC for year 2017-2021G.C

Particulars	Years				
	2017G.C	2018G.C	2019G.C	2020G.C	2021G.C
Sale revenue	2,077,609.23	2,191,265.34	1,499,935.	927,608.28	4,070,457.59
Service revenue	4,998.35	33,840.00	35,100.0	13,193.63	30,5074.14
Interest revenue	29,273.31	32,656.37	124,619.4	11,031.04	13,391.09
Other's revenue	13,772.18	33,302.80	3,112.31	3,769.94	27,649.01
<b>Total revenue</b>	<b>2,125,653.07</b>	<b>2,291,064.51</b>	<b>1,662,766.</b>	<b>989,524.89</b>	<b>466,542.83</b>
COGAFS	1,937,210.49	1,906,729.03	1,439,899.	<u>848,424.55</u>	<u>3,773,890.32</u>
(-) stock inventory	(10,578.60)	(83,605.87)	(113,928.)	(39,882.54)	(27,127.54)
COGS	1,926,631.89	1,826,123.16	<u>1,325,970.</u>	<u>808,542.01</u>	<u>3,746,762.78</u>
<b>Gross profit</b>	<b>19,902.11</b>	<b>464,941.35</b>	<b>336,796.0</b>	<b>180,982.88</b>	<b>918,659.05</b>
Commission	4,187.60	-----	28,828.70		
Administrative expenses	52,522.00	29,201.12	23,158.00	86,879.76	182,953.00
Depreciation	11,090.65	10,984.84	<u>10,682.48</u>	<u>9,569.70</u>	353,619.76
Rent		15,840.00			
Salary and wages	28,150.00	46,600.00	11,000.00	19,700.00	61,933.00
Miscellaneous expense	73,582.06	4,660.00	41,655.12	14,818.00	155,000.50
Transport expense		52,805.00	45,486.00	21,897.00	-----
<b>Total operating Expense</b>	<b>215,409.66</b>	<b>160,090.96</b>	<b>160,810.30</b>	<b>152,864.46</b>	<b>899,725.91</b>
<b>Operating profit</b>	(16,388.55)	304,850.39	175,985.75	28,118.42	18,933.14
Other income	698.00	50.00	350.00	30.00	250.00
Interest expenses	127,657.20	105,104.07		49,472.13	392,630.12
<b>Net profit</b>	<b>(143,347.68)</b>	<b>199,832.32</b>	<b>176,335.7</b>	<b>(21,323.68)</b>	<b>(373,446.98)</b>

## 8. Net profit allocation

Particulars	Years				
	2017G.C	2018G.C	2019G.C	2020G.C	2021G.C
Dividend allocation	---	89,924.54	79,351.10	---	---
Dividend paid	---	---	-----	---	---
Reserve fund	17,893.51	77,843.30	130,744.00	170,307.10	170,307.10
Social fund	28,250.51	28,250.51	28,250.51	<u>37,496.89</u>	<u>33,496.89</u>

For expansion	3750.00	3,750.00	3,750.00	21,574.89	13,574.89
Net loss(income)	(143,347.68)	199,832.32	176,335.75	<u>(21,323.68)</u>	(373446.98)

## 9. Balance sheet

Asset	Years				
	2017G.C	2018G.C	2019G.C	2020G.C	2021G.C
<b>Current Asset</b>					
Cash on hand	143,008.15	10,539.30	14816.95	36775.50	9413.20
Cash at bank	2,707.65	223,442.80	792,033.32	<b>463,642.80</b>	574,099.42
Account Receivable	60,048.41	62,883.27	597649.27	93346.26	89,311.30
Stock	10,578.60	83,605.87	113,928.22	39,882.54	27,127.54
For warehouse building			2,865.00	2,865.00	2,865.00
<b>Total current assets</b>	<b>218,342.81</b>	<b>380,471.24</b>	<b>1,521,292.76</b>	<b>636,512.10</b>	<b>702816.46</b>
Fixed asset			115,083.60	1,853,264.66	2,221,515.92
Total cost of fixed assets	<b>240,969.17</b>	<b>240,969.17</b>	<b>376,118.17</b>	<b>2211278.17</b>	<b>2,737,107.20</b>
(Accumulated depreciation)	(48,008.80)	(69,721.63)	(80,404.11)	(98,459.61)	(452,079.37)
Book value	192,960.37	171,247.54	295,714.06	2,112,818.62	1,769,436.55
<b>Total assets</b>	<b>411,303.18</b>	<b>551,718.78</b>	<b>1,817,006.82</b>	<b>2,749,330.72</b>	<b>2,989,938.91</b>
<b>Liabilities:</b>					
Account payable	<b>380,446.05</b>	<b>314,933.62</b>	<b>1,425,519.2</b>	<b>2271068.36</b>	<b>2990939.61</b>
Creditors				40896.98	40896.98
Dividend payable	24,650.38	24,650.38	-----	97,265.53	96,646.53
<b>Total current liabilities</b>	<b>405,096.43</b>	<b>339,584</b>	<b>1,425,519.29</b>	<b>2,368,333.89</b>	<b>3,087,586.14</b>
Total long-term liability	40,896.98	40,896.98	40,896.98	40,896.98	40,896.98
<b>Total liabilities</b>	<b>445,993.41</b>	<b>380,480.98</b>	<b>1,466,416.27</b>	<b>2,409,230.87</b>	<b>3,128,483.12</b>
Capital					
Share equity capital	28,940.90	66,697.90	69,665.90	124,702.40	124,762.40
Reserve fund	17,893.51	77,843.30	130,744.00	170,307.10	170,307.10
Work expansion	3750.00	3,750.00	3,750.00	21,574.89	13,574.89
Social service	28,250.51	28,250.51	28,250.51	<b>37,496.89</b>	33,496.89
Other capital	29,871.53	3,428.00	3,428.00	7342.25	7342.25
Un appropriate profit	(143,347.68)	(8682.69)	114,752.14	<b>(21,323.68)</b>	(488027.74)
<b>Total capital</b>	<b>(34,641.23)</b>	<b>171,287.17</b>	<b>350,590.55</b>	<b>340,099.85</b>	<b>(138,544.21)</b>
<b>Total liabilities &amp; capital</b>	<b>411,303.18</b>	<b>551,718.78</b>	<b>1,817,006.82</b>	<b>2,749,330.72</b>	<b>2,989,938.91</b>



