ACCOUNTING RATIO AS A TOOL FOR MEASURING ORGANIZATION PERFORMANCE AND INVESTMENT DECISION
(A CASE STUDY OF UNIFOAM NIGERIA PLC, ILORIN BRANCH)

By

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES (IFMS), KWARA STATE POLYTECHNIC, ILORIN, AND KWARA STATE.

IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND) IN ACCOUNTANCY

MAY, 2025

CERTIFICATION

This is to certify that this study has been read and approved as meeting part of the requirements for the award of Higher National Diploma (HND) in Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin

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DEDICATON

This project work is dedicated to the uncreated that crated every creature, the most beneficent, the most merciful, the Almighty Allah.

ACKNOWLEDGEMENT

All praises and adoration is due to Almighty Allah, the perfect creator, for his abundant wisdom, knowledge, mercies, and understanding given to me from the beginning to the end of this course and particularly while writing this project. May his name be praised for ever and ever (Amen)

My special gratitude goes to my supervisor ***MR ELELU*** for his correction, words of encouragement and great guidance throughout the writing and completion of this research work, thank you very much, sir.

Also, to all other lecturers in Accountancy Department, their efforts truly had sailed my ship to the promise land which I will celebrate for eternity. May God bless you all. (Amen)

I deeply appreciate the effort of my lovely parents***: MR. and MRS. ADEBAYO*** *and to my boss* ***MR YUSUF MOHAMMED QASSIM*** for his moral, financial and excellent upbringing given to me in the pursuit of my career. May the lord grant you long life to reap the fruit of your labour (Amen)

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

ratio analysis is one of the ways through which the financial statement could be interpreted financial statement could be interpreted while ratio analysis is also a method used by financial managers and investors alike to compare a company's financial structure, conditions and high-lighting improvement or deterioration in the trend of the business performance lucky (1988) define ratio analysis as the systematic product of ratios from both internal and external financial reports so as to summarize key relationship and results in order to appraise financial performance more so, ratio analysis could serve as a practical means of monitoring and may be necessary in order to facilitate this comparison, it is customary to express figures in ratios or percentages, so that in size between two business does not prevent comparison of their results.

The purpose of preparing the financial statement of a company is to convey information on overall performance and the state of affairs of such an organization and to all interested parties besides, it helps users of these financial statements to ravel the financial strengths and weaknesses of such an organization in order to form on opinion as regard her going-concern.

1.2 STATEMENT OF RESEARCH PROBLEM

The management of enterprises is depending on accounting information for taking various strategic decisions financial statements provide such information. This information is made useful by analyzing and interpretation of financial statements with help of financial analysis techniques among while the common and easy technique to use is financial ratios also known as accounting ratios. Accounting ratios are important tools in the management for decision making. financial statement are prepared primary for decision making, but the information provided in financial statement is not an end in itself and no meaningful conclusion can be drawn from those statements alone ratio analysis helps in making decision from these information provided in these financial statements. This, the proper use of accounting ratios assists management in communicating information which is pertinent and purposeful for decision makers to ensure the effectiveness of management in the enterprise.

In modern business environment the survival of firms, be it small or large; depend upon the strategic decision made by management. This is however done with the help of account ratios, which is big challenge to must countries having shortage of professional accountants as it is the case to our country. A such this study is aimed at finding out the impact of using accounting ratio in assisting rational decision making in an organization with more emphasis on the management of united foam limited, Ilorin Kwara State.

1.3 RESEARCH QUESTIONS

The following research questions shell be examined during this study.

i. Do you use financial ratios as a measurement management performance?
ii. Does the management of this company apply financial ratio in making decision the effect the company?
iii. Does ratio analysis help management in making effective decision?
iv. Do you agree that financial ratio reveal strength and weakness of an organization?
v. Does the interpretation of ratio help to determine whether the activities of the company have been effectively managed?
vi. Does interpretation of ratio yield positive results?

1.4 OBJECTIVES OF THE STUDY

The broad objective of the study is to analyze how ratio analysis can be used to measure performance of an organization and decision making. Also, the following specific objectives will be examined in the course of this study.

1) To critically analyze the financial statement and evaluate the performance of the company through ratios to ascertain whether resource is optimally and efficiently utilized.
2) To evaluate the historical activities of the company such that a projection into the future company such that a projection into the future can be made thereby improving management decision.
3) To analyze the problems associated with the use of financial ratio analysis and proffer possible solution.
4) To identify the importance of financial ratio analysis to every use group.
5) To analyze how financial ratio analysis can assist management to defect the various strengths and weakness of an organization
6) To help user of financial statement know the extent to which ratio analysis evaluation performance in an organization.
7) To analyze the company solvency in relating to current assets and current liabilities and the breakdown of these measures to show the effect of cash flow, inventory change and movements in debtors and creditors.
8) To assess the company in terms of value to investor’s ratio dealing with this area includes PE (price/earnings) ratio yield and other such investment criteria.

1.5 RESEARCH HYPOTHESIS

An hypothesis is a conjectural statement of the relationship between two or more variables.

Hypotheses are always in declaration sentence from and they relate either generally or specifically variable hypothesis. A good accounting ratio gives a proper accounting record and effective informal control in view of a this study the researcher formulates Null hypothesis (H_O) to test the research work.

Hypothesis ONE

$H_0$1 – ratio analysis is significant in measuring making performance.

H_i1– ratio analysis is not significant in measuring performance.

Hypothesis TWO

H_{02} – Ratio analysis is significant in decision making

H_{i2} – Ratio analysis is not significant decision making

Hypotheses THREE

H_{o3} – there is a relationship between financial statement and ratio analysis.

H_{i3} – there is no relationship between financial statement and ratio analysis.

1.6 SCOPE OF THE STUDY

The study is basically on the uses of ratio analysis as a tool for measuring performance of an organization. It covers the examination of ratio analysis as a useful tool for measuring the performance of united foam limited and the study also covers the examination of its annual report and account (income statement and balance sheet) for a period of five (5) successive financial years (2009-2013)

1.7 LIMITATION OF THE STUDY

The following obstacles were encountered in the cause of carry out this research work. The first obstacle is the financial constraints which limit the scope of Unifoam Ltd Ilorin Kwara state.

Another obstacle has to do with poor attitude of the people toward the providing accounting information which prone a lot of problem to the researcher because the researcher intend to interview the people in accounting section.

1.8 OPERATIONAL OF KEY TERMS

Ratio analysis: ratio analysis simply put is the analysis of accounting ratio is a proportional or friction or percentage expressing the relationship between one items in asset of financial statements. Ratio analysis involves the use of ratio as a bench mark for evaluating the financial position and performance of a firm.

PERFORMANCE EVOLUTION: Performance can be defined as the ability of a person of machine to do something well (Longman dictionary of contemporary English 2nd edition, 1987) performance evaluation therefore involve efforts or activities aimed at assessing the ability of a company to manage investors fund well so that an optimum return can be earned on the capital invested in them.

ANALYST: it is an executive whose mental orientation is driven by facts analysis and logic.

ANALYTICAL TOOLS: it is an instrument for making rational decision toward achieving the objectives of the firm.

FINANCIAL STATEMENT: these include a large volume of quantitative data supplemented by descriptive notes.

DATA: A much abused plural noun(incorrectly used by most managers as through, it were singular) indicating the objective numerical and factual basis of analysis and conclusions

CHAPTER TWO

LITERATURE REVIEW

2.1 PREAMBLE

This chapter deals with the views and findings other person and text books that have previously researched on the subject of this study. The purpose of this study has been defined as the effectiveness accounting ratio as a tool for measuring organization performance and investment decision.

The need for measuring the organization performance in its basic functions accounting ratio occupies the central position in providing information needed by financial institutions.

In modern tie, there are several sources of information providing information needed by corporation. In this chapter attempt is made to discuss the definition and scope of accounting ratio, its role and how it affects the decision making and organizational performance.

2.2 CONCEPTUAL FRAMEWORK

A ratio is an expression of the relationship between two figures measurements, quantities, amounts or factors in the form of quotient, fraction or percentage. A ratio is simply one number expressed in terms of another number to show the relationship between the two numbers (Olaegbe, 2012).

It is the systematic calculations and evaluation of relationship between both internal and external financial reports in order to summarize key relationships and result towards the appraisal of financial performance.

2.2.1 Uses of Ratio in Business Organizations

According to Fadeyi (2011) ratio can be used in the following ways:

i. To interpret and compare financial reports.
ii. To help in assessment of liquidity, profitability and gearing of the firm.

iii. To check inventory positions.
iv. To indicate the overall operating efficiency and performance of the firm.
v. To indicate existing or potential trouble spots.
vi. To carryout intra-firm comparison and inter-firm comparison which assist in predicting the future.
vii. To provide effective guidelines for managerial decision when they are properly interpreted.
viii. To indicate trends which help in decision making and forecasting.
ix. To analyze collection of cash receivables.
x. To assist the decision maker in controlling the business firm's affairs by comparing actual ratio with base years ratios or standard ratios.

2.2.2 CLASSIFICATION OF RATIO ANALYSIS

This are some basic ways of classifying ratio and how it can be apply. They are:

i. Classified base on use information needed.
ii. Classified in term of data sources
iii. Classified base on what it wants to measure
iv. Classified base on aggregation.

For the purpose of this study classification of ratio on what it wants to measure is used. These are ratio that concerned with accounting ratio of the company.

A. Liquidity and solvency ratio
B. Activity ratio.
C. Profitability ratio
D. Investment ratio.

These entire ratios are used for analysis of the financial statement of Bank of Nigeria Plc. in next chapter.

A. ***Liquidity and Solvency Ratio*:** It measures ability of the company to meet it current obligation and her. It is necessary to strike a balance because how liquidity ratio makes company become insolvency which leads to bad credit image likewise high liquidity ratio leads to idle assets earning nothing. The most common ratio which indicates the existence of liquidity is:-

1. *Current Ratio*: It compares the liquid assets of the business with the short time liabilities. It calculates as follows

$$\text{Current Ratio:} \quad \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

2. *Acid Test Ratio*: This ratio is refinement of the current ratio in business where the stock turns over is slow is also known as quick ratio.

$$\frac{\text{Current Asset – Stock}}{\text{Current Liability}}$$

3. *Average Collection Period*: It shows the average length of time in which debt remain uncollected. It is calculated thus.

$$\frac{\text{Average collection period} \qquad \text{Debtors + 365days}}{\text{Annual Credit Sales}}$$

4. Fixed Asset Turnover: $\dfrac{\text{Sales}}{\text{Net Fixed Asset}}$

B. ***Activities Ratio*:** These ratios are good indicated of the cash elasticity of asset. They are:

1. *Stock turnover*: This is another measure of how rigorously a business is trading.

$$\frac{\text{Opening Stock + Closing Stock}}{\text{Average Stock}}$$

Note: Average Stock = $\dfrac{\text{Opening + Closing Stock}}{2}$

2. *Debtor Turnover*: It shows the degree of responsiveness of debtors, it is calculated as debtors' turnover

$$\frac{\text{Annual Credit Sales}}{\text{Debtors}}$$

3. *Dividend Yield Ratio*: This is used to evaluate shareholders return in relation to current market value of the share. It is computed as

Dividend yield Ratio: $\frac{\text{Dividend on the Share x 100}}{\text{Current market value per share.}}$

4. ***E.P.S.*** $\frac{\text{Earning Available to Ordinary Shareholder}}{\text{Number of Ordinary Share in Issue}}$

Or

$\frac{\text{Net Profit after Tax}}{\text{Number of Ordinary Share in Issue}}$

5. *Price Earning Ratio*: Is the ratio of a company current share price to earning per share it is computed as follow:

Price Earning Ratio: $\frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$

C. ***Profitability and Efficiency Ratio*****:** This is ratio use to measure the operating efficiency of the company in term of profit. Profitability ratio is of two types:

1. *Gross Profit Margin*: It is the gross profit express as a percentage of net sales or turnover it is calculated thus:

Gross Profit Margin $\frac{\text{Gross Profit}}{\text{Sales}} \text{ x 100}$

2. *Net Profit Margin*: This ratio establishes a relationship between net profit and sales.

Net profit Margin $\frac{\text{Net Profit after tax}}{\text{Sales}}$ x 100

D. ***Investment Ratio*****:** Are designed to help investors assess the return on their investment. It helps investment to appraise the performance of company in term of shares price and yield.

1. Dividend per share: $\frac{\text{Dividend announce during the period}}{\text{Number of share issue}}$

2. Dividend yield ratio: $\frac{\text{Dividend on the share}}{\text{Earning for the year available for dividend.}}$

3. Solvency look at the ability of a firm to meet long and short-term creditor. They are concerned with debt payment abilities. These are the leverage ratio. They are:

1. *Debt Ratio*: It shows the extend of cover for debt of the company by total asset debt Ratio

$$\frac{\text{Total Debt}}{\text{Total Asset}}$$

2. *Debt Equity Ratio*: It measure financial claims of creditors and owners of financial against the firm assets. Its calculated as follows

Debt equity ratio $\frac{\text{Total Debt}}{\text{Shareholders equity}}$

3. Gearing Ratio: $\frac{\text{Preference + Loan Capital}}{\text{Ordinary share + Reserve}}$

2.2.3 APPROACHES TO USE OF RATIOS

There as two approaches to the use of accounting ratios. The first is often referred to as ‘’cross sectional approach and the other as time series approach.’’

The cross-sectional approach involves the comparison of a company's ratio with other at a given point in time such comparison may enable a company deduce major operating difference which will improve it's efficiency

The time series approach involves the measurement of the performance of an organization over a period of time, the relation for the use of time series approach is that an organization must be evaluated in relation to it's past performance and any developing trends must be isolated and appropriate action must be taken to direct the organization toward it's immediate and long term objective.

Accounting Ratio are used in a number of ways;

a. within the business

b. as a comparison with other business

c. assessment of liquidity

d. prediction of failure

2.2 THEORETICAL FRAMEWORK

Accounting ratio is defined by Pandy (2001) to be the process of identified the financial strength and weakness of a firm by properly establishing relationship between the item of the balance sheet and profit and account.

Ishola (1995) states the accounting ratio involves comparing one figure against another to produce a ratio and assessing whether the ratio indicate weakness or strength of the company affair.

According to Olowe (1995) ratio analysis is the relationship between financial data in the financial statement to aid financial condition and performance of a firm.

While Lucey (1998) states ratio analysis is the systematic production of a ratio from both internal and external report as to summarize the key relationship and result in order to appraise the financial performance. But a ratio analysis can not be done without basically involving the use of financial statement, which is commonly used to evaluate business financial condition namely:

1. The Balance Sheet: It shows the financial position of the firm by showing it asset and liability.
2. The Cash Flow Statement: It shows how cash has been generated and disposed off by an organization it is useful for preparing cash budget (F Wood and A. Santer 1999).
3. The Profit and Loss Account: It shows the profitability of the company as that period.

2.3.1 USERS OF FINANCIAL STATEMENT

Users of financial information rely heavily on detailed of financial statement to judge the operating performance of the company.

The operate report published in Britain (1986) identify some groups of interested partied of financial statement. They are equity invested (shareholders), debenture holder/creditor, government, employer, analyst and business contract (partnership) and public. The management of the organization also uses the report for internal purpose. The areas of need are explained below according to the group.

1. Management: These are the internal user financial statement is used by the management in making important operating decision.
2. Shareholders: They are investors and needed information about firm’s financial status and its future prospect in term of return.
3. Partnership Agreement: They are interested in financial soundness and solvency prior to entering business relationship.
4. Professional Adviser: These are financial analyst and attempt to established trend and analysis of the result of particular business.

5. Tax Agencies: They are concerned about profit made for the purpose of tax applicable.
6. Creditors: They confirm creditor worthiness of the firm and check asset and use asset to stand as collateral.

MANAGEMENT OF AN ORGANIZATION

Management involves the process of planning organizing and controlling the activities of firm towards business objectives.

Leadership is an integrities part of management. This leader are called managers or collectively called the Management. A successful management is expected to the following:

i. Assess performance honestly and realistically.

ii. The need to make sound and timely decision.

iii. Seeking for higher responsibility of acceptance of full responsibility for his action.

2.3.2 PERFORMANCE EVALUATION

Performance can be said to be relationship between accomplishment (output) and effort (input), so performance is review of result with a view to ascertain the efficiency of actual performance. It is only when performance are evaluated that conclusion can be made on efficiency and effectiveness of the organization.

Performance evaluation can be review in two ways:

1. Financial Performance
2. Managerial Performance

2.3.3 FINANCIAL PERFORMANCE

Financial Performance can be regarded as the firms overall activities in accounting period. It examines the liquidity, profit abilities investment utilization, solvency and financial leverage. For financial performance to be evaluated, it needs financial information to know the financial position within a particular accounting period.

2.3.4 MANAGERIAL PERFORMANCE

Managerial performance assesses the individual performance based on achievement of objectives and ability to solve a problem as through idea and innovations of individual as well as manager.

2.3.5 MANAGEMENT CONTROL SYSTEM

Management control system is defined as strategic processes by which a manager ensures that organization attains the set standard. The functions embedded in management control system are: involves establishing of objectives, formulation evaluation and selection of policy, strategic, and action require achieving this objective. There are three classification of planning on base time dimension and duration

1. Short term planning.
2. Medium term planning.
3. Long term planning.

2.3.6 METHOD OF PERFORMANCE

Performance evaluation can be done with two methods namely: inter firm analysis and inter-firm analysis.

1. Inter-firm analysis: Involve comparison of firm working in the same industry.
2. Intra-Firm analysis: Involves the comparison of financial figure of a firm over time.

2.3.7 ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENT

Financial statement analysis emphasis the examination of financial position of the company they the interpretation of amount. May be said to be art and science translating strength and weakness of a business and the cause, which are contributed there to (K.A Ishola). There are reasons analysis and interpretation which are:

- To identify the soundness of firm.
- To assess of the business entity
- To determine the financial health of the company.

Accounting ratio can be categories into different type, trend analysis comparative analysis, and common size statement of First Bank of Nigeria.

2.3.8 LIMITATION OF RATIO ANALYSIS

Ratio analysis is widely used technique to evaluate the financial position and performance of a business. Accounting ratios can be computed easily and are precise in nature. It is also used to understand a firm's performance and condition. However, there are problems in connection with these ratios:

-Numerical items: Ratio analysis also deals with only numerical items which does not look at non measurable factor such as management either values or the quality of management

- Comparism of ratio between companies: This is usually misleading due to difference in accounting practices in such areas as depreciation, income recognition and intangible assets.

- Difference in common ratio definition: Most times report of two analysts may include the same ratio for a particular company but give very different results.

- Inflationary measures: during the inflationary period the ratio comparing sales and net income to assets and equity may be biased upwards.

2.3 EMPIRICAL REVIEW

It is typical of accounting ratio that there are several distinct lines with research traditions of their own. In some cases there is little link to the other accounting ratio fields. The distributional characteristics of accounting ratios have induced a research line of their own, but part of this research is intertwined with the proportionality research discussed above. In fact some of the papers reviewed tackle both the areas either separately or within the same framework.

The recurring motivation for looking into the distributional properties of accounting ratios is that the normal distribution of the accounting ratios is often assumed in accounting ratio. This is because the significance tests in parametric methods prevalent in FRA research, such as regression analysis and discriminant analysis, rely on the normality assumption.

In the history of accounting ratio it is common that professional journals and academic papers do not recognize each other. An early paper on accounting ratio distributions was published in Management Accounting by

Mecimore (1968). It is interesting to recognize that all ingredients of modern distribution analysis already appear incumbent in Mecimore's paper. Using descriptive statistical measures (average and relative deviations from the median) he observes cross-sectional non-normality and positive skewness for twenty ratios in a sample of randomly selected forty-four Fortune-500 firms.

The paper most often referred to in literature as the seminal paper in this field is, however, the much later published article by Deakin (1976). His chi-square findings reject (with one exception) the normality of eleven accounting ratios in a sample of 1114 Compustat companies for 1954-72. Less extreme deviations from normality were observed when square-root and logarithmic transformations were applied, but normality was still not supported. Likewise, while not statistically significantly, industry grouping made the distributions less non-normal. Concomitant results are obtained by Lee (1985) using a stronger test (Kolmogorov-Smirnov) for a different set of data.

Bird and McHugh (1977) adopt an efficient Shapiro-Wilk small-sample test for the normality of accounting ratios for an Australian sample of five ratios over six years. Like Deakin they find in their independent study that normality is transient across accounting ratios and time. They also study the adjustment of the accounting ratios towards industry means which is a different area of FRA research. Bougen and Drury (1980) also suggest non-normality based on a cross-section of 700 UK firms.

The results indicating non-normality of accounting ratio distributions have led researchers into looking for methods of restoring normality to warrant standard parametric statistical analyses. Frecka and Hopwood (1983) observe that removing outliers and applying transformations in a large Compustat sample covering 1950-79 restored normality in the same accounting ratios as tackled by Deakin (1976). They point out that if the ratios follow the gamma distribution, the square root transformation makes the distribution approximately normal. The gamma distribution is compatible with ratios having a technical lower limit of zero. There is, however, a certain degree of circularity in their approach, since instead of identifying the underlying causes of the outliers they employ a mechanistic statistical approach to identify and remove the outliers from the tails of the accounting ratio distributions.

A varying and often a considerable number of outliers has to be removed for different accounting ratios in order to achieve normality. The empirical results are supported by later papers such as So (1987). Ezzamel, Mar-Molinero and Beecher (1987) and Ezzamel and Mar-Molinero (1990) review and replicate the earlier analyses on UK firms with a particular emphasis on small samples and outliers, respectively. One of the avenues taken is to study new industries. Kolari, McInish and Saniga (1989) take on the distribution of accounting ratios in banking. Buckmaster and Saniga (1990) report on the shape of the distributions for 41 accounting ratios in a Compustat sample of more than a quarter million observations.

Foster (1978) points out the outlier problem in accounting ratio. Later, he presented in Foster (1986) a list of alternatives for handling outliers in FRA. The list includes deleting true outliers, retaining the outlier, adjusting the underlying financial data, winsorizing that is equating the outliers to less extreme values, and trimming by dropping the tails. Foster also puts forward accounting, economic and technical reasons for the emergence of outliers in FRA. While improving the statistical results trimming and transformations can pose a problem for the theoretical rigor in accounting ratio research. Instead of deleting or adjusting the observations McLeay (1986) proposes using a better fitting distribution with fat tails for making statistical inferences in accounting ratio. He seeks for a best fitting t-distribution for a cross-section of 1634 UK and Irish firms. Also his empirical results confirm non-normality. The best-fitting (in the maximum-likelihood sense) t-distribution varies across accounting ratios (the t-distribution can be considered a family of distributions defined by its degrees of freedom). McLeay (1986) also tackles the choice between equally weighted and value weighted aggregated accounting ratios in terms of ratio distributions on a sample of French firms. Also the results by Martikainen (1991) demonstrate that normality can be approached by other procedures than removing outliers. In a sample of 35 Finnish firms, four ratios and fifteen years about half of the non-normal distributions became normal if economy-wide effects were first controlled for using the so-called accounting-index model. Martikainen (1992) uses a time-series approach to 35 Finnish firms in turn observing that controlling for the economy factor improves normality.

Typically, many later papers tackle the same basic question of ratio distributions using different samples and expanding on the methodologies. Buijink and Jegers (1986) study the accounting ratio distributions from year to year from 1977 to 1981 for 11 ratios in Belgian firms corroborating the results of the earlier papers in the field. Refined industry classification brings less extreme deviation from normality. They also point to the need of studying the temporal persistence of cross-sectional accounting ratio distributions and suggest a symmetry index for measuring it. Virtanen and Yli-Olli (1989) studying the temporal behavior of accounting ratio distributions observe in Finnish financial data that the business cycles affect the cross-sectional accounting ratio distributions.

The question of the distribution of a ratio format variable (accounting ratio) has been tackled mathematically as well as empirically. Barnes (1982) shows why the ratio of two normally distributed financial variables does not follow the normal distribution (being actually skewed) when ratio proportionality does not hold. Tippett (1990) models accounting ratios in terms of stochastic processes. The interpretation in terms of implications to accounting ratio distributions are not, however, immediately evident, but the general inference is that "normality will be the exception rather than the rule".

Because of these results bringing forward the significance of the distributional properties of accounting ratios many later papers report routinely about the distributions of accounting ratios in connection with some other main theme. Often these themes are related to homogeneity and industry studies such as Ledford and Sugrue (1983). The distributional properties of the accounting ratios also have a bearing in testing proportionality as can be seen, for instance, in McDonald and Morris (1984). In a bankruptcy study Karels and Prakash (1987) put forward that in applying the multivariate methods (like discriminant analysis) the multivariate normality is more relevant than the (univariate) normality of individual accounting ratios. They observe that deviations from the multivariate normality is not as pronounced as the deviations in the earlier univariate studies.

Watson (1990) examines the multivariate distributional properties of four accounting ratios from a sample of approximately 400 Compustat manufacturing firms for cross-sections of 1982, 1983 and 1984. Multivariate normality is rejected for all the four accounting ratios. Multivariate normality is still rejected after applying Box's and Cox's modified power transformations. However, when multivariate outliers are removed, normality is confirmed. Multivariate normality has particular bearing on research using multivariate methods, for example on bankruptcy prediction. It also has implications on univariate research, since while univariate normality does not imply multivariate normality, the opposite is true.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 AREA OF STUDY

This chapter present research method and procedures adopted, the tasks involved on the research have been carefully designed. The research methodology is vital part of the research report because according to Osuala (1999: 32) it is the background against which the reader evaluates the findings and the conclusions.

3.2 RESEARCH DESIGN:

This study made use of survey research. It attempts to evaluate the importance of accounting ratio and the method used for the survival and growth of the small scale business especially during the period of economic depression and instability.

3.3 SOURCES OF DATA

The study made use of primary and secondary data.

3.3.1 PRIMARY DATA

This includes data collected from personal interviews and questionnaires administered to managerial staff, senior staff and junior staff.

3.3.2 SECONDARY DATA

The secondary sources used include data from text books magazines, newspaper, financial standards business times, dictionary and internet. The information collected through these sources was mainly used in the literature review and data analysis of the study.

3.4 SAMPLE AND SAMPLING TECHNIQUES

The small scale company involved in fast food service was selected for study. Formula used = n =N 1+N $(e)^2$

Where:

N=Sample size

n= population

E= Error of limit (5%)

1 =constant

N= 70

1+70(0.0025)

n= 70

1.175

N=60 sample sizes

3.5 RESEARCH INSTRUMENT

The research instruments used in gathering information are;

a. Questionnaire

b. Interview

c. Observation

The questionnaire is designed to collect information on the contribution of ration analysis on management decision making in an organization. The questionnaire formed in a way that the researcher an easily and draw valid conclusion from the answers given.

The questionnaire is an importance and in dispensable device for data collection because it provide the greater percentage of data needed for the study.

OBSERVATION

Observation research can be used to obtain information that people are unwilling or unable to provide, this is possible by watching an individuals reactions in a given situation, the respondent is normally unaware of the attention being paid to him or her. The observation method tells us more accurately than the respondent himself on his action at a given moment.

However, it given us little insight into why he acted to a particular way more over as we cannot control the environment within which the observations are made. It is difficult to be sure that the we are investigating was in fact the cause of the reaction we noted. Therefore the research will be able to utilize this method of data collection to observe the arrangement and data collected to be observed. The arrangement and procedure on presenting the accounting ratios of the institution and also how reliance the customer and shareholders depends on the institutions accounting ratio presented before the public.

3.6 DATA ANALYSIS PROCEDURE

For the purpose of making meaning out of the data collected for this study, the data was analyzed using;

(i) Profitability Ratio

(ii) Liquidity Ratio

(iii) Revenue Generation Ratio

(iv) Loan Quality Ratio

(v) Assets Composition Ratio

(vi) Capital Adequacy Ratio and

(vii) Investment Ratio

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter deals with real working of accounting ratio and various decision reached or strike with regards to the ratio interpretation are made on the figure as well.

Meanwhile, this chapter also deals with certain detailed description of the statistical method employed to analyze data and the presentation of results. It can sometimes presented inform of tables, charts, graphs, hat of figure in which he result can be based.

4.1.1 FINANCIAL STATEMENT FOR UNIFOAM NIGERIA PLC.

FINANCIAL STATEMENT FOR UNIFOAM NIGERIA PLC UNIFOAM PROFIT AND LOSS ACCOUNTING FOR THE YEAR ENDED 31ST DECEMBER 2022

	2021	2022
Turn over	3,579,070	1,432,556
Cost of sales	(2,983,635)	(1,083,993)
Gross profit	594,435	348,563
Operating expenses	(315,625)	(118,288)
	279,810	160,075
Interest (not)	14,476	2,215
Profit on ordinary activities before tax	(109,999)	(56,799)
Profit on ordinary activities Before tax	294,285	162,075
Tax on ordinary activities		

After tax	(109,999)	(56,799)
Profit on ordinary activities		
After tax	184,287	105,511
Retrained profit at beginning		
Of the year	33,667	52,883
	217,954	158,883
Proposed dividend	(175,751)	(124,727)
	42,203	33,667
Earning per share	162,52k	93,05k
Dividend per share	155,00k	110.00k

UNIFOAM FIVE YEARS FINANCIAL SUMMARY (2018, 2019, 2020, 2021 AND 2022)

UNIFOAM NIGERIA PLC ANNUAL REPORT 2010

Assets	2022	2021	2020	2019	2018
Fixed asset (not)	152,409	121,771	176,656	163,545	171,530
Current asset	257,790	195,574	1,480,750	672,676	453,425
Current liability	257,790	234,329	128,509	71,860	484,992
Debenture stock	-	-	30,000	30,000	30,000
Defund taxation	-	9,159		-	-
Total:	96,228	73,857	98,897	90,361	10,996

CAPITAL EMPLOYED

Assets	2022	2021	2020	2019	2018
Share Capital	56,694	56,694	56,694	56,694	56,694
Retain Earning	37,635	14,246	42,203	33,667	52,883
Research and Development	1,899	2,817	-	-	389
Total:	96,228	73,857	98,897	90,361	109,966

TURNOVER PROFIT

Assets	2022	2021	2020	2019	2018
Turnover	881,468	653,541	357,970	1,432556	1,029,050
Profit before tax	22,668	37,054	294,286	162,290	56,204
Taxation	5,088	12,687	109,999	56,779	17,145
Profit after tax	27,756	24,397	184,287	165,511	39,059
Extra ordinary income	15,942	9,153	-	-	-
Retrained profit	14,346	12,228	33,667	52,883	37,883
Beginning of the year	58,045	47,778	217,984	1,858,397	76,694
Dividend	20,410	19,279	175,751	124,727	23,811

TAXATION AND DIVIDEND

Assets	2022	2021	2020	2019	2018
Transfer of research and development reserve	-	2,817	-	-	-
Bonus share issued	-	11,339	-	-	-
	37,638	14,346	42,203	33,667	52,883
Dividend share	18k	17k	155k	110k	21k
Earning per share	-	-	-	-	-
Ordinary	24.58k	21.52k	162.20k	93.0k	34.4k
Extra ordinary	14.08k	8.07k	-	-	-
Total:	38.54k	29.59k	162.52k	934.05k	34.45k

4.1.2 LIQUIDITY RATIO

The analysis will look to know whether a firm can meet its current obligation.

The two(2) commonly used ratio are current ratio and acid ratio or quick test ratio.

Current Ratio = Current Asset

Current Liabilities

2022	2021	2020	2019	2018
N (000)	N (000)	N (000)	N (000)	N (000)
453,408	672,676	1,468,750	195,574	201,661
484,992	715,860	1,528,509	234,329	257,790
0.93	0.940	0.97	0.84	0.78

4.2 STATISTICAL RESULT

The following questions shall be drawn from the questionnaire for the test of hypothesis one (1).

Question One: Do you use accounting ratios as a measurement of management performance?

Question Two: Do the management of this company apply accounting ratios in making decisions that affect the company?

Question Four: Do you agree that accounting ratio reveal strengths and weaknesses of an organisation?

Question Ten: Ratio Analysis is very effective at various aspect of company performance?

Hypothesis One

H0: There is no significant relationship between ratio analysis and organization performance.

Hi: There is a significant relationship between ratio analysis and organization performance.

Test of hypothesis

Data collected from respondents in questions: 1, 2, 4, and 10 shall be subjected to F-distribution statistical method.

Data Analysis Table

	1	2	3	4	5	
1	15	15	5	5	-	
2	20	15	5	-	-	
3	15	15	5	2	3	
4	10	20	5	-	5	
5	60	65	20	7	8	= **160**

$$\textbf{SST} = \begin{array}{l} 15^2 + 15^2 + 5^2 + 5^2 + 20^2 + 15^2 \\ + 5^2 + 15^2 + 15^2 + 5^2 + 2^2 + 3^2 \\ 10^2 + 20^2 + 5^2 + 5^2 \end{array} \quad \frac{(160)^2}{16}$$

$$2163 - 1600 = \underline{563}$$

$$\text{SSC} = \frac{60^2 + 65^2 + 20^2 + 7^2 + 8^2}{165} - \frac{(160)^2}{5}$$

$$1667.6 - 1600 = \underline{\mathbf{667.6}}$$

$$\textbf{SSE} = \textbf{SST} - \textbf{SSC} = \underline{\mathbf{104.6}}$$

Other computations are shown in the table below:

Analysis of Variance

SOURCE OF VARIATION	DF	SS	MS	F
TREATMENT ERROR	4 12	66.7.6 104.6	166.9 8.72	19.14
TOTAL	16	563		

Fcal = 19.14

Ftab @ (0.05,4,12) = 5.14

Decision: Fcal is greater than (>) Ftab since Fcal is greater than (>) Ftab, then reject null hypotheses and accept the alternative. Therefore, there is significant relationship between ratio analysis and organizational performance.

The following questions shall be drawn from the questionnaire for the test of hypothesis two (2). Question Three: Does ratio analysis help management in taking effective decisions?

Question Five: Does the interpretation of rations help to determine whether the activities of the company have been effectively managed?

Question Nine: Does the management of this company rely on accounting ratios to drawn conclusion on certain issues?

Question Twelve: Ratio analysis establishes true picture of company financial status?

Hypothesis Two

H_0: Accounting ratios do not highlight the importance of effective management of an organization.

H_i: Accounting ratios highlight the importance of effective management of an organization.

4.3 TEST OF HYPOTHESIS

Data collected from respondents in questions: 3, 5, 9, and 12 shall be subjected to F-distribution statistical method.

Data Analysis Table

	1	2	3	4	5
1	10	20	5	-	5
2	25	10	-	5	-
3	15	10	5	5	5
4	25	10	5	-	-
5	75	50	10	10	= 160

$10^2 + 20^2 + 5^2 + 5^2 + 25^2 + 10^2$ (160)2

SST = $+ 5^2 + 15^2 + 10^2 + 5^2 + 5^2 + 5^2$ $-15 + 5^2 + 25^2 +$ $10^2 + 5^2$

2450– 1706.7 = <u>743.3</u>

SSC $= 75^2 + \underline{50^2 + 12^2 + 10^2 + 10^2}$ $\underline{(160)^2}$

4 15

2137.5 1706.7 = 430.8

SSE= SSR SSC - <u>312.5</u>

Other computations are shown in the table below:

Analysis of Variance

Source of Variation	**DF**	**SS**	**MS**	**F**
Treatment Error	4 1	430.8 312.5	107 28.4	7 9
Total	**15**	**743.3**		

Fcal **=** **79.29**

Ftab @ (0.05,4,11) **=** **5.67**

Decision: Fcalis greater than (>) Ftab since Fcalis greater than (>) Ftab, then reject null hypotheses and accept the alternative.

Therefore, accounting ratios highlight the importance of effective management of an organization.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

From the proceeding chapter, the researcher has come out with the following:

- The researcher discovered accounting ratio has an impact on management performance and in an organization.
- The research also discovered that must manager of an organization use accounting ratio analysis for decision making which is the key to their success. Proper decision making in the management of organization is based on the impact or positive effect of ratio analysis.
- Also the researcher discovered that some of the managers are not aware of the importance of using accounting ratio techniques such as accounting ratio in judging the financial performance of the organization for the purpose of decision making and also do not apply ratio analysis in judging the operating efficiency of, and ability of Unifoam Nigeria Plcto provide adequate returns, rather they considered the physical size and popularity of the organization as indicators of good financial performance and healthy a condition.

5.2 CONCLUSION

This research work studied how accounting ratio can be used to measure performance of an organization. Based on the discussions and findings in the course of this study, the following conclusions are made:

i. Accounting Ratio is a tool of accounting ratio, which can be used as a predictive tool for measuring business performance.

ii. Accounting Ratio can be used to show areas of strengths and weaknesses of a company.

iii. Accounting Ratio is required for management control decisions, investment decisions and credit control purposes.

iv. Accounting Ratio is required to determine whether a company have been improving or is deteriorating financially over a period of time.

v. Accounting Ratio can be used to determine whether a company has met the required standard within the industry.

vi. Profitability ratios are useful to the management of a company. They are used to determine the profitability of a company and the efficiency in the utilization of the resources of a company.

5.3 RECOMMENDATIONS

Having gone through chapter two and chapter four, the reader must have been able to understand what accounting ratio is all about. Also the render must have knows the various users of financial statement and its significance.

It would therefore recommend that the company should intensify effort on getting long-term loan for its operation because it is likely to edge into liquidation it its continue using short term loan.

Similarly managers cannot be certain that employers are performing at all near their peak capabilities unless there are willing to engage an effective assessment employee performance. It refers to a process or function that managers perform in obtaining organization objective or goals.

Unifoam Nigeria plc must also increase the interest coverage because the interest coverage ratio determines the willingness of the creditor to give out short-term loans effort should be made to stabilize the inventory for its obligation.

Most importantly, the company should also endeavour to stabilize it profitability ratio because the ratio are paramount in the mind of management and outsides since any increase in the ratio will increase the willingness of prospective investors.

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