FINANCIAL RATIOS AS PREDICTORS OF CORPORATE PERFORMANCE: A CASE STUDY OF ZAMFARA TEXTILES INDUSTRIES (NIG.) LTD.

BY

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A project submited to the post graduate School, Ahmadu Bello University, Zaria in partial fulfillment of the requirements for the degree of Master of Business Administration (MBA)

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CERTIFICATION

This project entitled "FINANCIAL RATIOS AS PREDICTORS OF CORPORATE PERFORMANCE: A CASE STUDY OF ZAMFARA TEXTILES INDUSTRIES (NIG.) LIMITED" meets the requirements and regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University Zaria and is hereby approved for its contribution to knowledge.

Supervisor: Alh. Sheikh Abdullahi	Date:
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Dean: Post Graduate School	Date: 5-6-90

DECLARATION

I hereby declare that this work is a record of my own personal effort. It has not been presented in any previous application for a higher degree. All quotations are indicated by means of quotation marks and the sources of information are specifically acknowledged by means of references.

Ibrahim Bandi.

DEDICATION

This work is dedicated to my Mother.

ACKNOWLEDGEMENT

I am most grateful to Allah (SWT) who created me and also provided me the opportunity to attain this educational level.

My sincere gratitude goes to my Supervisor, Alhaji Sheikh Abdullahi, Senior Lecturer at the Department of Business Administration, Faculty of Administration for reading through the Manuscripts, making constructive criticisms and providing useful comments which helped tremendously in shaping my ideas and thoughts in the right direction that made the completion of this project possible.

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ABSTRACT '

This project has evaluated the performance of zamfara Textiles Industries using financial ratio analysis. In total fourteen ratios have been considered under four broad heading (i.e. liquidity activity,debt and profitability ratios). There were a number of problems that were not resolved while undertaking this study which included lack of industrial averages in Nigeria, general limitations of financial ratios, time and financial constraints as well as the financial statements, inability to contain all the nece sary information for accurrate ratio compution and analysis. However, the performance of Zamfara Textiles has been brought to light, indicating that its current assets were under utilised both in comparison to Area Textiles and in **terms of gen**erally minimum expected cut-off points of 1.2 and 1.1 for current and acid test ratios respectively, and that its total operating assets were as well operating below capacity, it also indicated low returns on total assets due largely to low profitability in the period (1979 - 1983) studied.

To that effect the writer had forwarded and recommended some possible solutions for excessive fixed assets, over-stocking of inventories and others which havebeen the cause of the firms financial problems.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY AND STATEMENT OF PROBLEMS

The work of a financial manager is broken down into a series of clearly but narrowly defined topics, such as capital budgeting; dividend policy, stock issue procedures, debt policy, leasing decisions and such other activities that warrant effective and efficient allocation and utilisation of resources in an organisation. But in the end the financial manager has to consider the combined effect ofthose decisions on a firm as a whole as well as the industry within which the firm is operating. For the manager to undertake such aggregate and comperative analysis of a firm's performance that emerged through various managerial decisions, there has to be some tools on which he can rely on, to obtain the desired results. In recent years one of the most important tools available to the manager and external observers are the financial ratios. In the late ninteenth century, financial ratios were developed and used as devices for short term credit analysis. However recent studies have demonstrated that financial ratios can be used for the purpose of evaluating a firm's performance over a wide range of time. Persistent conclusions have been arrived over the years that financial ratios are important analytical, planning and control devices.

For instance such studies like those of people like Winakor and Smith (1931), Fitzpatric (1932), Charles Merwin (1942), Beavers (1966 & 1968) and others like Altman(1968), Deakin (1972) and Altman and others (1977), have in one time or the other confirmed that financial ratios are efficient predictive devices of of corporate failure. In another development researchers like Orgler (1970), Martin (1971) Deakin (1972) and Breen and Lerner (1973) confirmed that financial ratios could be used to predict how risky companies are. In the same way the works of researchers like Hickman (1958), Sualiner et al (1958), Moore and Atkinson (1962), Wojinlower (1962), Hoorigan (1966) and many others have used ratios for rating the bonds of various companies with a reasonable degree of success. Financial ratios have also been used by researchers like Chudson (1945), Hutchison (1979) and Osaze (1981) to predict rapid growth and profitability firms.

Other uses of the financial ratios are:

(a) Provision of more comprehensive information about a firm's financial condition, than when each financial data is individually analysed. This is because two or more pieces of a firm's financial data are compared in each financial ratio (for a ratio is the relationship, or propotion that one amount bears to another and is expressed fractionally or as a percentage).

(b) Making the comparison of a firm's performance over a period of time possible, in which case it will be possible to determine the trend of a firm's performance (i.e. whether it is improving or deteriorating).

(c) Making performance's evaluation of the practising managers possible and to some extent effective, this is made through the use of minimum cut-off points in terms of return on investment (ROI) this have been found to be an effective tool in forcing the practising managers to use as much as possible the cost reductions devices in their operations, they as well avoide as much as possible keeping excess assetss and at the same time develop and use sales generating strategies to meet their targets.

(d) The provisions of room for inter company performance comparison within the same industry, which will enable the management of a firm to determine whether its performance is a head or below others, this is made clearer when a firm's ratios are compared with those of the industry.

(e) Unvailing the problem areas of the firm's resources thereby indicating areas that are either over exploited or under exploited. They therefore tell the management where some exploitable oppotunities exist in a firm and where further exploitation must be discontinued in a firm.

(f) Determination of credit worthiness of the borrowing organisations. It is for the above stated evaluative abilities of the financial ratios that the writer has decided to use financial ratio anaylsis in evaluating the performance of Zamfara Textiles Industries over the period of five years to determine

i) to which extent has its management been performing inspite of its problems of poor water and power supply as well as lack of a finishing department, which has always been seen to be reterding the management's efforts thereby debaring it of the oppotunity to attain the maximum possible performance, and

ii) if the management has been utilising fully its capacities and abilities in attaining such performacnce or can it inspite of the problems improve its productivity?

It should be noted that financial ratios do not in most cases provide definate answers to the questions they provoke. They however provide an insight on a firm's economic condition which in turn provides a guide to management or financial analysts for investigations and proper investment decisions.

1.2 THE PURPOSE OF THE STUDY

This study intends to assess the performance of Zamfara Textiles Industries Limited. The assessment is meant to find out the trend of events as they

occurred within the firm at defferent times during the period under study. It further wishes to determine what provisions ought to have been made in the circumstances of poor performance of the firm.

1.3 SCOPE OF THE STUDY

The study covers the period between 1979 and 1983. It seeks to compare and evaluate the performance of Zamfara Textiles Instustries Limited and the Arewa Textiles Limited during the five years period. In this study, 14, ratios were considered and are grouped into four broader headings that include liquidity, activity, debt and profitability ratios.

1.4 LIMITATIONS OF THE STUDY

One of the limitations faced in this study is that, up to date standard Industrial ratios have not been developed in Nigeria, comparison between the company's ratios and that of the industry has therefore not been possible. Another limitation is that financial ratios have their own analytical limitations, which inevitablly applied to this study. One of the short comings of financial ratios is that they do not consider the conditions in the economy, industrial relations, the quality of the present and potential work force and and activities of the competitors.

Also the company and the comparing company or any one of them may be using lease equipments that are out

of the knowledge of the person that under-took this study and/or the person that undertook the study of the company to be compared with, thereby comupting some ratios wrongly as the lease equipment has not appeared in the balance sheets used for the their comupation. To this effect the study may not have the right results that would have been arried at if such equipments were not used or were noted while computing the ratios. This in essence deonotes that financial statements sometimes do not contain enough information for accurate ratio compuation and analysis.

The time allowed for the completion of this project seems grossly inadequate bearing in mind the prevailing economic circumstances in Nigeria that have direct effect on our industries. This time constrain did not provide this study the opportunity for a more critical and indepth analysis.

Also the researcher was faced with serious financial constrain which made it almost always inpossible for him to get vital relevant information for this work.

Another limitation is that only a few financial ratios have generally accepted standards or minimum cut off points e.g. the following ratios have minimum accepted standards as follows:

Ratios	Standards
- Current ratio	not less than 2.1
- Acid test ratio	not less than 1.1
- Inventory turnover	not less than 3.1
- Average collection period	Usually less than 42 days.

If all the ratios had minimum cut off points like the above ratios it would have been possible to ascertain the minimum performance expected of a firm in each case.

Another limitation of this study is the danger involved in relying on the study of another student which the writer does not know the accuracy involved in computing the ratios which have been used for comparison in this work.

1.5 A SHORT HISTORY OF ZAMFARA INDUSTRIES LIMITED

Zamfara textiles industries limited was incorporated in 1964 and the factory started production in June 1965 at Gusau, with an initial equipment of 12,844 spindles and 400 looms with a production capacity of approximately 6,600,000 yards of grey baft and grey sheeting clothes annually. The company also started with the facilities to produce drill as well as dobby cloth which are used on market demand. The company was established initially to serve the grey cloth market that was much previlent in its area of operation. This is not

unconnected with the reason for its starting operations without a finishing and dying department, which it still does not have. The Company's present shareholders, according to its 1985 management report are as follows:

SOSG - Sokoto State Government

NNIL - Northern Nigeria Investment Company Ltd.

UNTL - United Nigerian Textile Ltd.

NNDC - New Nigerian Development Company Ltd.

NIDB - Nigerian Industrial Development Bank and

Others - Denoting some individuals and/or organisations that bought the companies shares as it in recent years went public.

The company has two production plants, one located at Gusau and the other located in Kaduna. The decisions to expand through additional plant location, which was made in 1969 was due to some locational problems, the company was facing at Gusau. Such problems were poor power and water supply. Currently the company's major consumer is United Nigerian Textiles Limited, which is also one of its major shareholders. This means that Zamfara Textiles products are raw materials to United Nigerian Textiles Limited.

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CHAPTER TWO

LITERATURE REVIEW

2.1 AN OVER-VIEW OF FINANCIAL RATIOS

In the late 19 century financial ratios were developed and considered as devices for short-term credit analysis. However recent studies have demonstrated that financial ratios can be used for the evaluation of a firm's performance over a wide range of time. Persistent conclusi ns have been arrived over the years that financial ratios are important analytical, planning and control devices.

Prior to the development of financial ratios there were some methods of analysing credit-worthiness of organisations. For instance as early as 1849 organisations were set up to assess the credit-worthiness of particular merchants by supplying qualitative information based on the past operations or performance pertaining to the merchants. The forerunner of the now famous Dun and Bradstreet Inc. was organised in 1849 in Cincinat Olio in order to provide independent credit investigations. Several such agencies were formed to provide similar information on the credit-worthiness of different business organisations. However it was quickly discovered that this method (qualitative information system) was not accurate and should not be therefore relied on.

This is because if through the qualitative information a corperate body is considered a "good" credit risk, the question is what is the degree of "goodness" in relation to the risk on the part of the creditor (i.e. how financially sound is the corporate body, such that a credtor can make an advance for which there exists a high probability of him been repaid and on time)? It was because of the inherent short comings of the qualitative information supply analysis that led to the development of financial ratios to acquire the needed information without compromising reliability and accuracy.

Since the beginning of the development of financial ratios, different researchers have on different studies discovered their uses and some have been examining and confirming the works of others. Through such works of researchers it have been discovered that financial ratios can be used for the following and many other functions:

a) Predictions of the corporate faulure
b) Determination of corporate risk
c) Corporate bond rating and default
d) Determing rapid growth firms and
e) Other functions.

These are considered latter in the chapter taking into cognisance different researchers, studies and periods,

after considering the types of financial ratos.

2.2 TYPES OF FINANCIAL RATIOS

Financial ratios have been categorised traditionally into five classes which are as follows: (a) Liquidity (b) Activity (c) Leaverage or Debt (d) Profitability and (e) Valuation ratios. In each of the above stated five groups there exists many ratios but for the purpose of this study only a few of each are discussed as follows:

2.2 LIQUIDITY RATIOS

These ratios have different classification from different authors. For instance Richard Brealey and Stewart in their book principles of Corporate Finance outlined them as follows: Net working capital to Total Assets, Current ratio, quick ratio, cash ratio and interval ratio, while Larai Maryam Shafii in her MBA project (1984) "Financial Ratio Analysis of selected Manufacturing Companies in Nigeria" classified them into long-term and short-term liquidity ratios, and went further to say that "short-term liquidity ratios are generally referred to as liquidity ratios". And she went further to ramify the liquifity ratios as follows: - Current ratios, Acid-test Ratios, Liquidity of inventories and Average collection period. However, another MBA student Bundung Baturia Caroline in her project titled "The Development of Financial Ratios in Nigeria". Industrial averages,

wisely selected the following to discuss under the liquidity ratios:(i) Current Ratio (ii) Quick Ratio and working Capital to Total Assets. In the same way as did Bundung Baturia Caroline, the writer of this project has only discussed the following ratios under this heading (a) Working capital to Total Assets (b) Current Ratios (c) Cash ratio and (d) Interval Measures. It should be noted that the writer does not claim that these are the only recognised ratios under the liquidity class.

(i) Net Working Captial To Total Assets:

This ratio reflects characteristics of liquidity and flexibility. This is becuase working capital is considered to be more easily converted to cash than other non-current assets. The ratio is calculated by dividing the difference between current assets and current liabilities by the total assets. A high ratio indicates more liquidity position, which shows that the firm has a high degree of adoptability and flexibility to changing conditions, short term creditors are also certain that their obiligations can be met in time during the period of operations. Management must be careful at this point as it may be due to overstocking of inventories, which will mean inefficiency in inventory utilisation resulting to low productivity

and increase in the storage cost of inventories hence increase cost of production. It may also be high due to the holding of high level of cash thereby resulting to the reduction of expected earning owing to idle fund holding. The formular is as follows:

$$\frac{\text{Current Assets - Current Liabilities}}{\text{Total Assets}}$$

(ii) Current Ratio

This is calculated by dividing current assets by current liabilities. It shows how many times current assets covers the current liabilities. A ratio of 2.1 is considered appropriate by many writers. Creditors always favour a high Current ratio. This ratio can be misleading e.g. if a company borrows some money and invests all in marketable securities , if nothing else alters, net working capital is not affected but the current ratio will change. The above claims is made by Richard Brealey and Stewart Myers, in their book principles of corporate finance.

Note that this ratio measures short-term solvency of the firm and indicates how many times short-term claims of creditors are covered by assets of the same maturity. Current Assets are made up of cash, current debtors marketable securities and investories while current liabilities are coposed of, accounts payable, accrued taxation and other short time

obligations. The formular used for the calculation of current ratio is

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

(iii) Quick Ratio:

This is sometimes called the acid test ratio. This is because it is more liquid than any one of the liquidity ratios. It is calculated by dividing the difference between Current assets and inventories by current liabilities as thus:

$$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current liabilities}}$$

Inventories are removed because they are less liquid of the current assets. Short-term creditors are very much interested in this ratio. It is used by specialists in predicting the business failure and bond rating.

(iv) Cash Ratio:

This is calculated by dividing the sum of cash and marketable securities by current liabilities thus:

$$\frac{\text{Cash} + \text{Marketable Securities}}{\text{Current liabilities}}$$

(v) Interval Measures:

In some cases analysts may not be interested in looking at a firm's liquid assets relative to its current liabilities, but deedmed it useful to measure whether they (Current Assets) are large relative to

the firm's regular cash out flows. One suggested way of doing this is the use of the interval measure =

$$\frac{\text{Current Assets - Inventories}}{\text{Average Daily Expenditure from Operations}}$$

The ratio is normally in days, which measures the number of days it takes the daily operating expenditure to spend the total value of the firm's liquid assets.

2.2.3 ACTIVITY RATIOS

Activity ratios are called performance ratios, because they measure the performance of a firm by indicating how effectively it utilises its resources. Assets like fixed Assets, stocks, Receivables and so on are the resources of a firm and each is compared with sales to determine the rate at which it is turned over or a number of times it is sold over a year. Activity ratios include (a) Total Assets turnover (b) Fixed Assets turnover (c) Current Assets turnover (d) Sales to networth (e) Average collection period (f) Stodks turnover Ratios (g) Fixed Assets to networth, etc.

(i) Fixed Assets Turnover:

This is computed using the following formular.

Fixed Assets Turnover Ratio =

$$\frac{\text{Sales}}{\text{Net Fixed Assets}}$$

Usually, the fixed assets used for the computation are net fixed assets. So as to get a realistic results (i.e. comparing sales with the actual fixed assets used in the production activities).

(ii) Total Assets Turnover Ratio:

This is calculated by dividing sales by the total assets (i.e. current assets plus fixed assets). The ratio may also be calculated as follows:

$$\frac{\text{Sales}}{\text{Average Total Assets - Intangible Assets.}}$$

(iii) Current Assets Turnover:

This is the relationship of sales to the current assets. It tells us the number of times current assets are turnover or can be multiplied to equal sales or the number foulds sales have made of current assets. As for current assets, fixed and total assets turnover ratios the higher they are the more efficient a firm is at utilising them.

iv) Sales to Networth Ratio:

This is derived by dividing sales by the equity capital. Equity Capital is the same as networth or shareholders funds it is constituted of the capital invested and all reserves (retain earnings - capital reserves and revenue reserves). If this ratio is too high it indicates overtrading and if it is too low, it shows undertrading. When the ratio is unitary or just about unitary the firm is neither overtraded nor undertraded, both (overtrading and undertrading) can cause financial problems to a firm.

(v) Average Collection Period:

This ratio is computed by dividing receivables by sales per day. It is expressed in "days" in most cases, it shows the average waiting time for a firm to collect the proceeds of its sales after it has made credit sales. It therefore shows whether the collection period is short or long. This ratio is not sometimes computed by some anslysts because credit sales are not indicated in financial statements. Some analysts usually just divide debtors by the total sales per day to get a rough idea. This is called a rough idea because not all debtors are generated from the sales of the company goods.

(vi) Fixed Assets To Networth:

This ratio indicates the rate at which share-holders' capital is invested in fixed assets. If it is high, it shows that the greater share of equity capital is invested in fixed assets, which is an indication of an excessive investment. It as well shows creditors less contribution to the fixed assets.

2.2.4. DEBT RATIOS

These are again called leverage ratios, they are also liquidity ratios but concerned with long-term obligations. They are often called gearing rations, they provide information about the capital structure

of a firm. If the gearing is very high, creditors influence the operations of the organisation, and the firm may be considered risky for investment. Debt or risk ratios include (a) Debt to Networth, (b) Long-term capitalisation (c) Debt ratio (d) Times interest earned (e) Fixed charges coverage and so on.

(i) Debt to Networth:

This measures the debt structure of a firm, It shows the degree of debt pressure a company has. If it's high, it indicates financial problems because the higher the debt, the less cash an organisation is said to possess on its own for meeting its requirements. Infact, it is only when one lacks funds that he borrows. A firm with a higher percentage of debt, has more financial problems than the one with a lower percentage. The formular for the calculation of this ratio is as follows:

$$\text{Debt to Networth} = \frac{\text{Total Debt}}{\text{Networth}} \times 100$$

The ratio is expressed as a percentage.

(ii) Long-Term Capitalisation:

This ratio is concerned with the importance of long-term debt in the capital structure of a firm. This ratio is calculated by dividing the long-term debts by total capitalisation and is expressed as a

percentage. Long-term debts include debentures, bonds, and so on while capitalisation (Total Value of the firm) consists of loan capital and share-holders funds. This is often called the structure ratio.

(iii) Total debt to total assets:

This ratio is generally called the debt ratio it measures the percentages of the total funds provided by the creditors. Total debts includes current liabilities and all bonds, creditors prefer lower debt ratios, since the lower the ratios, the greater the cushion against creditors' losses in the event of liquidation. In contract to the creditors' preference for a low debt ratio, the owners may seek high leverage either (1) to magnify earnings or (2) because selling new shares means the loss of some degree of control. The formular for the caluculation of this ratio is as follows:

$$\text{Dent Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times \frac{100}{1}$$

Creditors will be reluctant to lend funds to firms with high debt ratios of such the management, of such a firm must look for funds through stock sales. The management may be putting the firm into the problem of bakruptcy if they continue to borrow.

(iv) Times Interest Earned:

This ratio is determined by dividing the earings before interdst and taxes (EBIT) by the interest charges. The ratio measures, the extent to which earnings can decline without resultant financial embarassment to the firm, because of its inability to meet annual interest costs. Failure to meet these costs is a sign of a firms approach to bankrupcy. The formular for the calculation of this ratio is as follows:

$$\text{Time interest earned} = \frac{\text{EBIT}}{\text{Interest charges}}$$

If this ratio is high it means the firm has a margin of safefy but a low one means the firm will experience financial problems.

(v) Fixed Charges Coverage:

This ratio takes into consideration the lease assets of a firm. It is computed in the following manner.

$$\text{Fixed charges Coverage} = \frac{\text{Gross Income + Lease Obligations}}{\text{Interest charges + lease Obligations}}$$

2.2.4 PROFITABILITY RATIOS

These measure the total effectiveness with respect to the returns generated on sales and capital invested. Infact, they show the combined effects of, liquidity, Assets management and debt

management on operating results. They include: (a) Profit margin on sales (b) return on total assets and (c) return on common equity. These are discussed as follows:

(i) Return on Total Assets:

This measures the return on the assets used on operations. It is computed by dividing net profit after taxes by the total assets as thus:

Return on Total Assets =

$$\frac{S}{T.A} \times \frac{EAT}{S} = \frac{EAT}{T.A} \times \frac{100}{1}$$

Where EAT = Earning after Taxes

T.A = Total Assets and

S = Sales.

This ratio is also called the earning power, it can also be used to determine return on investment.

This ratio may be low because of the following things (a) Low profit margins on sales (b) Low utilisation of total assets and (c) High leverage that will cause interest payment to be high and reduce profits.

(ii) Pfofit Margin on Sales:

This ratio measures the profit per naira of sales. That is out of every naira of sales what percentage is profit. This is calculated by dividing Net profit after taxes (E A T) by sales,

using the following formular.

$$\text{Profit Margin} = \frac{\text{Net profit after Taxes}}{\text{Sales}}$$

If for instance E A T. = ₦120 and sales = ₦3 000 the margin will be $\frac{120}{3000} = 4\%$

That is to say for every one naira of sales

$$\frac{100}{1} \times \frac{4}{100} = 4k$$

Is profit. Low selling prices may make or cause this ratio to be low.

(iii) Return On Common Equity:

This ratio measures the return on the shareholder's investment. It shows what percentage of the stockholders investment is the profit of the firm. If it is taken as an average yearly return it will be possible to determine when the stockholders will break even, other things being equal. By dividing 100 percent by the rate. e.g. if the annual rate of return on equity is 10% other things being equal, they will break even after $\frac{100}{10} = 10$ years.

This ratio is computed by the used of the following formular.

$$\text{Return on common equity} = \frac{\text{Net Profits after taxes}}{\text{Common equity}}$$

The higher the rate of return, thegreater the profitability and the faster funds recovery by the stockholders.

2.2.5 VALUATION RATIOS

The final group of ratios as per this study and many others, are related with the firms stock price and its earning and the book value per share. They provide management with the information about what investors viewed, the company's past performance to be. If the firm's liquidity, assets management debt management and profitability ratios are all good, then its market value ratios will be high and the share price may be as high as expected. The above statement pre-supposes that market values ratios' good performance is the aggregate function of the good performance of the first four groups of ratios. By implication therefore, one can say they (market value ratios') can predict whether the general performance of the earlier groups of ratios are good or bad. The market value ratios that will be discussed in this study are, price/Earning ratios and price/ book value ratios.

(i) Price/Earning Ratios:

This ratio is low when earnings are increased. So from the earnings point of view, the lower the ratio the better, but from the price point of view, the higher the better. Its growth increase, increases the confidence the market reposes in the firm. This is calculated using the following formular:

$$\text{Price/Earning Ratio} = \frac{\text{Price per share}}{\text{Earning per share}}$$

It should be noted that P/E ratios are higher for firms with high growth prospects but lower for riskier firms. A firm with lower P/E ratio than others may be considered riskier than others or having poor growth prospect than other or both.

(ii) Price/Book Value

This is a ratio of stock's market price to its book value, it indicates the investors rating of the company. It is computed as follows:

$$\text{Price/Book Ration} = \frac{\text{Price per share}}{\text{Book Value per share}}$$

Book value per share is calculated using the following formular:-

$$\text{Book Value per Share} = \frac{\text{Stockholders equity}}{\text{Value of Shares Outstanding}}$$

This ratio (price/Book ratio) shows the multiples of the book value per share the investors are willing to pay for the share in question.

2.3 FINANCIAL RATIOS AND CORPORATE FAILURE

Researches on the predictive ability of financial ratios to detect corporate distress or even failure can be grouped into two, the early and the more recent. Their difference can be found in the number of ratios relied upon to undertake the studies. The early researches relied on individual

financial ratios to predict the bankrupcy. While the more recant relied on multiples of ratios - (Multivariat Analysis) in the prediction of distress or failure.

As for the first category the works of the following people are mostly taken into consideration, Wenakor and Smith, (1931) Fitzpatric, (1932) and Charles Merwin (1942). Winakor and Smith studied 183 firms that had difficulties and eventually failed in the period 1923-31. They considered the trends of 21 ratios for ten years before they failed and observed a detorioration of average ratio value for the failed firms. They concluded that Net working capital to Total Assets ratio was the best predictor offailure. Becuase its decline started at the beginning of the period of study and lasted throughout. Fitzpatiric considered thirteen (13) ratios of 20 firms that failed in the period 1920-29 for three to five years period prior to failure. He studies each firm seperately and compared with a sample of nineteen firms that did not fail and concluded that all ratios predicted failure to some extent but that net profit to networth and networth to total assets ratios were the best predictors.

Charles Merwin, considered small corporations and took a large sample of 939 firms in the period 1926-34 categorising the sample into continuing (successful) and discontinuing (unsuccessful) firms, he analysed the data for six years prior to failure. He compared industrial mean ratios of the unsuccessful firms with estimated normal ratios and found three ratios: Net working capital to total assets, networth to total debt and current ratio, very indicative of failure up to an early period of five years prior to failure. In all cases, they exhibited declining trends before discontinuance and were always below the estimated normal ratios.

The second category were those researchers that relied primarily on the statistical techniques of discriminant analysis, using a set of ratios to predict corporate distress and bankrupcy for the period of up to five years prior to failure. The works of the following people take presidence in this category, Beaver (1966) and (1968), Altman (1968) Deakin (1972), Altman and others (1977), Wiloox (1973) and Edminister (1972).

Beaver (1966) considered a sample of seventy-nine large firms that failed and compared with a corresponding number of large firms, that do not fail of the same size and industry. He used thirty

ratios applying discriminant analysis and compared the mean ratios of the two samples. He discovered that the mean ratios of the failed firms were considerably lower than those of the non failed firms and deteriorated considerable as the failure approached.

In another study, Beaver (1968) attempted to predict failure from changes in market prices of shares comprising four ratios: cash flow to total liabilities, net income to total assets, total debt to total assets with the market behaviours of prices on a sample of seventy nine failed and a correspodding number of non-failed firms of approximately the same assets sizes and industry. He found out that Median market prices of the failed firms declined considerably as failure was approached with the worst decline occuring in the final year prior to the failure. He than male the following conclusion, "it would appear as if investors recognised and adjust to the new solvency position of the failing firms" and prices of common stock act as if investors rely upon ratios as bases of their assessments and impound ratio information into the market prices".

Altman (1968) has used the "Z" score in discriminant analysis in the prediction of corporate

bankrucy. He developed a discriminant function with a score, such that all firms with scores less than 1.81 were classified as bankrupt and all those with scores more than 2.99 were classified as non-bankrupt and those scores within the range were considered as grey area, where clear classification was not possible. The 'Z' was calculated as follows:

$$Z = .012x_1 + .014x_2 + .033x_3 + .006x_4 + 099x_5$$

where XI = Working capital to total assets

X2 = Retained earning to total assets

X3 = EBIT to total assets

X4 = Market value of equity to book value of total debt

X5 = Sales to total assets.

He discovered that, he can predict bankrupcy with an accuracy of 50.72 and 95 percent for the third, second and the last year prior to failure.

Altman, Haldeman and Naraya (1977) reviewed Altman's work and adopted it to the period 1969-75. Using a pair sample of fifty-three failed and fifty-eight non failed firms including retailing firms, they employed factor analysis and twenty seven variables which were reduced to seven; current ratio, the size of total assets, interust ratio, retained earnings to total assets, the stability of earnings, return on assets (net income to total assets) and equity to total assets.

Incorporating this in a discriminant function, the model predicted failure with 96 and 70 percent in the last year and the fourth year prior to failure respectively.

Wilcox (1973) use paired samples of fifty failed and non failed firms over the period of 1949-71. He adjusted both the cash position and cash flow for both samples. Using the gambler's run model, he ranked the risk of bankrupcy of all firms in the sample for five years prior to failure.

Edminister (1972) tested the predictive ability of financial ratios on small businesses starting with fifteen ratios, he concluded that, quick assets to current liabilities, working capital to sales, net income plus depreciation - depletion and armortization to current liabilities, net worth to sales, current liabilities to networth, inventory to sales, incoroporated in discriminant function, predicted failure for up to three years on cummulative data analysis.

Deakin (1972) used fourteen ratios to study a pair of thirty two failed and non failed firms for the period between 1964-70, in a discriminant function and he discovered that he can predict bankrupcy sufficiently well, three years before the failure.

Daniel (1968) in his study employing simple correlation, factor analysis and spewise regression to select financial data and ratios which best correlated with failure and non failure as dependent variables, concluded that discriminant function has some power in indicating the failing firms. In the same way Mayer (1977) stated Altman's discriminant function of five ratios of parameters generated from a different period (1946-65) on a newly generated data (1965-75) and found that the predictive ability of the model has dropped considerably; he found the predictive ability of the model to be increasing, as he excluded 'superflous' variables from it. He also found the model to be a better failure predictor than other models when he compared them.

FINANCIAL RATIOS AND CORPORATE RISK

Most of the studies made in the area of corporate risk prediction by means of the financial ratios were conducted in 1970s. Some of the studies are considered below, as they were made by some researchers in different times.

In 1970 Orgler developed a credit scoring model for commercial Bank loans using twenty one ratios selected from all but valuation ratios category. He found that he could predict good

loans with some degree of success. This ratio developed to distinguish between good and bad loans, could be termed a risk measure for investors using financial ratios.

Martin (1971) Deakin (1972) and Breen and Lerner (1973) confirmed that financial ratios could be used to predict how risky companies are.

In a similar study on French commercial Bank loans, Altman et al (1974) used discriminant analysis on forty one financial ratios and data on 134 firms. They discovered their model to be a useful predictor of risky loans (i.e. those with repayment problems).

Falk and Heintz (1975) employed average total assets to sales, total assets to working capital, and average accounts receivables to sales, as a composite risk index for each of the forty one industries they analysed for two years (1971-72). Their aim was to analyse the characteristics of each industry as reflected in its financial ratios as to be able to rank them according to risk. They succeeded in grouping a significant number of industries based on the above mentioned facts.

2.5 FINANCIAL RATIOS AND BOND RATING

In 1958 Hickman studied the results of bonds issued from 1900 to 1943 interest earned and/or net profit to sales ratios) went into default less

frequently than those with low ones. According to him, these two ratios are good default predictors whether jointly or individually.

Sualiner et al (1958) studied the U.S. federal lending and loan insurance for the period of 1934-51 and concluded that firms with very low current ratios and net worth to total debt ratios were more likely to default on loans. Furthermore, firms with deteriorating current ratios prior to borrowing defaulted about twice as often as those with stable or increasing ratios.

In a study on changes in bank credit and financial data during 1955 - 1962, Moore and Atkinson (1961) concluded that, firms that oftenly increased their use of credit, were those with high current, networth to total assets, networth and working cpital to the total asset ratios.

Wojinlower (1962) in a study of the quality of bank loans, analysed those loans that were creticised by banks in 1957 for three federal reserve districts in the U.S. He showed that the criticised loans involved firms with low average current ratios, and networking capital to total assets ratios in all the industries and networth to total debt ratio was below average - in two - thirds of the cases.

In the same way Jen (1963) considered the availability of bank credit to a sample of small

firms and indicated that the net profit to total assets and total debt to total assets ratios constituted principal determinants of credit availability.

Harrigan (1966) regressed ratings as dependent variables against the financial ratios of some companies he selected and developed a model known as the multiple regression model, which consisted of debt subordination, sales to networth and operating income to sales. On the basis of his invention; predicting the top six bond classifications of both Moody's and standard and poor ratings, he predicated about fifty-two percent and fifty eight percent of standard and poor and Moody's rating respectively.

Similarly, Pogue and Saldosky (1969) developed a regression model with dichotomous (0-1) percent variables so as to predict whether a bond should be classified as having Aaa or Baa rating. The model which succeeded in classifying a number of bonds had the following five variables: - netincome to total assets, debt to total capital, co-efficient of variation to total assets, net income to interest, and net profits to assets. Their analysis were limited to investment bonds as in Moody's rating.

In 1970 West used a multiple regression model containing four variables, the Logarithism of earning

variability, period of solvency, market value of all bonds outstanding and market value of stock to debt ratio, to predict up to sixty-two precent of the actual rating of Moody's.

More recently, Pinches and Mingo (1973) analysed 180 bonds for one year - 1967. Financial data were calculated on thirty five different variables. Using factor analysis and M-group multiple discriminant analysis, they developed a model consisting of six variables. Subordination (which represented the legal status of bonds), year of consecutive dividends (that is ability to pay cash dividends) issue size - (this indicates that bond ratings and the size of bond issue are related), net income plus interest to interest (cogerage ratio), five years means of long term debt or total assets (measure of capital structure) and net income to total assets. The model grouped 132 bonds with 69.7 percent success of actual bond rating by Moody's.

2.6 FINANCIAL RATIOS AND RAPID GROWTH AND PROFITABILITY FIRMS

Only a few researches have been conducted in this area. Some of the notable ones are the works of Chudson (1945), Hutchinson (1979) and that of a Nigerian (Oseze) (1981), and they are discussed below.

In 1945 Chudson conducted his work distinguishing between profitable and non-profitable firms. He discovered that short term liquidity and long-term solvency were the two factors that could be used to distinguish profitable from non profitable firms.

In 1979 Hutchinson out of his believe that the profit of small firms which go public is distintive and that it changes over the period up to floatation, examined the financial aspect of such firms by considering such factors as liquidity, profitability and using a sample of thirty three firms which obtained quotation from the London stock Exchange between April 1968 and March 1973 (5 years) he analysed five ratios, working capital (Net current assets) to total assets, earning before interest and taxes (EBIT) to total assets, sales to total assets, retained earnings to total and equity to total debt (s/b). He found that, liquidity though not stable rosed floatation, return on investment increased, asset turnover was higher for growing firms. Also growing firms had lower accumulated profits and leverage ratios are significantly higher for slow growth firms. He concluded that the growing firms are less - liquid, more profitable and less highly geared than slow growth firms.

In 1981 in a study on financing rapid growth firms in Nigeria Osaze discovered that ratios adequatly discriminated between growth and non-growth firms.

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CHAPTER THREE

METHODOLOGY

3.1 SAMPLE SELECTION:

The Company that have been used in this study as a case was randomely selected from the list of Companies under the supervision of the writer's place of work (Ministry of Commerce, Industires and Co-operatives, Sokoto) which is also a punlic limited liability company that have been keeping up to date financial records. It is also the only company in the list in whose industry there exist some data for comparative analysis. In this study the Company's (Zamfara Textiles) ratios have been compared with those of a company (Arewa Textiles Limited) of almost the same age interms of incorporation and the start of operations. This is because Zamfara Textiles Industries limited was incorporated in 1964 and started production in June 1965 while Arewa Textiles was incorporated in 1963 and started operations in April 1965. Both Companies are located in Northern Nigeria and are not quoted in the Nigerian stock exchange.

3.2 SELECTION OF RATIOS

Ratios for five years (1979 - 1983) have been used for this study. The period is selected and used because it coinsided with the political period

during which there was high importation and smuggling in foreign goods especially the Textile goods. It was also a period that witnessed low local cootion production in this country, in which case the Textiles Industry had to rely on imported cotton and other raw materials that were not produced in the Nigeria for its operation. In total fourteen (14) ratios have been used in this workunder the following four(4) groups:

a) Liquidity ratios

- i) Current ratio
- ii) Acid test ratio and
- iii) Liquidity of inventory ratio

b) Activity ratios

- i) Current assets turnover ratio
- ii) Fixed assets turnover ratio
- ii') Total assets turnover ratio
- iv) Fixed assets to networth ratio and
- v) Sales to networth ratio

c) Debt Ratios

- i) Debt to networth
- ii) Long term capitalisation ratio
- iii) Debt ratio

d) Profitability Ratios

- i) Net profit margin on sales
- ii) Return on capital employed
- iii) Return on total assets.

The results of the ratios calculated from the five years financial statements of Zamfara Textiles Industries Ltd., arranged in tables according to the above stated ratio grouns, are presented in /chapter four together with those of Arewa Textiles Limited. They all served as the sources of information for extracting the smaller tables used for comparatives analysis in chapter four. That is to say all the smaller tables used for this analysis in chapter four are extracts from the tables of the results of the ratios computed from the five years' financial records of Zamfara Textiles limited and those of Arewa Textiles extracted from the 1984 MBA project of Larai Maryam Shafii.

All the data collected in respect of Zamfara Textiles limited, were acquired through its files that are with the Sokoto State Ministry of Commerce, Industries and Co-operatives.

3.3 TYPES OF RATIO COMPARISONS

There are two basic ways of comperative ratio analysis, which are:

(a) Cross-Sectional Approach

It compares the financial ratios of different companies at the same point in time. This comparison is interested in how well a firm performs in relation to its competitors. Often firms of thesame industry are compared and the industrial leader is used as the

standard, for comparison. The comparison may allow the firm to cover major and sensitive operating differences, which will as a result incease the firms efficiency. The most popular of the corss sectional comparison is to compare a firm's ratios with industrial averages.

(b) Time Series Apprach

This is done when a financial analyst compares a firms performance through ratio analysis overtime. Comparison of the current performances enables a firms management to determine whether it is progressing or not, developing trends can, be noticed by using multy-year comparative analysis, a knowledge of these will assist a firm in planning future operations. The theory behind time-series analysis is that a firm must be evaluated in relation to its performance over time (i.e. the past and the present or the present and forecasted proforma statements).

Both approaches have been used in this work. In that inter-company comparison, which is cross-sectional approach; have been conducted and the trends of ratios of each company, which is the Time series Approach, have also been used.

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CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

The results of the various ratios computed from the five years' financial statements of Zamfara Textiles Industries limited have been arranged in tables 4:1, 4:2, 4:3 & 4:4 each containing a group of ratios. The groups of ratios that have been contained in each table, are liquidity, activity, debt and profitability ratios respectively. The same groups of ratios of the comparing company (Arewa Textiles) are presented in tables 4:5 4.6, 4:7 & 4:8 respectively.

TABLES OF FIVE YEARS' FINANCIAL RATIOS OF ZAMFARA TEXTILES INDUSTRIES LIMITED.

TABLE 4:1

Liquidity ratios of Zamfara Textiles for 1979 - 1983

Year / Ratios	1979	1980	1981	1982	1983
Current ratio (times)	0.66	0.72	0.60	0.90	1.1
Acid test ratio "	0.09	0.08	0.80	0.60	0.60
Liquidity of Inventory ratio (times)	5.12	3.30	2.94	9.04	6.33

Source - Computed by the researcher.

TABLE 4:2

Activity ratios of Zamfara Textiles Ltd. for 1979-1983

Year / Ratios	1979	1980	1981	1982	1983
Current assets turnover ratio (times)	4.44	2.92	7.55	2.88	2.81
Fixed assets turnover ratio (times)	1.35	1.20	1.32	1.69	1.86
Total assets turnover ratio (times)	1.04	0.85	0.87	1.06	1.12
Fixed assets to networth ratio (%)	156	170	150	130	117.8
Sales to networth ratio (times)	2.11	2.02	2.01	2.2	1.19

Source - Computed by the researcher.

TABLE 4:3

Debt ratios of Zamfara Textiles for 1979 - 1983

Year / Ratios	1979	1980	1981	1982	1983
Debt to networth ratio (%)	110	120	150	92.64	95.76
Long term capitalisation ratio (%)	21.9	11	5.5	3.5	0.00
Debt ratios (%)	54.4	51	65.2	44.8	48.9

Source - computed by the researcher.

TABLE 4:4

Protitability ratios for Zamtara Textiles for 1979 - 1983

Year / Ratios	1979	1980	1981	1982	1983
Net profit margin on sales (%)	9.25	3.6	2.68	3.68	0.9
Return on capital employed (%)	10.72	3.9	5.5	8.7	4
Return on total assets (%)	.5	3.1	2.3	3.9	10

TABLE OF FINANCIAL RATIOS OF AREWA TEXTILES EXTRACTED FROM THE 1984 M B. A PROJECT OF LARAI SHAFI'I MARYAM

TABLE 4:5

Liquidity ratios of Arewa Textiles for 1979 - 1983

Year / Ratios	1979	1980	1981	1982	1983
Current ratio (times)	1.48	1.1	1.25	1.02	1.04
Acit Test ratio (")	0.42	0.22	0.24	0.27	0.28
Liquidity of Inventory Ratio (times)	2.82	3.92	3.83	3.83	3.64

Source- Larai Maryam Shafi'i "Financial Ratio Analysis of Selected Manufacturing Companies in Nigeria." 1984 M.B.A. Project.

Table 4:6

Activity ratios of Arewa Textiles for 1979 - 1983

Year / Rarios	1979	1980	1981	1982	1983
Current assets turnover (times) ratio	2.01	3.21	3.09	2.46	2.66
Fixed assets turnover ratio (times)	1.79	2.84	3.80	3.84	4.77
Total assets turnover ratio (times)	0.95	1.49	1.70	1.50	1.71
Fixed assets to networth ratio (%)	113.56	108.97	106.66	124.39	111.15
Sales to networth ratio (times)	2.03	3.10	4.05	4.77	5.30

Source - As for table 4:5 above

Table 4.7

Debt ratios of Arewa Textiles for 1979 - 1981

Year / Ratios	1979	1980	1981	1982	1983
Debt to networth ratio (%)	114.70	108.18	137.67	218.13	201.52
Long term capitalisation ratio (2)	31.59	15.25	24.33	22.33	15.84
Debt ratio (%)	53.42	51.96	57.25	68.67	67.80

Source - Larai Maryam Shafi'i "Financial Ratio Analysis of some Selected Manufacturing Companies in Nigeria."

Table 4:8

Profitability ratios of Arewa Textiles for 1979 - 1983

Year / Ratios	1979	1980	1981	1982	1983
Net profit margin or Sales (%)	7.68	7.44	5.48	3.31	2.21
Return on capital employed (%)	8.73	11.07	9.34	4.96	3.78
Return on total assets (%)	4.14	5.38	4.83	2.85	1.41

Source - As for table 4:7 above.

4:2 DETERMINATION OF TRENDS OF RATIOS

This means a sort of topogrephical expression of financial behaviour through ratios calculated over a period of time. This helps managers and/or outside financial observers to dertermine the direction of a firm's financial situation (ie. is it improving or deteriorating) for example the works of many researchers has shown that a continous decline of liquidity ratios is a sign of a firm's approach to bankrupcy and their continous growth means improving financial conditions of a firm or a firm's growth. It should be noted that the steeper the slop of the growing financial ratios the greater the marginal financial improvement of a firm or the faster a firm's growth trend over the period in question.

The opposite is the case with the ratios whose continous growth means deteriorating financial situation of a firm. An example of such ratios are debt ratios. The views of Eugene F. Brigham in his book Financial Management Theory and Practice give support to the above claim. The following are his views about trend analysis of financial ratios "It is important to analysetrends in ratios as well as their absolute levels, for the trends give clues as to whether the financial situation is improving or deteriorating. To do a trend analysis, one simply graphs a ratio against years".....". Since trend analysis means discribing graphical interpretations of financial ratios over a period of time, it is quite possible that trends can be detected through the discription of the behaviour of ratios over a period of time in tabular forms.
To that effect the writer of this project finds it wise, time saving and economical to discuse comperatively the trends and other financial attributes of ratios in the next section.

4.3 COMPARATIVE ANALYSIS OF RATIOS

This section is broken into four parts each part discussing a particular group of ratios. The groups of ratios considered are:-

(a) Liquidity ratios

(b) Activity ratios

(c) Debt ratios and

(d) Profitability ratios.

Each of the above have been discussed, considering ratios of Zamfara Textiles in relation to those of Arewa Textiles as can be seen below:-

(a) Liquidity ratios:

This ratios indicate to financial managers or creditors and even ordinary observers how liquid a firm is, to meet its short torm obligations. The trendsof these ratios over a period of time can also indicate whether the firm is approaching bankrupcy or not (ie. - whether the financial situation of a firm is improving or deteriorating).

(1) Current ratio

The following table is used for comparative analysis.

Table 4A-1

Current ratio (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles ltd.	0.66	0.72	0.60	0.90	1.10
Arewa Textiles Ltd.	1.48	1.1	1.25	1.02	1.04

Source - Extracts from tables 4:1 & 4:5

From the above table one can see that Arewa Textiles generally had higher current ratios than Zamfara Textiles, which shows that Arewa Textiles was more liquid than Zamfara Textiles during the period under consideration and therefore had more ability to meet its short term obligations, in which case short term creditors should have preferred it to Zamfara Textiles. What should be noted is that this ratio may sometime be deceiving, for instance if Arewa Textiles have been over holding stock relative to Zamfara Textiles over the period the judgement arrived must be wrong. This is because the effect of stock over holding is a sign of inventory under-utilisation and incurring unnecessary storge costs, which all can reduce the profitability of a firm. The ratio for both companies have been fluctuating, but for the last two years, that of Zamfara Textiles have shown growth trend compared to the earlier three years. While the opposite was the case with Arewa Textiles. This means that as for trends the Zamfara Textiles shows a brighter feature than Arewa Textiles through showing growth trend, while Arewa showed declining trends (i.e. deteriorating financial condiditons). What should be noted about the two Companies in this case is that their ratios have throughout the period been below the generally accepted minimum cut off points of 2:1 for current ratios.

Which is an indication that they have not been performing up to expectations over the period.

2. Acid Test ratio The table below

Is used for the analysis of this ratio.

Table 4A-2

Acid test ratio (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles ltd.	0.09	0.08	0.08	0.60	0.60
Arewa Textiles Ltd.	0.42	0.22	0.24	0.27	0.28

Source: Extracts from tables 4:1 and 4:5.

The above table shows that Arewa Textiles have been more liquid than Zamfara Textiles for the first three years, but for the later years Zamfara Textiles did better than Arewa Textiles. That is to say for the first three years creditors should have rationally preferred Arewa Textiles to Zamfara Textiles, but for the last two years Zamfara Textiles should have been preferred by the rational short term creditors.
One good thing about this ratio is that, inventory under-utilisation and over-stocking have been removed. Such that, it gives more information about a firm's liquidity condition than the current ratio.

However, it should be noted that, its growth may be due to overholding of cash by a firm. Which means underutilisation of cash or reduced possible earnings to the firm. The ratio for both companies have fluctuated over the period, but that of Arewa Textiles have been on the growth for the last two years compared to the previous two years, but less than the first year of the period, while that of Zamfara Textiles have been stable for the last two years, but generally better than the prvious three years of the period. In a case where acid test ratios of the comparing firms happened to be the same or almost the same, the writer is suggesting that the percentage decline of the current ratio to acid test ratio be computed to determine which of the comparing firms was holding more inventories. For example, if firm (A) had a current ratios of 3 and firm (B) had a current ratio of 4 but both turned out to have acid test ratios of 1 reach. The percentage decline of current ratio for firm (A) to acid test ratio (after removal of inventories) is

$$\frac{3 - 1}{3} \times 100 = \frac{2 \times 100}{3 \quad 1} = 66.7\%$$

While for firm (B) will be $\frac{4 - 1}{4} \times 100 \times \frac{3}{4} \times 100 = 75\%$

The above calculations show the percentage of inventories that were held in the current assets of each firm and that the difference in inventories held by firms 'A' and 'B' is = 75 - 66.7 = 8.3%. Which means firm 'A' is 8.3% more efficient in inventory utilisation than firm 'B' and that firm 'B' is incurring 8.3% more unnecessary storage costs than firm 'A'. The last of the liquidity ratios in this section (ie. Liquidity of inventory) is discussed below:

3. Liquidity of Inventory ratio: This ratio is discussed below: Using the table that follows:

Table 4A-3

Liquidity of Inventory (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	5.12	3.30	2.94	9.04	6.33
Arewa Textiles ltd.	2.82	3.92	3.083	3.35	3.64

Source - Extracts from tables 4:1 and 4:5

From the above table, one can see that Zamfara Textiles' "Sales relationship to inventory have been better than that of Arewa Textiles" in the first and last two years of the period. But Arewa Textiles did better than Zamfara Textiles in the second and third years of the period.

This means that rational short term creditors should have preferred advancing their loans to Zamfara Textiles in the first and the last two years of the period under consideration. In the same way the second and third years of the period should have offered preference to Arewa Textiles for the short term creditors. What should be noted about this ratio is that, its being high may be indicating future shortages. Because a high inventory turnover may result from a firm's maintaining extremely low stock of finished goods or raw-materials. The low level of finished goods may indicate that a firm will suffer future loss of sales due to its inability to deliver goods promptly. The low level of raw materials could cause future shortdowns of the firm's production. In the other hand, a low inventory turnover may result from the excessive inventory being carried by the firm. The firm may be incurring high costs from overstocking finished goods or raw-materials. All the above should be considered by an analyst. The ratio in both companies flutuated over the period giving no uniform trends.

(b) ACTIVITY RATIOS:

In this section some ratios are examined to evaluate how Zamfara Testiles managed and utilised its assets in comparison to Arewa Textiles.

These ratios are also called turnover ratios because they indicate the speed at which assets of a firm are being converted or turnover into sales. It should be noted that, high ratios in this section indicates a high level of efficiency in assets utilisation or high profitability or both. While low ratios indicate assets under utilisation, or production is highly made under capacity, which will in turn mean underexploitation of the maximum possible profits. The ratios that are considered under this section in this project are current assets turnover, fixed assets turnover, total assets turnover, fixed assets to networth and sales to networth ratios as follows:

(i) Current Assets Turnover:

The writer used the following table for the analysis in this sub-section.

Table 4B-1

Current Assets Turnover (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	4.44	2.92	2.55	2.28	2.81
Arewa Testiles Ltd.	2.01	3.021	3.09	2.46	2.66

Source - Extracts from tables 4:2 and 4:6.

The above table shows that, in the first year and the last two years of the period under discussion, Zamfara Textile Industries have performed better relative to Arewa Textiles, but that Arewa Textiles did better than Zamfara Textiles in the second and third years of the period under study. However, as for Zamfara Textiles the writer has observed that it has always been over stocked with raw-materials and left with high level of work-in progress at the end of each financial year in the period under study. In which case one can say current assets were under-utilised and that the ratio would have shown better performance than it did indicate in the study. The trends of the ratio for both companies have not been uniform but fluctuated over the time. However, even though Zamfara Textiles seemed to have dominated Arewa Textiles in terms of performance, the bad things about it, is that it has for the last two years indicated a declining trend which followed a relative decline trend, this might be a sign of bad future conditions. What should be noted is that flutuated trends of the companies differ, in that Zamfara Textiles' performance for four years after the first year have all been below the first year's performance, but in contrast to that, the performance of Arewa Textiles in the latter four years have been generally greater than the first year, even through it fluctuated over the period. The next ratio considered below is the fixed assets turnover ratio.

(ii) Fixed Assets Turnover Ratios

The table below is used for the analysis of the fixed assets turnover ratio.

Table 4B-2

Fixed Assets Turnover (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	1.35	1.20	1.32	1.69	q1.86
Arewa Textiles Ltd.	1.79	2.84	3.80	3.84	4.77

Source - Extracts from Tables 4:2 and 4:6.

Observing from the table above, one can see that generally Arewa Textiles have performed better than Zamfara Textiles over the period. This is because the fixed asset utilisation of Zamfara Textiles have been generally below that of Arewa Textiles, if not for the first year, the fixed assets utilisation of Arewa Textiles have all been more than twice that of Zamfara Textiles. However, what should be noted or what should be taken note of, is that the sizes of the fixed essets in different companies might be the cause of the variation in ratios. This is because if a company has a small size of fixed assets on which it utilises a good precentage or it's capacity the ratios may be very high while the large size of the other company's fixed assets may be responsible for its relative low ratios.

This is to say that to undertake this ratio's comparative analysis fairly well, consideration must be made as per the size of the fixed assets of the comparing companies if possible they should have the same fixed assets size or almost the same. The trends of the ratio for both companies have been encouraging, but that of Arewa Textiles has indicated brighter future than that of Zamfara, because its ratio has been on a growing trend throughout the period. Which according to Chudson (1945) is a sign of a profitability firm. But the growing trends of Zamfara Textiles is for the last three years of the period and the level of growth of its ratio over the years is below that of Arewa Textile.

(iii) Total Assets Turnover:

For the purpose of this analysis the following table will be of aid.

Table 4B-3

Total Assets Turnover (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles	1.04	0.85	0.87	1.06	1.12
Arewa Textiles	0.95	1.49	1.70	1.50	1.71

Source - Extracts from tables 4:2 and 4:6

From the above table one can conclude that, if not for the first year in the period Arewa Textiles has generated more sales from it's total assets than Zamfara Textiles over the period under study. However the sudden trop in 1980 for the ratio in Zamfara Textiles might have been ca used by an increase in the fixed assets of the company. This could be considered true due to the fact that the ratio picked up in the following year and went o on growth throughout the period. The trend of the ratio has shown brighter future for Zamfara Textiles because the ratio has been on growth for the last three years of the period. But indicated a fluctuated and relatively uncertain growth trend for Arewa Textiles. The next discussed ratio is fixed assets to networth.

(iv) Fixed Assets to Networth Ratio:

In this, generally the equity holders of Zamfara Textiles have been found to be bearing more risk of investment in the fixed assets as can be seen in the table below;

Table 4B-4

Fixed Asset to networth (%)

Year / Company	1979	1980	1981	1982	19 83
Zamfara Textiles	160	170	150	130.4	177.6
Arewa Textiles	111.56	108.97	106.66	124.39	111.15

Source - Extracts from table 4.2 and 4:6.

From the above table, one can see that the problem of excessive investment is more predominant with Zamfara Textiles Industries throughout the period than with Arewa Textiles. The trends of the ratios for both companies have been fluctuating over the period which does not give room to say, whether all the companies or any one of them is wither indicating improved or deterriorating conditions.

(v) Sales to networth ratio:

This is the fifth and final ratio to be discussed in this section and the table below is used for illustration in the discussion.

Table 4B-5

Sales to Networth ratio (times)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles	2.11	1.02	2.01	2.2	1.19
Arewa Textiles	2.03	3.10	4.05	4.77	5.30

Source - Extracts from tables 4:2 and 4:5.

The table above indicates that, both Zamfara Textiles and Arewa Textiles have been over-traded, over the period, but Zambara Textiles had moderate sales in the last year of the period.

It should be noted that, this ratio shownsover-trading when it's high and under-trading when it is low. It is only considered to be moderate when sales and networth are equal or with slight difference (ie. when the ratio is unitary or slightly above or below unitary) as is the case with Zamfara Textiles in 1983 in the table above. The ratio has shown fluctuating trends for Zamfara Textiles and has maintained a decrease or increase of about 0.9 times throughout the period. But the trend in Arewa Textiles have been a growing one, it has maintained as annual growth trend of over 1 unit throughout the period and had a range of above 3 units between the first year which had the lowest ratio of 2.03 and the last year which had the highest ratio of 5.30 times. This means Arewa Textiles had the problem of increased over-trading throughout the period. It should be noted that, both overtrading and undertrading create financial problems to a firm. After having discussed the assets utilisation of a firm, the next important thing, that desives discussing, is who are the people that contributed for the purchase of the assets ? owners of the business or creditors ? The next section discussed that.

DEBT RATIOS:

These ratios are concerned with the long term capital structure of a firm. That is who provide most of the founds ? the business owners or the creditors and in what proportion ? and what are the implications in each case ? That is who actually bears the risk of an enterprises ? Debt ratios provoke such questions concerning a firm's capital structure. In the study in question we are interested in the comparative analysis, therefore tables have been used in discussing, debt to networth, long term capitalisation and debt ratios in this section.

(1) Devt To Networth Ratio:

The table below is used for illustrative purpose in discussing this ratio.

Table 4C - 1

Debt to Networth retio (%)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	110	120	150.2	92.6	95.76
Arewa Textiles Ltd.	114.70	108.18	137.67	218.13	210.52

Source - Extracts from table 4:3 and 4.7.

In this case Zamfara Textiles have performed better than Arewa Textiles in 3/5 of the period. This is because as can be seen in table 4°-1 above. Arewa Textiles had higher debt to networth ratio in three years of the period of 5 years (ie. in 1979, 1982 & 1983) The trend of the ratio for Zamfara Textiles have fluctuated over the period and had shown a seeming declining trend for the last two years even though the last year's ratio increased relative to its predecessor the two are generally below the earlier three.

In the other hand, the ratio showed a growing trend for Arewa Textiles throughout the period but there is a slight fall between the 4th year's ratio and that of the last year of the period. However the last ratio still remend greater than those of the earlier three years in the period. What should be noted about this ratio is that a firm with higher percentage of the ratio has more financial problems than the one with the lower ratios. Also that increasing trends of the ratio indicates bleak future for the firm and the apposite is the case for declining trends. The next ratio of consideration is the long term capitalisation ratio.

(ii) Long Term Capitalisation Ration:

This have been considered using the table below:

Table 4C-2

Long term capitalisation ration (%)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	21.9	11	5.5	3.5	0
Arewa Textiles Ltd.	31,59	15.25	24.60	22.33	15.84

Source - Extracts from tables 4:3 & 4:7

From the table above one can say that generally Arewa Textiles has been more levered throughout the period than Zamifara Textiles. That is to say, long term creditors should have rationally preferred associating themselves with Zamfara Textiles over the period of study. However, it showed that, owners' funds and current liabilities must have been forming the greater part of the total capitalisation of Zamfara Textiles and that they (Current liabilities and ownerrs funds) formed 100% of its total capitalisation in 1983. To this effect, care must be taken so that the company does not use short term financing to solve its long term problems, because such a practice is dangerious.

It should be noted that, both companies have shown falling trends of their longterm debt obligations, even though that of Arewa Textiles have been fluctuating over the period. The next and the final ratio to be considered in this group is the debt ratio.

(iii) Debt ratio:

In discussing this ratio reference will be made to the table below:

Table 4C-3

Debt ratio (%)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles ltd.	54.5	51	65.2	44.8	48.9
Arewa Textiles ltd.	53.42	51.96	57.25	58.57	67.80

Source - Extracts from tables 4:3 & 4:7

The above table shows that long term creditors, for the first two years must have been almost indiferent as per their preference of who of the two companies can be a better debtor. In 1981 however, Arewa Textiles will be preferred to Zamfara Textiles, but for the last two years of the period Zamfara Textiles will be preferred by the creditors. What should be known about this ratio is that, creditors prefer firms with low ratios.

This is because the lower the ratio the greater the cushion against, creditors' losses in the event of liquidition. In contract to the creditors' preference for low debt ratio, the owners may seek nigh leverage either.

(1) To magnify earnings or (2) because selling new stock means giving up some degree of control. This means over the period creditors should have had greater preference to Zamfara Textiles than to Arewa Textiles. While shareholder will in any case prefer a struture like that of Arewa Textiles. Efficient asset utilisation, appropriate financial structure and other devices in a firm are all aimed at either sustaining a firm or increasing its growth and competitive potentials and altimately produce profits. In the next and the final section of this chapter, profitability ratios are considered.

(d) PROFITABILITY RATIOS:

Profitability in an organisation is attained as a result of multiples of policies and decisions about its day to day and periodical operations. Profitability ratios therefore examined and show the combined effects of liquidity, assets management and debt management on operating results.

For the purpose of this studies the following ratios have been discussed in this sections, net profit margin on sales, return on capital employed and return on total assets. They are considered below in the order stated above.

(i) Net Profit Margin On Sales Ratio:

Reference is made to the table below for this discussion.

Table 4D-1

Net Profit Margin on Sales (%)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	9.25	3.6	2.68	3.68	0.9
Arewa Textiles Ltd.	7.68	7.44	5.48	3.31	2.21

Source - Extracts from tables 4:4 and 4:8

Observing the table above one can conclude that Arewa Textiles had performed better than Zamfara Textiles over the period in terms of the realised profits out of every Naira of slaes, except for the first and fourth years of tne period, in which the profits realised by Zamrara Textiles out of every Naira of sales were greater than those of Arewa Textiles. The trend of the ratio for both companies have indicated declines.

More especially that of Arewa Textiles which had shown declines throughout the period, which is an indication of poor furture conditions for the company. The trend for Zamfara Textiles ltd. is better, in that it fluctuated over the period even though it moved towards relative declines. But it should be noted that the last ratio of Zamfara Textiles is the worst of all and if it should continue in future the conditions will be dangerous. The next ratio that has been examined in the section is the return on capital employed.

(ii) Return on Captial Employed Ratio:

The performances of the two companies have fluctuated over the period. In 1979 Zamfara Textiles performed by far greater than Arewa Textiles, but in the two years that followed latter (1980 and 1981) Arewa Textiles performed better than Zamfara Textiles and in the last two years of the period Zamfara Textiles performed again did better than Arewa Textiles. These can be seen in the table below:

Table 4D-2

Return on Capital Employed ratio (%)

Year / Company	1979	1980	1981	1982	1983
Zamfara Textiles Ltd.	10.72	3.9	5.5	8.7	4
Arewa Textiles ltd.	0.73	11.07	9.34	4.96	3.78

Source - Extracts from tables 4:4 & 4:8

The above table indicates that the ratio had fluctuated over the period for both firms and that the period ended with a declining ratio for each of the firms. The next and the final ratio considered in this section, chapter and the study as a whole is return on total assets.

(iii) Return On Total Assets:

The table below is referred throughout in discussing this ratio.

Table 4D-3

Return on total assets (%)

Year / Company	1979	1980	1981	1982	1983
Zamrara Textiles Ltd.	.50	3.10	2.30	3.90	10
Arewa Textiles Ltd.	4.44	5.38	4.83	2.85	1.41

Source - Extracts from tables 4:4 and 4:8

Generally the above table shows that, performance of each company under comparison fluctuated over the period. But for the first three years of the period Arewa Textiles had performed better than Zamfara Textiles. In the last two years however, Zamfara Textiles performed better than Arewa and that its ratio showed a growing trend. While that of Arewa Textiles showed a declining trend.

The average returns for Zamfara Textiles and Arewa Textiles over the period have been 3.96 and 3.72 respectively. This is an idication, that in average Zamfara Textiles had performed better during the period, but in terms of spread of peformance Arewa Textiles had dominated the first three years of the period.

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CHAPTER FIVE

SUMMARY RECOMMENDATIONS AND CONCLUSION

5:1 SUMMARY

This study has prvided some information about the operations and performance of Zamfara Textiles Industries, through evaluating its performance by means of financial ratio analysis. The study considered a period of five years and a total of fourteen ratios were analysed under four broad headings (ie. Liquidity, Activity, Debt and Profitability ratios). The ratios of Zamfara Textiles Industries were compared with those of Arewa Textiles.

The study reveals that Zamfara Textiles Industries Limited was incorporated in 1964 and started operations in 1965. The Industries have two plants located at both Gusau and Kaduna respectively. It became necessary for the Industries to go into dual plant operations at Gusau and Kaduna due to its poor power and Water supplies at its Gusau plant at the initial stage.

However, the power problem is now almost solved except, of course, the rate of power hour losses as a result of NEPA constant blackouts which seems to be very common these days. But the water problem is there still. Although, some efforts are now being made to improve the pre-carious situation as regards Water Supply in Gusau.

In Chapter four of the study a comparative analysis of Zamfara Textiles Industries and Arewa Textiles was undertaken and the following were discovered;

(a) That the current ratios of Zamfara Textiles Industries were generally below the out off points of 2:1 and had poorly compared with Arewa Textiles. Which means that its current assets were under-utilised both in relation to the generally accepted minimum expectation of 2:1 and to the comparing company.

(b) That Zamfara Textiles Industries' acid test ratios for the last two years of the study were better than those of Arewa Textiles. Which suggest that, during those two years the comparing company must have held more stock at the end of the years than Zamfara Textiles. This is so because Zamfara Textiles' ratios were better in those years after removing inventories.

(c) That Zamfara Textiles compared favourably with the Arewa Textiles in terms of sales' turnover on inventories.

(d) That the operating assets of Zamfara Textiles Industries Limited were grosselly under utilised relative to those of the comparing company.

(e) Zamfara was comparatively considered to have done better in terms of debt management, but gave less recognition to long term debt financing, thereby leaving the greater part of the enterprise's risk on the equity owners and also relying heavily on current debtors as a means of financing.

(f) That the profit margin of Zamfara Textiles fluctuated over the period and showed a deteriorating trend, with the worst ratio value in the last year of the period. It as well compared poorly except for the first year of the period.

(g) That the returns of total assets of Zamfara Textiles were comparatively lower than those of the comparing company for the first three years but in the latter two years it performed better than Arewa Textiles and was even on the growth trend.

5:2 RECOMMENDATIONS

In various analysis we have made in chapter four we have indicated that Zamfara Textiles Industries Limited faced some financial problems caused by one thing or the other. The writer therefore forwards the following as possible solutions to the problems.

(i) Remedies for over stocking

Zamfara Textiles should undertake one or a group of the following possible solutions to remedy over stocking of raw-material and finished goods.

(a) It should develop and use the appropriate economic order quantity for its raw-materials.

(b) Increased sales should be promoted in order to reduce the rate of finished good holding at the end of the years.

(c) Purchasing Section should be headed by a qualified and experienced person to enable the purchase of the right inventory at the right quantity of the right quality at the right time and the right price.

(d) If possible the use of the most efficient machinery, maned by the right persons should be encouraged.

2. Remedies for expessive Fixed Assets

Zamfara Textiles should use any one or a group of the following possible solution to reduce under-utilisation of fixed assets and existence of their excesses.

(a) Restrict further investment in fixed assets.

(b) Should if possible increase the rate of production.

(c) Should sell idle fixed assets like machinery, idle parts, unused vehicles and unneccessary equipment.

(d) Should arrange to lease or rent out some fixed assets and raise additional capital through the sell of stocks either to owners or to the public. This will increase net-worth and means of increasing production and consequently reduce the excessiveness of fixed assets.

5:3 CONCLUSION

Performance in an organisation is an out-come of a series of decision makings and these organisational decisions harmorise or generate the different dicisions made at different levels of the functional departments of an organisation. One of the most important decisions made in an organisation is the financial decision. Financial decisions are in recent years becoming so sophisiticated, due to their importance in organisations, for that, many techniques and devices are used by the financial managers as guides to making the best possible decisions. However what bothers the them most is which is or are the most accurate and reliable techniques of financial decision making ?

Observing the results of this work and many others which have been arrived through the analysis of the f financial ratios, I am of the openion that as far detecting and forcasting problems and prospects of organisations as well as providing guidance for planning and control,

financial ratios are one of the most accurate and reliable techniques of financial decision making. Finally I conclude by recommedning to the management of Zamfara Textiles Limited and any other organisation the use of financial ratio analysis for the evaluation of their performance in order to create a sound financial situation in the organisations.

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A P P E N D I X

ZAMFARA TEXTILE INDUSTRIES LIMITED

BALANCE SHEET — **AT 31 DECEMBER 1983**

	NOTE	(1983)	(1982)
FIXED ASSETS	2	8,270,214	9,111,673
CAPITAL WORK IN PROGRESS		-	49,000
		8,270,214	9,160,673
CURRENT ASSETS			
Stock and Work in Progress	1(c)	2,427,718	1,699,569
Debtors and Prepayments		1,097,384	580,991
Amount due from Holding and Fellow Subsidiary Companies		1,334,601	2,728,848
Staff Loans		390,428	214,506
Cash at Bank and in Hand		218,385	114,028
		5,468,516	5,337,942
LESS: CURRENT LIABILITIES			
Creditors and Accruals		1,994,799	2,583,097
Debentures Repayable within one year	5	266,667	500,000
Amount due to Holding Company		1,023,964	-
Income Tax	8	754,784	686,500
Proposed Dividend		110,000	348,000
Bank Overdraft	6	813,828	1,890,998
		4,964,042	6,008,595
NET CURRENT ASSETS/(LIABILITIES)		504,474	(670,653)
		₦8,774,688	₦8,490,020
REPRESENTED BY:		Authorised, Issued and fully paid	Authorised, Issued and fully paid
SHARE CAPITAL			
Ordinary Shares of ₦2.00 each		3,400,000	3,400,000
10% Cumulative Redeemable Preference Shares of ₦2.00 each	4	1,100,000	1,100,000
		4,500,000	4,500,000
REVENUE RESERVE			
Profit and Loss Account		2,518,102	2,489,960
LOAN CAPITAL		-	466,667
DEFERRED LIABILITY	9	1,756,586	1,033,393
		₦8,774,688	₦8,490,020

DIRECTORS.

ZAMFARA TEXTILES INDUSTRIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1983

		1983	1982
NET PROFIT BEFORE TAXATION		549,433	1,250,984
After Charging -			
Depreciation		1,287,104	1,311,632
Debenture Interest		55,568	90,410
Audit Fees		7,000	6,500
Directors' Emoluments -			
Fees		9,000	9,000
Remuneration		76,000	76,000
And After Crediting -			
Profit on Sale of Fixed Assets		3,071	4,358
LESS: TAXATION - Note 8(a)	411,291		686,500
Add: Tax under provided in previous year	-		135
		411,291	686,635
NET PROFIT AFTER TAXATION		138,142	564,349
LESS: DIVIDENDS			
Ordinary Shares - (1982 7%)	-		238,000
10% Cumulative Redeemable Preference Shares (Gross)	110,000		110,000
		110,000	348,000
RETAINED PROFIT		28,142	216,349
ADD: UNAPPROPRIATED PROFIT brought forward		2,489,960	2,273,611
UNAPPROPRIATED PROFIT carried forward		₦2,518,102	₦2,489,960

Sales 2 744 526

ZAMFARA TEXTILE INDUSTRIES LIMITED

BALANCE SHEET AT 31 DECEMBER 1981

1980		Notes		
11,026,838	FIXED ASSETS -			10,283,639
259,296	CAPITAL WORK IN PROGRESS			-
11,286,134				10,283,639
	CURRENT ASSETS			
4,133,311	Stocks and Work in progress	1(c)	4,625,880	
320,587	Debtors and Payments in Advance		467,709	
179,738	Staff Loans		180,816	
27,977	Cash at Bank and in Hand		49,591	
4,661,613			5,323,996	
	LESS: CURRENT LIABILITIES			
2,052,835	Creditors and Accruals		2,547,670	
966,667	Debentures Repayable within one year	5	691,667	
121,228	Income Tax		485,010	
399,00	Proposed Dividend		314,000	
2,940,955	Bank Overdraft	6	5,202,096	
6,480,685			9,240,443	
(1,819,072)	NET CURRENT ASSETS/(LIABILITIES)			(3,916,447)
N9,467,062				N6,367,192
	REPRESENTED BY:			
	SHARE CAPITAL		Authorised	Issued and fully paid
3,400,000	Ordinary Shares of N2 each		3,400,000	3,400,000
1,100,000	10% Cumulative Redeemable preference shares of N2 each	4	1,100,000	1,100,000
4,500,000			N4,500,000	
	REVENUE RESERVE			
2,222,731	Profit and Loss Account (Fo. 2)			2,273,611
1,625,000	LOAN CAPITAL	5		933,333
	AMOUNT DUE TO/(FROM) HOLDING COMPANY			
1,000,000	United Nigerian Textiles Limited - Loan			
119,331	Current Account		(1,339,752)	
1,119,331				(1,339,752)
N9,467,062				N6,367,192

_____)
_____) DIRECTORS.
_____)

ZAMFARA TEXTILE INDUSTRIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1981

1980			
615,343	TRADING PROFIT FOR THE YEAR		849,890
	After Charging -		
1,161,080	Depreciation	1,341,246	
269,960	Debenture and Loan Interest	192,949	
6,000	Audit Fees	6,000	
	Directors' Emoluments -		
9,000	Fees	9,000	
68,962	Remuneration	72,862	
	And after crediting -		
5,525	Profit on Sale of Fixed Assest	4,732	
615,343	NET PROFIT before Taxation		849,890
121,228	LESS: Taxation	485,010	
21	Less: Tax over provided in previous year	-	
121,207			485,010
494,136	NET PROFIT AFTER TAXATION		364,880
	LESS: DIVIDENDS		
289,000	Ordinary Shares - 6% (Gross) - (1980 - 8½%)	204,000	
110,000	10% Cumulative Redeemable Preference Shares (Gross)	110,000	
399,000			314,000
95,136	RETAINED PROFIT		50,880
2,127,595	ADD: UNAPPROPRIATED PROFIT brought forward		2,222,731
N2,222,731	UNAPPROPRIATED PROFIT carried forward		N2,273,611

ZAMFARA TEXTILE INDUSTRIES LIMITED

BALANCE SHEET AT 31ST DECEMBER 1980

1979		Notes		
10,341,191	FIXED ASSETS - At Cost	2		11,026,838
-	CAPITAL WORK IN PROGRESS			259,296
10,341,191				11,286,134
	CURRENT ASSETS			
2,727,449	Stocks and Work in Progress	1(c)	4,133,311	
247,161	Debtors and Payments in Advance		320,587	
142,060	Staff Loans		179,738	
27,170	Cash at Bank and in Hand		27,977	
3,143,840			4,661,613	
	LESS: CURRENT LIABILITIES			
1,984,897	Creditors and Accruals		2,052,835	
992,173	Debentures Repayable within one year	5	966,667	
62,000	Income Tax		121,228	
620,000	Proposed Dividend		450,000	
1,087,513	Bank Overdraft	6	2,940,955	
4,746,583			6,531,685	
(1,602,743)	NET CURRENT LIABILITIES			(1,870,072)
₦8,738,448				₦9,416,062
	REPRESENTED BY:			
	SHARE CAPITAL		Authorised	Issued and fully paid
3,400,000	Ordinary Shares of ₦2 each		3,400,000	3,400,000
1,100,000	10% Cumulative Redeemable Preference Shares of ₦2 each	4	1,100,000	1,100,000
4,500,000			₦4,500,000	4,500,000
	REVENUE RESERVE			
2,127,595	Profit and Loss Account - (Fo. 2)			2,171,731
2,591,667	LOAN CAPITAL	5		1,625,000
	AMOUNT DUE TO HOLDING COMPANY			
-	United Nigerian Textiles Limited - Loan	5	1,000,000	
(480,814)	Current Account		119,331	1,119,331
₦8,738,448				₦9,416,062

DIRECTORS

ZAMFARA TEXTILE INDUSTRIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1980

1979			
1,445,675	TRADING PROFIT FOR THE YEAR		615,343
	After Charging -		
1,193,153	Depreciation	1,161,080	
298,467	Debenture and Loan Interest	269,960	
5,500	Audit Fees	6,000	
63,280	Directors' Emoluments	77,962	
	And after crediting -		
6,809	Profit on Sale of Fixed Assets	5,525	
1,445,675	NET PROFIT before Taxation		615,343
92,553	LESS: Preliminary Expenses written off		-
1,353,122			615,343
62,000	LESS: Taxation	121,228	
-	Less: Tax over provided in previous year	21	
62,000			121,207
1,291,122	NET PROFIT AFTER TAXATION		494,136
	LESS: DIVIDENDS		
510,000	Ordinary Shares - 10% (Gross) - (1979 - 15%)	340,000	
110,000	10% Cumulative Redeemable Preference Shares (Gross)	110,000	
620,000			450,000
671,122			44,136
1,456,473	ADD: UNAPPROPRIATED PROFIT brought forward		2,127,595
₦2,127,595	UNAPPROPRIATED PROFIT carried forward		₦2,171,731