

## Effect of Assets Profile on Earnings and Shareholders Fund Performance of Leading Manufacturing Company in Nigeria

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### Abstract

The study examined the earnings, shareholders fund and assets profiles of Guinness Nigeria plc. A leading manufacturing company in Nigeria, from 1992 to 2008 and assessed the effect of Assets Profile on Earnings and Shareholders fund performance using Ratio Analysis. Secondary data sought from the published accounts of the company for the stated periods were used for the study. The mean scores, the maximum and the minimum values, the standard deviation of the gross earnings, deposits, and total assets, net profit before and after tax together with that of shareholders' funds were computed. Paired samples correlation analysis was used to ascertain the relationship between gross earnings and cash deposits as well as deposits and total asset, net profits and shareholders fund. The paired two tailed sample t test was used to determine the significance of coefficient of independent variable. Findings indicate that the total assets and total deposits paired sample correlation was 0.965 and that of total assets and gross earnings was 0.991 and total deposit with gross earnings was 0.972 respectively for the period under consideration which implies a significant relationship over the considered years. The calculated paired sample t difference of means and standard deviation of total assets and shareholders fund of 2.69 and 3.16 was greater than that of total deposits and shareholders fund of 1.56 and 1.50 at 95% confidence level. This implies that total assets contributed more significantly to shareholders fund of Guinness Nigeria plc during the period under consideration. The study concludes that the sustenance of the profit position is dependent on the asset profile and the adequacy of the cash component of the asset to maintain profitability, liquidity and to boost the shareholders fund respectively.

**Keywords:** Effects, Assets Earnings, Shareholders fund performance.

### 1. Introduction

Financial analysis is the selection, evaluation and interpretation of financial data, along with other pertinent information to assist in investment and financial decision making (Pamela, 2009). The following groups are potential users of financial reports, generally referred to as the stakeholders: the equity investor group, the loan creditor group, the employee group, the analyst adviser group, the business contact group, the government and the public. The use and emphasis of each group varies. As diverse as the interest of these stakeholders so also are the approaches to the assessment of the published financial reports of companies to cater for the interest of these stakeholders. The ratio analysis technique of assessment of published financial reports comes in to fill the expectation gap of the diverse interest group which forms the basis of this study.

A ratio, according to Pamela, 2009 is a mathematical relation between one quantity and another. Ratio analysis is a very powerful analytical tool useful for measuring performance of an organization (Ravi, 2004). A financial ratio is a comparison between one bit of financial information and another. It is an attempt to express the relationship between two or more accounts or variables in a simpler, more comprehensive way. Ratios are usually derived from financial statements as a basis of comparison, evaluation and prediction. When we assess a company operating performance, we want to know if the company is applying its assets in an efficient and profitable manner. When the financial condition of a company is assessed, the objective is to know if it is able to meet its financial obligations. The emphasis of the operating performance evaluated in this study includes liquidity ratio as measured by the deposit level which provides information on the company's ability to meet its short term obligations. The profitability ratio provides information on the amount of income from sales while return on investment fund, as measured by the shareholders fund ratio provides information on the amount of profit relative to the assets employed. Financial ratios have long been used in various study areas in accounting and finance using either univariate or normal distribution with check of normality in the early stages of analysis (Afifi and Clark, 1990). However, Zulkarnain et al affirmed that the assumption of normality is important for the interpretation of the tests of significance and if the data does not satisfy this assumption the results obtained may be biased.

The basic ratios as identified by Matt (2009) include profitability ratios, cash flow ratios, account receivable and payable ratios, operating cost ratios and assets ratios. Carole (1990) affirmed that the use of ratio analysis technique in analyzing financial statements offers great potentials in expanding insight into specific strengths and weaknesses of a company and even family financial situation. As companies seek to improve the management of their economic resources and develop plans for strengthening their financial position in the future, a logical first step is to determine their present financial position; hence the tool of analysis readily comes in to bridge this gap.

The ability to generate revenues and earn profits on assets can be measured through ratio analysis (Matt, 2008). Several types of ratios can be calculated regarding the utilization of assets. The asset turnover gives an indication of how often assets are converted into sales. This is calculated as a relationship between sales and average assets. A higher turnover rate implies effective use of assets to generate sales.

## 2.Literature

In principle, the justification for employing financial ratio analysis to investigate company's financial state is highly defensible. Empirical literature emphasized that certain normative relationship exist between the different financial components of a company as displayed in the balance sheet and revenue appropriation account. The extent to which a company does or does not conform to these norms for the industry that it is engaged in is indicative of something depending on the relationship being examined as shown by the trend overtime around the prescribed norm (Laurent, 1979).

Empirical studies further showed that ineffective management of working capital is one of the important factors causing industrial sickness (Yadaf, 1986). A company should choose between liquidity and profitability and decide about its working capital requirement (kumar & Venkatachalam, 1995).The emphasis in this work is the gross working capital being the firm's investment in current assets that circulates from one form to another in the ordinary course of business (Niranjan,et al,2010).

A financial ratio is simply a comparison of two measurements of a business to each other. A measurement of income may be compared to a measurement of size. The two measurements are expressed in terms of a ratio of one number to another number. The measurements can also be expressed in terms of the percent of that one is to another . Ratio analysis as a process of systematic comparison of data computed from the financial statements of an enterprise, for the purpose of extracting some physical and salient features between one period and another (either historically or futuristically). The assumption is that the result will conform with predetermined entity's experience, industry environment , competitors performance records, macroeconomic trends or other non-financial variables to assess the financial capability or otherwise of the enterprise . Ratio analysis serves as a useful guide which provides indicators of a firm's past performances and near present financial position in order to give the user a basis for predicting future performance and financial position.

Financial Ratios had been relied upon to determine the changes in the performance of a firm as a result of various initiatives and practices in a lot of research conducted in the past on the performance measurement of small and medium sized

enterprises (SMEs) and how various management practices might improve the performance (Rue and Ibrahim, 1998; Perry, 2001;Gibson and Cassar, 2005; Kara et al.2005). Ratio Analysis is extremely helpful in providing valuable insight into a company's financial picture (Ravi, 2004).This paper aims at consolidating such reliance on the use of ratio trend analysis to measure the performance of both SMEs and larger companies. The usefulness of financial ratios has been recognised by many researchers and found to be valuable for predicting bankruptcy, rating bond, determining market returns and studying mergers.

## 3.Data and Methodology

The secondary data used were extracted from the Published Annual Reports of Guinness Nig Plc from 1992-2008 which was obtained from the Nigerian Stock Exchange, Ibadan Office. The analysis covers only a specific section of the manufacturing sector which is Guinness Nig. Plc. This is done in order to have a more penetrating result from the use of ratio trend analysis technique. The ratios selected for calculation in this analysis were limited to Earnings and Assets Ratios. The calculation of the ratio values were accomplished by dividing the numerator by the denominator to provide a number indicative of the relationship being indexed. Descriptive statistics were used to further analyze the ratios and establish the relationship between the earnings, deposit level and total assets.

## 4.Test of Hypotheses

- (i) Deposit level has no significant influence on Total Assets of Guinness Nigeria plc.
- (ii) Total Assets has no significant effect on Gross Earnings of Guinness Nigeria plc.
- (iii) Total Assets has no significant influence on Shareholders fund performance of Guinness Nigeria Plc

### 5. Methods of Data Analysis

Descriptive statistical tool was used for the data analysis, which includes tables, bar charts and frequency distribution. This was sandwiched with a robust inferential statistical tool of mean, standard deviation, correlation analysis and paired sample test to show the relationship between deposits, total assets and gross earnings of Guinness Nigeria plc.

### 6. Results and Discussion

Table 2 revealed that the mean gross earnings to total assets ratio in percentage for the 17 months from 1992 to 2008 was 12%. The company earned below the mean value of 12% from 2006 to 2008. This further reflected in the Net profit before and after tax to total assets percentage respectively for the three years. The Net profit after tax ratio fell below the mean total percentage of 3% in 2007, and 2008 respectively. Though the revenue earned during these periods was higher than other years in totals, the ratio of the earnings to the assets dwindled. The implication of this is that the value of the assets of the company grew at a rate higher than that of earnings. This may be due to appreciation in the value of the assets now brought into the books. Though both the assets and the earnings rose over the years but the earnings to assets ratio showed that the assets rose faster than the earnings from 2006-2008.

Table 3 revealed that the mean total deposits to total assets ratio in percentage for the 17 months from 1992 to 2008 was 64%. The company earned below the mean value in 1993 and 2008 respectively. The implication of this is that in both years, other assets contributed more than deposit level to the total assets of Guinness Nigeria plc. However, in all other years, the deposit level contributed more to total assets to reject the first hypothesis that deposit level has no significant effect on total assets of the company. The shareholders fund to total assets ratio in percentage fell below the mean value of 14% in all the years except 2008. This implies that the shareholders fund contributed more to total assets than total deposits in 2008 only.

The result presented on Table 4.2 showed the riskiness of the paired sample variables as measured by their standard deviation and their mean values. Total assets had a standard deviation of 3.9 while total deposits had a standard deviation of 2.1. This implies that any negative effect on deposit level will further increase the standard deviation of the total assets. This further affirms the significance of total deposits on total assets.

To further test the significance of the hypotheses, a paired sample correlation test was carried out on the Total Deposits, Total Assets and Gross Earnings profiles of Guinness Nigeria Plc (1992-2008) and the findings as shown on Table 4.3 revealed that Total Assets had a strong positive correlation of .965 with Total Deposits. The implication of this is that Total Assets has a strong relationship with the Total Assets profile of Guinness Nigeria Plc. Total Assets had a strong positive correlation of .991 with Gross Earnings. This implies that a strong relationship exists between the Total Assets and Gross Earnings of Guinness Nigeria plc which agrees with the alternate of the second hypothesis.

The Total Deposits had a strong positive correlation of .972 with Gross Earnings. The implication of this is that Total Deposits had a strong relationship with Gross Earnings of Guinness Nigeria plc.

The paired samples difference test presented on table 4.4 revealed the difference of means and standard deviations of the paired samples. Total assets minus the shareholders fund had a mean value of 2.69 and standard deviation of 3.16. This implies that total assets had a significant influence on shareholders fund performance of Guinness Nigeria plc for the stated period and this agrees with the alternate of the third hypothesis. The Total Deposits minus the shareholders fund had a mean value of 1.56 and standard deviation of 1.50. This implies that the total deposit alone, though significant as a component of total assets, but less significant than the totality of the assets in influencing the performance of Guinness Nigeria Plc.

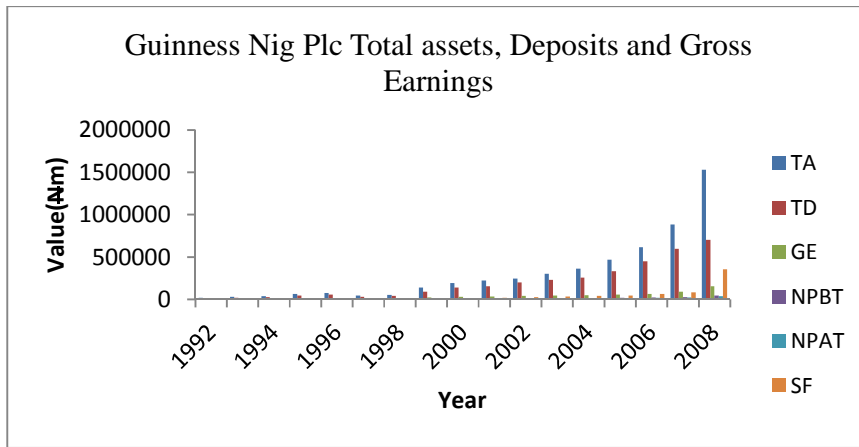
The total asset minus the gross earnings has a mean value of 2.7 and standard deviation of 3.54. This further affirms the alternate of the second hypothesis that total assets had a significant influence on gross earnings. All these affirmed that total assets has a significant influence on gross earnings and shareholders fund of the company.

## 7. Summary and Conclusion

The study centred on assessing the effect of assets on earnings and shareholders fund performance of a manufacturing company (Guinness Nigeria plc) using ratio trend analysis sandwiched with a robust inferential statistics of paired sample t test. The findings showed that the deposit level has a greater influence as a component of total assets and assets also has a significant impact on earnings and shareholders fund performance respectively. The study also reveals earnings, deposits, as some important factors that determines the asset performance and continued viability of a typical manufacturing company. The implications of these findings have highlighted a number of issues that need to be addressed if the going concern situation of a manufacturing company will not be threatened. This study concludes that prudent financial management should be extended to the earnings and deposit profiles of manufacturing companies. The adequacy or otherwise of these profiles are better determined using the ratio trend analysis as found in this study. This is in agreement with the findings of Carole (1990) and Matt (2008).

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Source: Annual reports of Guinness Nigeria plc (1992-2008)

Table 2: Guinness Nigeria Plc Returns On Assets Ratio ( 1992-2008)

Year	TA	GE	GE/TA	NPBT	NPBT/TA	NPAT	NPAT/T A
	Nm	Nm		Nm		Nm	
			%		%		%
1992	17,670	2,928	17	433	2	378	2
1993	28,186	5,390	19	1,196	4	741	3
1994	36,831	5,914	16	1,179	3	756	2
1995	63,872	8,980	14	1,238	2	1,009	2
1996	77,269	10,995	14	1,385	2	1,202	2
1997	47,508	7,518	16	1,400	3	1,000	2
1998	55,210	8,000	15	1,435	3	1,027	2
1999	137,869	19,962	15	4,288	3	3,360	2
2000	194,744	29,757	15	5,767	3	4,739	2
2001	224,007	32,291	14	6,715	3	5,066	2
2002	245,200	39,500	16	8,250	3	5,980	2
2003	299,300	48,250	16	12,500	4	9,900	3
2004	364,211	51,318	14	14,853	4	11,483	3
2005	470,839	57,255	12	16,808	4	13,234	3
2006	616,824	67,440	11	21,833	4	17,383	3
2007	884,604	91,163	10	25,854	3	20,636	2
2008	1,527,542	155,293	11	47,694	3	36,540	2
Total	5,291,686.00	641,954.00	12	172,828.00	3	134,434.00	3

Source: Annual Reports of Guinness Nigeria Plc. (1992-2008)

**Table 3:** Guinness Plc Total Deposits and Shareholders Funds to Total Assets Ratio

Year	TA	TD	TD/TA	SF	SF/TA
	Nm	Nm	%	Nm	%
1992	17,670	12,358	70	988	6
1993	28,186	17,864	63	1,616	6
1994	36,831	25,022	68	2,049	6
1995	63,872	43,464	68	6,059	9
1996	77,269	58,214	75	6,759	9
1997	47,508	30,459	64	4,838	10
1998	55,210	40,238	73	5,059	9
1999	137,869	89,868	65	11,887	9
2000	194,744	138,003	71	15,265	8
2001	224,007	155,598	69	18,170	8
2002	245,200	201,100	82	24,550	10
2003	299,300	230,100	77	31,200	10
2004	364,211	255,491	70	41,605	11
2005	470,839	332,196	71	48,726	10
2006	616,824	448,915	73	64,271	10
2007	884,604	599,689	68	83,627	9
2008	1,527,542	700,127	46	355,639	23
Total	5,291,686.00	3,378,706.00	64	722,308.00	14

Source: Annual Reports of Guinness Nigeria Plc. (1992-2008)

**Table 4.1:** Guinness Nigeria plc Total Assets, Total Deposits, Earnings Mean and Standard Deviation Results.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TA	17	17670.00	1527542.00	311275.6471	3.93556E5
TD	17	12358.00	700127.00	198747.4118	2.10519E5
GENM	17	2928.00	155293.00	37762.0000	39729.24012
NPBT	17	433.00	47694.00	10166.3529	12493.60803
NPAT	17	378.00	36540.00	7907.8824	9701.99131
SF	17	988.000	355639.000	42488.70588	8.420154E4
Valid N (listwise)	17				

Source: Data Analysis based on Annual Reports of Guinness Nigeria Plc. (1992-2008)

**Table 4.2:** Guinness Nigeria Plc Paired Sample Mean and Standard Deviation Values.  
 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	TA	311275.6471	17	3.93556E5	95451.34497
	TD	198747.4118	17	2.10519E5	51058.35666
Pair 2	TA	311275.6471	17	3.93556E5	95451.34497
	GENM	37762.0000	17	39729.24012	9635.75608
Pair 3	TA	311275.6471	17	3.93556E5	95451.34497
	NPBT	10166.3529	17	12493.60803	3030.14503
Pair 4	TA	311275.6471	17	3.93556E5	95451.34497
	NPAT	7907.8824	17	9701.99131	2353.07853
Pair 5	TA	311275.6471	17	3.93556E5	95451.34497
	SF	42488.70588	17	8.420154E4	2.042187E4
Pair 6	TD	198747.4118	17	2.10519E5	51058.35666
	GENM	37762.0000	17	39729.24012	9635.75608
Pair 7	TD	198747.4118	17	2.10519E5	51058.35666
	NPBT	10166.3529	17	12493.60803	3030.14503
Pair 8	TD	198747.4118	17	2.10519E5	51058.35666
	NPAT	7907.8824	17	9701.99131	2353.07853
Pair 9	TD	198747.4118	17	2.10519E5	51058.35666
	SF	42488.70588	17	8.420154E4	2.042187E4
Pair 10	GENM	37762.0000	17	39729.24012	9635.75608
	NPBT	10166.3529	17	12493.60803	3030.14503
Pair 11	GENM	37762.0000	17	39729.24012	9635.75608
	NPAT	7907.8824	17	9701.99131	2353.07853
Pair 12	GENM	37762.0000	17	39729.24012	9635.75608
	SF	42488.70588	17	8.420154E4	2.042187E4
Pair 13	NPBT	10166.3529	17	12493.60803	3030.14503
	NPAT	7907.8824	17	9701.99131	2353.07853
Pair 14	NPBT	10166.3529	17	12493.60803	3030.14503
	SF	42488.70588	17	8.420154E4	2.042187E4
Pair 15	NPAT	7907.8824	17	9701.99131	2353.07853
	SF	42488.70588	17	8.420154E4	2.042187E4

Source: Annual Reports of Guinness Nigeria Plc. (1992-2008)

**Table 4.3:** Guinness Nigeria plc Paired sample Correlation Results.

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	TA & TD	17	.965	.000
Pair 2	TA & GENM	17	.991	.000
Pair 3	TA & NPBT	17	.993	.000
Pair 4	TA & NPAT	17	.992	.000
Pair 5	TA & SF	17	.935	.000
Pair 6	TD & GENM	17	.972	.000
Pair 7	TD & NPBT	17	.969	.000
Pair 8	TD & NPAT	17	.974	.000
Pair 9	TD & SF	17	.813	.000
Pair 10	GENM & NPBT	17	.995	.000
Pair 11	GENM & NPAT	17	.994	.000
Pair 12	GENM & SF	17	.912	.000
Pair 13	NPBT & NPAT	17	.925	.000
Pair 14	NPBT & SF	17	.921	.000
Pair 15	NPAT & SF	17	.913	.000

Source: Annual Reports of Guinness Nigeria Plc. (1992-2008)

**Table 4.4:** Guinness Nigeria plc Paired Sample Test Results.

Paired Samples Test

		Paired Differences		
		Mean	Std. Deviation	Std. Error Mean
Pair 1	TA - TD	1.12528E5	1.98159E5	48060.49835
Pair 2	TA - GENM	2.73514E5	3.54239E5	85915.69712
Pair 3	TA - NPBT	3.01109E5	3.81153E5	92443.19959
Pair 4	TA - NPAT	3.03368E5	3.83930E5	93116.61002
Pair 5	TA - SF	2.687869E5	3.162437E5	7.670037E4
Pair 6	TD - GENM	1.60985E5	1.72165E5	41756.23498
Pair 7	TD - NPBT	1.88581E5	1.98436E5	48127.86824
Pair 8	TD - NPAT	1.90840E5	2.01084E5	48770.07965
Pair 9	TD - SF	1.562587E5	1.503299E5	3.646035E4
Pair 10	GENM - NPBT	27595.64706	27330.88351	6628.71291
Pair 11	GENM - NPAT	29854.11765	30101.34707	7300.64903
Pair 12	GENM - SF	-4726.705882	5.065614E4	1.228592E4
Pair 13	NPBT - NPAT	2258.47059	2808.60106	681.18581
Pair 14	NPBT - SF	-3.232235E4	7.285072E4	1.766889E4
Pair 15	NPAT - SF	-3.458082E4	7.544547E4	1.829821E4

Source: Annual Reports of Guinness Nigeria Plc. (1992-2008)