

# EVALUATION OF THE EFFECTIVENESS OF FINANCIAL PERFORMANCE OF COOPERATIVES: CASE STUDY OF LUME ADAMA FARMERS COOPERATIVE UNION, EAST SHOA ZONE, OROMIA REGIONAL STATE, ETHIOPIA

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**ABSTRACT** :Analyzing cooperatives union financial statement is significant for members, Board of directors, Government, Non-governmental organization and Researchers to understand the strength and weakness in their operational system. This study is concerned with evaluation of the effectiveness of financial performance of cooperatives: case study of Lume Adama farmers Cooperative Union in Oromia Regional State at East shoa Zone, Lume district. For this purpose, the data requirements for the study were collected from secondary sources, like financial statements mainly (Balance Sheet and income statements) and audit reports of the union. The union was selected purposely, because of the first cooperative union in the country based on the availability of financial statements. The study was considered five years audited report by- law with regard quantitative data analysis by using the financial analysis tools, such as Common size balance sheet, Income statement analysis, Trend percentage, Fund flow analysis, Cash flow analysis and Ratio analysis over a period of 2009 to 2013 years. The findings from the study revealed that trend of membership of the Union was increasing during the study period but the result of evaluation of the effectiveness of financial performance illustrated. The financial position of the union has not maintained satisfactory level of financial performance; Since the Liquidity ratio of the union was unsatisfactory under the study period, to meet its immediate obligation or short-term solvency. The debt to equity ratio of the union is high which shows inadequate borrowing power of the union and proprietary ratio of the union was very low this indicates outside creditors financed the union. Therefore this low proprietary ratio of the union will include risk to the creditors during the study period. The profitability of the union was lower than the average, with this value it is difficult to fulfill the concerns needed and it could not covered its fixed charges. Asset utilization of the union is not satisfactory and the union has to sale additional share capital and unproductive fixed asset to increase own fund, to improve their efficiency in order to gain enough profit, to save accumulated profit and the union must decrease administrative expense to maximize profit. The union has been a part of financial health (health performance zone). The union needs to visualize their operations, policies and strategies for effective utilization of available financial and human resources. The union should improve their vision and act accordingly for sustenance in fierce competitive financial environment.

**Keywords:** Effectiveness of Financial performance, Funds flow analysis, Cash flow analysis, Ratio analysis and Z- score analysis.

## INTRODUCTION

Throughout human history, groups rather than individuals have always undertaken some activities simply because this was a better and economic way of doing things (Parnell, 1999: p.1).

The interdependent and mutual help among human beings have been the essentials of social life. History tells us that man cannot successfully live by himself and for himself alone. The spirit of association is important to human progress. Since the beginning of human society man has cooperated first in foraging and then in hunting, later in agriculture and still in manufacturing. There is practically nothing which a man by himself alone can achieve but much acting together with others (Krishnaswamy and Klandaiswamy , 2000). Collective actions of cooperatives are more effective than separate

actions of individuals. Through cooperatives, individual households and communities can create opportunities for themselves, find a productive work that not only facilitate their wellbeing and stability but also give them the support they need to improve their lives and remain active in civil rights and political arenas ( Destahun, 2007).

Data compiled by International Cooperative Alliance (ICA) indicated that cooperatives have increasingly become the sources of secured employment and income for millions of the world's population. Over 800 million people are members of different cooperative societies in the world (ICA, 2000 cited in Mekonnen et al., 2007).

Likewise, the cooperative societies in Ethiopia are playing multi-functional role both in rural and urban areas. Primary cooperatives created 76,956 employment opportunities in the

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country (FCA, 2009). The free market economic system posed challenges of poor bargaining power and competitiveness for smallholder farmers, resource poor youth (who aim to enter into business operation) and poor consumers (due to limited financial resources, limited skill and capacity, fragmented efforts, etc.). Thus, collective efforts through cooperative organization have been chosen by many of the disadvantaged groups to increase their benefits from the liberalized market system. Cooperatives in Ethiopia are mainly economic entities performing economic functions, contributing a lot to economic development of the country and are believed to contribute more to the living standard of members and the community as a whole.

### Financial requirements of cooperatives

Finance is the life blood of a business. Circulation of blood is necessary for maintaining life in human body (Ramachandran R & Srinivasan R: 2010). In the same way, finance is absolutely necessary for the survival and smooth running of business. Finance is necessary to promote a business, purchase fixed assets, buy raw materials, produce goods and market them. Without finance, the business would come to a halt. Therefore, finance is the fundamental requirement for cooperatives, to carry on operations and achieve the goals. It has been rightly stated that business needs money to make more money. Finance may be defined as the provision of adequate amount of money when it is required. As a management function, it has a wider meaning. Finance function is concerned with the procurements of funds and their effective utilization.

**Financial performance:** Measuring the results of the firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc. One final way of evaluating financial performance is to simply compare financial statements from one period to another period and to compare financial statements with other companies. This can be facilitated by vertical and horizontal analysis. (Metcalf, R. W. and P. L. Titard), 1976

Vertical analysis compares line items on a financial statement over an extended period of time. This helps us spot trends and restate financial statements to a common size for quick analysis. For the Balance Sheet, we will use total assets as our base (100%) and for the Income Statement, we will use Sales as our base (100%). We will compare different line items on the financial statements to these bases and express the line items as a percentage of the base.

Horizontal analysis looks at the percentage change in a line item from one period to the next. This helps us identify trends from the financial statements. Once we spot a trend, we can dig deeper and investigate why the change occurred.

Financial planning means deciding in advance, the financial activities to be carried into achieve the basic objectives of the firm. The basic objective of the firm is to get maximum profits out of minimum efforts or to maximum the wealth of the corporation to its shareholders in an efficient manner. So the basic purpose of the financial planning is to make sure that adequate funds are raised at the minimum cost and that they are used wisely (Nakkiran N: 2002). In cooperative, profit is not the motive and financial plan has to deal with raising and

deploying resources. Financial planning pertains only to the function of finance and includes the determination of the firm's financial objectives, formulating and promulgating financial policies and developing financial procedures (Sahoo.S.K. & Sahoo S.C: 1991).

## RESEARCH DESIGN AND METHODOLOGY AN OVERVIEW OF THE EAST SHOA ZONE

### Location and climate

East Shoa zone is one of the 18 zones in the oromia region. It is the nearest zone to the capital city Addis Ababa, next to Oromia special zone surrounding Addis Ababa city. East Shoa zone undertakes its administrative duties and responsibilities in 11 districts (Fantalle, Boset, Adama, Lume, Bora, Dugda, AdamiTullu, JidoKombolcha, Ada'a, Liben and Gimbichu) and 3 urban centers namely; Matehara, Mojo and Batu (Ziway).

The zone is bordered to the North by Amhara National Regional state, on the South East by Afar National Regional State, to the South East by Arsi Zone, on the West by South West Shoa zone and finally, West Arsi Zone in the South. Due to the geographical proximity of the zone to Addis Ababa, it has a great advantage for market access for both agricultural and industrial products. Currently, most areas of East Shoa zone are delineated as industrial zone (MoARD, 2009).

The total area of East Shoa zone is approximately 14,050 Km<sup>2</sup> and Adama town is the capital of the zone. Awash is best utilized river for irrigation in East Shoa. There are five rift valley lakes situated in the zone namely; Zeway (434Km<sup>2</sup>), Shala (400 Km<sup>2</sup>), Langanu (230 Km<sup>2</sup>), Abiyata (205 Km<sup>2</sup>) and Beseka 23 Km<sup>2</sup>. Zeway lake is the most economically and socially utilized lake for fishery, recreation, irrigation, tourism and for livestock drinking.

The East Shoa Zone has five agro-ecological Zones namely dry Dega which has an elevation between 2300- 3200 meter above sea level (masl) and rainfall amount less than 900 mm per annum and covers 3% of the total area. While Dry Kolla has an elevation range of 500-1550 masl and rainfall per annum less than 900 mm per annum and accounts 26 %. Dry Weina Dega is characterized with elevation range between 1500-2300 masl and rain fall less than 900 mm per annum and covers 44%. Moist Dega is defined as an elevation between 2300-3200 masl and annual rainfall between 900-1400mm and shares 3% of total area of the zone and moist Weina Dega has an elevation range of 1500-2300 m.a.s.l and annual rainfall of 900-1400 mm and encompasses 24 % (MoARD, 2009).

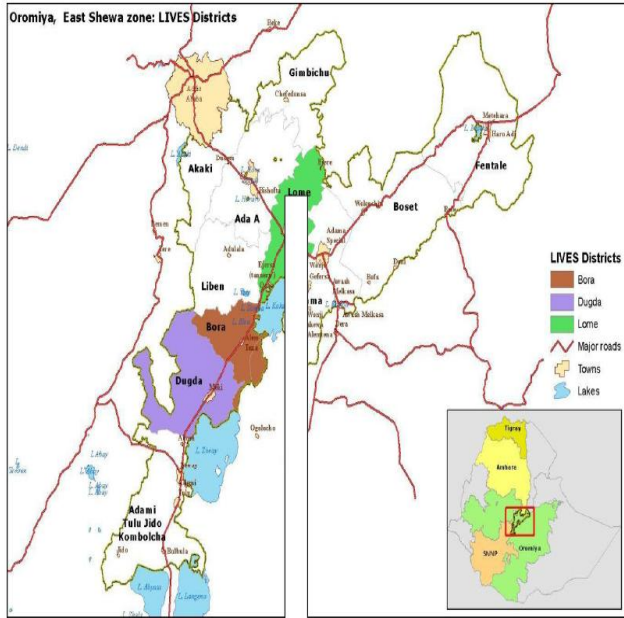
### Population

According to the report of the Central Statistical Agency (CSA) of the FDRE (2007), the total population of East Shoa Zone was 2.16 million, of which, 1.10 million are males and 1.06 million are females. The total area of the woreda is 1257.97 square kilometers with a population density of 122.31 people per square kilometer.

There are 106 Farmers cooperative unions in Oromia National Regional State with members of 3,484 primary cooperatives consisting of the total members of male 1,426,610, female 243,676 total 1,670,286 with employed capital of birr483,219,469. Among these there are 15 farmers

cooperative unions exist in eastern shoa zone, three MPFCUs, four saving and credit cooperative union, one dairy cooperative union, one consumer cooperative union, one mining cooperative union, one fishery cooperative union, three vegetables and fruit and one Irrigation cooperative union in the zone. And there are 3 Multi-purpose agricultural cooperative unions in east shoa zone with members of 128 multi-purpose primary cooperatives consisting total members of male 66,874 female 10,041 total 76,985 with capital birr 113,617,200.

**Map of the study area**



**Methods of data collection**

Data collection is an important aspect of any- type of research study. So, appropriate attention was given for it while inaccurate data collection can impact the result of a study an ultimately lead to invalid results. For this research study, the researcher used mainly quantitative methods for data collection. So, the researcher collected secondary data from audited financial statements mostly the balance sheet, income statement, fund flow and cash flow statement, annual reports, audit and inspection results, published and unpublished documents, cooperative promotion office documents of the union for the consecutive five years (2009-2013) for the purpose of this research study by using data sheet.

**Results and Discussions**

In the preceding chapters literatures relating to the topic were reviewed that gives enough understanding about the topic and used to identify knowledge gap on the area. To meet the broad research objective and to answer research questions and to test research hypothesis under it the research design used for this study .

The union was established as the first cooperative union in the country by the 4 primary cooperative societies with the total membership of 3075 male and 900 female totally holding 3975 individual member in Lume district of Eastern shoa zone on 29<sup>th</sup> July 1997, with the initial capital was birr 150,000. By 2013 it has 37 primary cooperatives as member with the total membership of 20,824 male and 2,905 female totally 23,729 members who are living in three woredas of the zone namely, Lume, Adama and Bosat district. Currently the total capital reached more than birr 32 million.

**Table 1 Shows Growth of Membership (2009-2013), base year 2009**

Years	Members			Trend Percentage of members
	Male	Female	Total	
2009	20121	2775	22896	100.00
2010	20121	2775	22896	100.00
2011	20221	2854	23075	100.78
2012	20824	2905	23729	103.64
2013	20824	2905	23729	103.64

**Source: Audited report of LAFCU (2009 -2013)**

Table 1 showed that the level of total membership in year 2009 was 22,896; it increased to 23,729 in the year 2013. As the member increased, the union builds more share capital from the members. The percent of the membership was also increased from 100% in year 2009 to 103.64% in year 2013 under the study period. Therefore we can conclude that the membership status increased by 3.64% during the study period.

**Sources and methods of data collection**

**Sources of data**

The sources of data for this study were mainly secondary sources. So it was collected from audited financial statements by- low (basically balance sheet, income statement, profit and loss account) of the cooperative union for the past five years (2009-2010).

**Table 2 Shows Share Capital Growth (2009-2013) (Amount in birr), base year 2009**

Sl. No	Years	Sources of Capital				Trend Percentage
		Members	Government	Any other	Total	
1	2009	945,000.00	---	174,793.00	1,127,055.00	100.00
2	2010	1,100,000.00	---	288,448.38	1,388,448.38	123.19%
3	2011	1,510,000.00	---	217395.50	2,067,266.00	153.26%
4	2012	1,545,000.00	---	1,000,000	2,545,000.00	225.80%
5	2013	1,560,000.00	---	985663.5	2,545663.5	225.87%

**Source: Audited report of LAFUC (2009-2013)**

The above table 2 revealed that the growth of share capital growth percentage of the union was 1,127,055.00 in the year 2009 to 2,545,663.50 in the year 2013 it showed share capital was doubled increased trend in the year of 2013. And by percentage also increased from 100% in year 2009 to 225.87% in year 2013. So it can be concluded that the union was good in share capital growth during the study period because the membership increased year by year and also the union collected from other sources.

**Table:3.Common Size Analysis of Balance Sheet (2009-2013) (Amount in Ethiopian birr)**

Assets	Years				
	2009	2010	2011	2012	2013
Cash&cash equivalent	22.49	14.24	14.72	3.69	6.18
Accounts receivable	55.61	61.81	60.32	56.52	69.12
Inventory	10.97	12.97	12.95	31.83	14.08
Prepaid expenses	0.02	0.12	0.09	--	--
<b>Total C/A</b>	<b>89.09</b>	<b>89.14</b>	<b>88.08</b>	<b>92.04</b>	<b>89.38</b>
Investment	1.63	2.65	4.12	2.83	3.81
<b>Fixed Asset</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>
Price of fixed asset	11.49	10.59	10.33	7.63	10.02
(-)Accumulated Depreciation	(2.22)	(2.38)	(2.55)	(2.49)	(3.28)
Book value	9.27	8.21	7.79	5.14	6.73
Based on total asset	100	100	100	100	100
<b>Total Assets</b>	<b>68998730.59</b>	<b>87884380.68</b>	<b>124293072.70</b>	<b>188807247.10</b>	<b>162780403.50</b>
<b>Liabilities</b>					
Account payable	69.36	72.12	54.33	72.39	67.17
Creditors	3.59	2.28	9.79	5.44	4.27
Dividend payable	3.14	2.58	8.97	5.90	6.85
<b>Total C/L</b>	<b>76.09</b>	<b>76.98</b>	<b>73.09</b>	<b>83.73</b>	<b>78.29</b>
Long-term liability	---	---	---	---	---
<b>Capital</b>					
S. equity capital	1.59	1.51	1.24	0.82	0.99
Reserve fund	1.81	2.74	7.13	7.13	7.13
Work expansion	0.38	3.61	5.23	5.23	5.23
Social service	1.10	0.88	1.13	1.13	1.13
Un appropriated profit	13.49	12.27	9.80	9.80	8.64
<b>Total capital</b>	<b>18.37</b>	<b>21.01</b>	<b>24.53</b>	<b>24.11</b>	<b>23.12</b>
<b>Total assets</b>	<b>68998730.59</b>	<b>87884380.68</b>	<b>124293072.70</b>	<b>188807247.10</b>	<b>162780403.50</b>

**Source: Audited Report of LAFUC (2009-2013)**

Table 3 reveals that the comparative balance sheets analysis of each account is listed as percentage of total assets here under.

**Table 4 Shows Common Size Analysis of Income Statement 2009-2013 (Amount in Ethiopian birr)**

Particulars	Years				
	2009	2010	2011	2012	2013
Total net sales	100	100	100	100	100
Less: COGS	95.09	94.55	81.31	97.32	92.59
Gross profit	4.91	5.45	18.68	2.68	7.41
<b>(-)Operating expense</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>
Bad debts	--	--	0.06	--	--
Commissions	--	--	0.03	0.04	0.09
Administrative expenses	2.44	0.14	0.37	0.54	0.53
Depreciation expenses	0.12	0.22	0.28	0.43	1.07
Rent expenses	0.32	0.36	0.71	0.18	0.19
Maintenance & Repair	0.01	0.01	0.23	0.19	0.30
General expenses	0.76	0.32	0.44	0.52	0.75
Salary & wages	0.55	0.70	1.11	0.25	0.63
Utility expenses	0.02	0.02	0.07	0.04	0.04
Miscellaneous expenses	0.02	0.01	--	0.04	0.05
Tax for employee salary	0.55	0.02	0.09	0.09	0.20
Transportation expenses	0.28	0.32	1.19	0.33	2.08
Insurance expenses	0.03	0.04	0.22	0.06	0.81
Total operating expenses	(4.58)	(2.26)	(3.86)	(3.79)	(6.69)
<b>(+) Operating incomes</b>	<b>0.33</b>	<b>3.19</b>	<b>14.82</b>	<b>(1.11)</b>	<b>0.71</b>
Operating revenue	1.17	1.45	--	2.27	3.19
Total operating income	1.50	4.64	14.82	1.16	2.48
Vat 15% expenses	--	--	0.09	--	0.13
Interest expense	--	3.11	1.17	1.14	0.79
Net income	1.50	1.53	13.55	0.02	2.98
Based on total sales	256395005.10	252869792.87	163919040.17	173415610.26	143295870.79

**Source: Audited Report of LAFU (2009-2013)**

**Table 5 Net profit Allocation (2009- 2013) (Amount in birr)**

Particulars	Years				
	2009	2010	2011	2012	2013
Dividend distribution	50%	50%	50%	--	50%
	1916271.35	1937133.05	11106776.13		2136271.09
Dividend Paid	1916271.35	1937133.05	--	--	--
Reserve fund	30%	30%	30%	--	30%
	1149762.82	1162279.80	6664065.68		1281762.65
Social Fund	5%	5%	5%	--	5%
	191627.14	193713.30	1110677.61		213627.11
For Expansion	15%	15%	15%	--	15%
	574881.41	581139.90	3332032.84		640,881.33
Net profit	3832542.72	3874266.05	22213552.28	44857.54	4,272,542.18

**Source: Audited report of LAFUC (2009-2013)**

The above Table 5 revealed that the net profit of the union was distributed during the year of 2009, 2010, 2011 and 2013. Which the dividend was allocated 50%, reserve fund 30%, social fund 5% and 15% for the expansion of operation was allocated in four years period, but the net profit for year 2012 was not allocated because of the bye-law of the union if the net profit is less it does not allocated rather kept as capital. So we concluded that the union didn't properly pay the dividend to its members during the study period.

**Table 6 Cash Flow Statement (2009-2013) (amount in birr)**

Particulars	Years			
	2009-2010	2010-2011	2011-2012	2012-2013
Net income	3874266.01	22213552.28	44857.54	4272542.18
Add: non cash expenses				
Depreciation	2094639.43	3167258.92	4706630.	5345044.15
Interest expense	7862635.43	1923996.07	1971665.11	1139828.38
Less: non operating income				
Interest received	(3222691.32)	(2,550,900.33)	(3284445.93)	(3695040.22)
<b>Fund from operation</b>	<b>2746214.12</b>	<b>24753906.94</b>	<b>3438706.72</b>	<b>7062374.49</b>
Add: decr. In C/A & incr. C/L				
Account receivable	15946932.65	--	--	--
Stock	--	--	--	37167390.56
Prepaid insurance	10534.83	103597.99	105939.41	--
Account payable	15526472.55	4144491.54	69169763.70	--
Creditors	--	10168614.01	--	--
Less: Incr. in C/A & decr. In C/L				
Account receivable	--	20659321.67	31730580.97	5812777.60
Stock	3831574.90	4709613.23	43984364.33	--
Dividend payable	98584.14	8886783.12	--	--
Account payable	--	--	27362135.60	--
Creditors	471559.19	--	1899138.91	3322018.30
<b>Cash from operation</b>	<b>29828435.92</b>	<b>4814892.46</b>	<b>(4899674.38)</b>	<b>7732833.55</b>
<b>Cash from investing activity</b>				
Purchase of fixed assets (-)	(2581779.31)	(1380975.52)	(1156610)	(1206771.85)
Purchase of share from other Coop	(1005000)	(1200000)	--	(1780000)
<b>Net cash used by investing activity</b>	<b>(3586779.31)</b>	<b>(2580975.52)</b>	<b>(1156610)</b>	<b>(2986771.85)</b>
<b>Cash from finance activity</b>				
Sales of Share Capital	5000	5000	10000	10000
Incr. (decr.) long- term liability	--	--	--	--
Interest received	3222691.32	2,550,900.33	3284445.93	3695040.22
<b>Net cash provided by Fin. Activity</b>				
Cash at the beginning of the year	15517506.72	32297.7	18289970.42	12540280.30
<b>Cash balance the end of the year</b>	<b>12514374.66</b>	<b>20563818.77</b>	<b>6712910.02</b>	<b>10052298.68</b>

Source: Audited Report of LAFCU (2009-2013)

Table 6 reveals that the Cash flow Statement of the cooperative union during the Study period.

Cash from operation is the operating activity that the result of the union was negative birr 4899674.38 in year of 2011-2012, this illustrates that the union has inadequate working capital during these years.

The cash balance at the end birr 12514374.66 in year 2009-2010, birr 20563818.77 in year 2010-2011, birr 6712910.02 in year 2011-2012 and birr 10052298.68 in year 2012-2013, which means the positive net cash balance, this indicates that money is present and available in the account of the union during the study period

**Table 7 Liquidity Ratio Analysis**

Ratios	Years					Std
	2009	2010	2011	2012	2013	
Current ratio	1.17:1	1.15:1	1.19:1	1.09:1	1.13:1	2:1
Quick ratio	1.02:1	0.98:1	1.01:1	0.71:1	0.96:1	1:1
Absolute liquid ratio	0.29:1	0.18:1	0.19:1	0.04:1	0.08:1	0.5:1
Cash ratio	0.29:1	0.18:1	0.19:1	0.04:1	0.08:1	1:1
NWC	8757275.26	10489842.42	17478912.18	14483855.10	16993983.6	CA>CL

Source: Audited Report of LAFCU (2009-2013)

**Table 8 Current Ratio Analysis (Amount in birr)**

Ratios	Years					Std
	2009	2010	2011	2012	2013	
Current Assets	61476996.55	78344454.48	109500258.2	173764517.75	145607808.52	
Current Liability	52719721.29	67854612.06	92021345.82	159280662.66	128613824.91	
Current Ratio	1.17:1	1.15:1	1.19:1	1.09:1	1.13:1	2:1

Source: Audited Report of LAFCU (2009-2013)

**Table 9 Quick Ratio Analysis (Amount in birr)**

Ratios	Years					Std
	2009	2010	2011	2012	2013	
Quick assets	53889858.73	66833659.32	93268576.73	113667892.30	122835466.5	
Quick liability	52719721.29	67854612.06	92021345.82	159280662.66	128613824.91	
Quick Ratio	1.02:1	0.98:1	1.01:1	0.71:1	0.96:1	1:1

Source: Audited Report of LAFCU (2009-2013)

It can be seen from the above table 9 that, the union quick ratio is less than 1.0 for the three years under study. A healthy cooperative will always keep this ratio at 1.0 or higher. The quick ratio or acid test ratio of the union shows the liquid short term solvency of the union during the study period was 1.02:1 in year 2009, 1.01:1 in year 2011, which is better for the union to meet its short-term obligation. But the quick ratio was 0.98:1 in year 2010, 0.71:1, in year 2012 and 0.96:1 in year 2013. A low quick ratio represents that the cooperative liquidity position is not good which indicates the union did not meet its short-term obligation during this year under the study period. Therefore, the Union's ability to meet its current obligation was poor because the standard is 1:1

**Table 10 Absolute liquid Ratio Analysis (Amount in birr)**

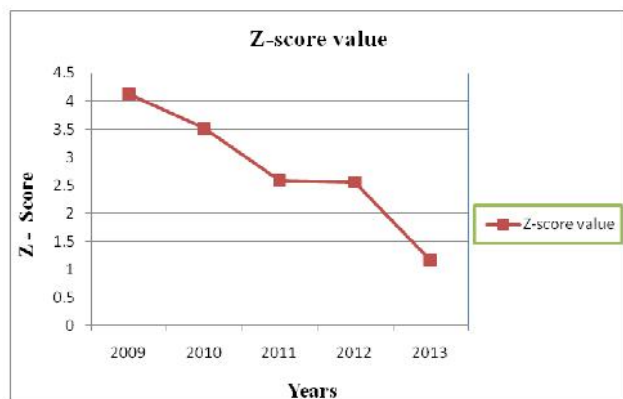
Ratios	Years					Std
	2009	2010	2011	2012	2013	
Cash+Bank+MS	15507170.29	12493291.01	18289970.09	6712910.02	10052298.68	
Current Liability	52719721.29	67854612.06	92021345.82	159280662.66	128613824.91	
ALR	0.29:1	0.18:1	0.19:1	0.04:1	0.08:1	0.5:1

Source: Audited Report of LAFCU (2009-2013)

The above table 10 reveals that the absolute liquid ratio for the union is less than 0.5 or below the standard for the entire periods under study. This ratio was 0.29:1 in year 2009, 0.18:1 in year 2010, 0.19:1 in year 2011, 0.04:1 in year 2012 and 0.08:1 in year 2013, which indicates the short-term solvency of the union was unsatisfactory to meet its short-term obligation. So it is concluded that the solvency of the union was unsatisfactory to meet its current debt because the standard ratio is 0.5:1. The reason that was managing cash, marketable securities and short-term investments were weak during the study period.



## Graphical presentation of Z-score values of LAFCU



Over all the derivation from the Z-score analysis reveals that the cooperative union has been declined, to become a part of health performance zone. In generally score depicts that LAFCU has best in the year 2009 and 2010 and also better in the year 2011 and in the year 2012, but in the year 2013 worst. In fact the union has been suffering from financial mismanagement and underutilization of resources.

## CONCLUSION

- Cooperatives unions are established for the benefit of members in particular and for the community in general and their performance depends mainly on members' participation. Regarding the trend of membership of LAFCU, there was increasing trend of both individual members and primary member cooperatives during the study period. This increasing trend of membership is attributed to the promotional efforts of the *Woreda's* Cooperative Promotion Office in organizing cooperatives as part of the government's strategy for poverty reduction. Moreover, lower prices of agricultural inputs and dividend were also important pull factors for attracting new members to the union.
- Financial ratio analysis of the union showed inconsistent, rather fluctuating performance for the consecutive five years under study. For instance liquidity ratios such as current ratio, quick ratio, absolute liquid ratio, and cash ratio of LAFCU were less than the level of the standard, So that the union short-term solvency is unsatisfactory to meet its short term obligation.
- Most of the values of asset management ratios of the union are less than the average ratio, this demonstrate that the union operate the activities in efficient way.
- The profitability ratios of the union such as gross profit margin ratio, operating profit margin ratio and net profit margin ratios have the value less than the level of the standard, so by these values of ratios it is difficult for the union to cover the need of the concern. However, as the return on net asset ratio and return on equity ratios of the union are better and so that the return on investment and the equity

position of the union is better during the study period.

- Over all the derivation from the Z-score analysis reveals that the union has been declined to become a part of health performance zone. In general score depicts that LAFCU has best in the year 2009 and 2010 and also better in the year 2011 and in the year 2012 but in the year 2013 worst.

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